

*P**WERING*  
*AHEAD*

TOLL HOLDINGS LIMITED ANNUAL REPORT 2005

***TOLL***

## A RECORD FINANCIAL PERFORMANCE

	2005	2004	% CHANGE
REVENUE (\$M)*	3,798.4 ✓	3,272.0	16.09%
PROFIT BEFORE INCOME TAXES (\$M)*	257.9 ✓	212.1	21.59%
PROFIT AFTER INCOME TAX FOR MEMBERS (\$M)**	215.8 ✓	168.6	28.00%
EARNINGS PER SHARE FULLY DILUTED (¢)	61.2 ✓	50.1	22.16%
DIVIDENDS PER SHARE (¢)	26.5 ✓	20.5	29.27%

✓ Best ever Toll Holdings result since listing

\* Excludes equity share of Pacific National

\*\* Before significant items

## OUR SUSTAINED PERFORMANCE SINCE LISTING

	2005	1994
REVENUE (\$M)	3,798.4	118.5
PROFIT BEFORE INCOME TAXES (\$M)	257.9	8.8
PROFIT AFTER INCOME TAX FOR MEMBERS (\$M)	215.8	6.1
EARNINGS PER SHARE FULLY DILUTED (¢)	61.2	6.3*
DIVIDENDS PER SHARE (¢)	26.5	3.0*

\* Adjusted for share split 4:1

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**John Moule** CHAIRMAN  
**Paul Little** MANAGING DIRECTOR

**DEAR FELLOW INVESTOR,** one of the most enjoyable things we do each year is sit down and write this letter to you. For us, it is a chance to reflect on Toll's performance, to share our thoughts about our progress, and perhaps more importantly, what lies ahead.

Last year at this time, we told you Toll was 'going places'. And go places we did. Last year was, in a word, excellent – a truly impressive year by a truly impressive team, our twelfth consecutive year of record results, a performance of which we're very proud. We continue to implement a strategic plan that our customers, employees and investors understand and endorse.

As we look ahead at the world of logistics, we like what we see. Of course, no year is easy to predict, but 2006 is shaping up to be a tremendous year for Toll. If we were going places last year, this year we're powering ahead. We'll discuss more of that in a moment, but first, a recap of 2005.

**AMONG OUR ACHIEVEMENTS IN 2005**

- Revenue for the group was \$3.8 billion for the year, excluding our equity share of Pacific National, and represented a 16% increase over the previous year. The increase was driven by the full year impact of Toll NZ revenues, together with strong organic growth.
- Organic growth, including major new contracts, increased by over 8% for the year, thus continuing to demonstrate the underlying strength throughout the company of superior customer solutions.

**Ensuring we are an employer of choice**

Toll launched a new internal business called Toll Personnel in October 2004, providing labour hire and recruitment services to the Toll Group.

To date, Toll Personnel manages in excess of **1100 people**, servicing over **120 Toll sites**. Our capabilities and strengths not only provide strategic competitive advantages, they sustain us and make us an Employer of Choice.

- EBIT for the Group, excluding the equity share of Pacific National, increased from \$193 million to \$239 million for the year. This increase was driven by a continuation of improved trading from Toll NZ, together with the solid earnings growth throughout each major division. In particular, the Networks division which benefited from upgrades in infrastructure and technology, was able to achieve further margin expansion.
- Net profit of \$215.8 million represents a 28% increase over the previous period. Net one off significant items relate to a gain of \$7 million in respect of an increase in the asset tax base, arising from the introduction of tax consolidation. This was mostly offset by the one off after tax cost of \$6.3m restatement of long service leave entitlements relating largely to past acquisitions. Neither of these items had a cash impact during the year.
- EBIT margins continued to grow, with the overall margin increasing from 5.91% to 6.29% on EBIT of \$239 million. Margin excluding Toll NZ was 5.66% on EBIT of \$180 million, up from 5.32% margin on \$152 million EBIT previously.
- The company's 50% owned rail joint venture, Pacific National, made an equity contribution of \$51.5m for the year. This represented an increase of 23% over the previous year.
- Total revenues for Pacific National were \$1.366 billion, which included the contribution of \$159m from Freight Australia, acquired in September 2004, reflecting new business and underlying revenue growth of 10%.
- The 2005 financial year represented the first full year of contribution for Toll New Zealand, following the takeover in October 2003.
- Revenue for the year was \$626 million compared to \$415 million reported in the period from acquisition last year. On a full year comparative basis, revenue grew over 7%, reflecting the improved customer focus as well as a number of new contracts.

Group cashflows remained very strong, with operating cashflow after interest and tax increasing 52% to \$318 million for the year.

Group net debt to book equity gearing reduced to 24% at year end, with net debt being \$311 million. Interest cover continued to be very strong at over 10 times. And the marketplace continues to recognise our performance. Our share price closed at a high of \$13.05 on June 30, 2005.

It's a performance of which we are very proud. However, achieving such results over one, two, or even five years – as many great companies have done – isn't really that unique. What's gratifying is to achieve consistent performance over long periods – through different economic cycles – and we've done that,

#### **New vessel servicing the Cook Strait**

Strong demand for passenger travel and freight services on the Cook Strait is now being met following the arrival of the new Interislander ferry Kaitaki, alleviating pressures traditionally faced by the service at peak sailing times. Capable of carrying **1600 passengers** and **600 cars**, the **181.6 metre** long ferry makes two return sailings per day – the morning voyages geared towards passenger traffic and the evening voyages targeted at commercial freight.

#### **Largest removals contract**

Toll renewed Australia's largest removals management contract with the Department of Defence in June 2005. The five-year contract is worth **\$100m** per annum, providing domestic and international outbound removals and storage management services.

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delivering double digit increases in all our key measures for over a decade. We've had an extraordinary ride when you consider that, when we floated in 1993, our market capitalisation was less than \$118 million. At year-end it was \$4.6 billion.

#### **OUR CONSISTENT VISION**

How do we keep it up year after year? It's no secret. We do it because we have a consistent vision that's been in place for nearly 20 years. We do it because we have invested in a scale and diversity of services that can't be matched in our region. We do it because we build and manage infrastructure like no other. We do it because we develop technology solutions that lead the industry, integrating our customers and our customers' customers into a connected trading network. We do it because we have the best people – over 20,000 talented, dedicated and innovative Toll people across six countries in the Asian region, who care about what they do, striving for supply chain excellence with a strong and powerful culture of 'can do'.

Put it all together and it adds up to one of the industry's most effective, time-tested business models, delivering advantages many of our competitors wished they had. It is the foundation of Toll's success, earning more of our existing customers' business, and attracting new customers and new business, both nationally and internationally.

#### **OUR STRONG AND SUSTAINABLE ORGANIC GROWTH**

For the fifth straight year our organic revenue growth rates exceeded 7 percent. You cannot get this kind of impressive and consistent result by simply being bigger. You get this result by being better. Which explains why revenue earned from our top 20 customers has increased in the last five years, why we have signed new contracts in the last 12 months and why, in 2005, we have won business from new customers worth tens of millions of dollars in Australia, New Zealand, Thailand, Malaysia, Singapore and Vietnam.

Each year, more and more of our customers are partnering with us to identify opportunities in their supply chains. Which is good news for all our stakeholders. Our customers get tangible competitive advantages through greater efficiencies by fundamentally improving their supply chain. Our company earns more profit because we generate greater revenue and stronger margins through our fixed cost base. You, our owners, benefit from a higher return on your investment when we achieve consistent double-digit earnings. And our people achieve their full potential, with more career opportunities, sharing in the success, as many are also shareholders.

Of the total freight and logistics sector in Australia and New Zealand, worth nearly **\$66 billion**, \$33 billion is still performed inhouse by Governments and companies that are yet to outsource to an external provider, like Toll.

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### **AN EXCITING GROWTH INDUSTRY**

We have another advantage. We are competing in one of the great growth industries in the world today – the industry of freight and logistics – a broad, deep, complex, exciting, dynamic and fragmented powerhouse worth over \$66 billion in Australia and New Zealand alone – and set to double in size in the next 15 years. It's an industry ripe for consolidation and marketshare gains.

Just think how far world trade has come in a very short time. In little over a decade, concepts like globalisation and supply chain outsourcing have become drivers of corporate strategy, countries like China and India have emerged as powerful economic forces, many trade barriers have fallen or been dissolved, and the Internet, a technology tool whose commercial application was simply misunderstood in the mid-90s, is now centre stage of any freight and logistics solution. As commerce extends in geographic reach, there is greater demand for connectivity and supply chain capabilities to cope with the burgeoning trade volumes. As an illustration, it is estimated Australia's trade exports are set to grow some 50 percent in the next five years.

It's remarkable to think just how quickly this is happening.

Our existing customers are expanding cross border relationships, entering new countries via joint ventures and alliances. In the last 12 months, for example, many of our customers, like major retailers and automotive manufacturers, have increased their operations in China. And we are right there with them. China is of particular importance for Toll when you consider: it is growing some 10 percent annually and freight volumes and logistics spend are rising sharply. This has massive short-term and long-term implications for a company like Toll.

Of course, our strategy in this huge market is well documented. We shall continue to partner with Australian-based multi-nationals or through joint ventures with established companies in targeted segments and locations. Demand for our cross border supply chain expertise and technology solutions is expanding, and quickly.

When you consider the size of the market, all this is good news. If you know Toll, you'll already know how uniquely positioned we are to benefit from this shift. But if you don't, here's a brief overview of why we are so well positioned to take advantage of the vast prospects opening up before us.

### **TOLL'S UNIQUE POSITION AS A 3.5PL PROVIDER**

Over the last 20 years there has been a dramatic shift from internal logistics operations to outsourcing and supply chain design and management. Today we talk about third-party logistics providers – 3PLs – and fourth-party logistics providers – 4PLs. On pages 10 and 11 we discuss this in more detail, but

The explosion in China's manufacturing market has major implications for the global logistics arena. As China grows some 10 percent annually, exports are up **35 percent** in the first quarter of 2005, and imports are up **12.2 percent**. As a result, freight volumes are rising sharply. Our growth strategy in this huge market, is either through joint ventures, alliances or acquisitions.

#### Toll Owens

The formation of Toll Owens, a 50/50 JV between Toll and the Port of Tauranga, created a vertically integrated service organisation providing marshalling and stevedoring services at **12 ports** throughout New Zealand.

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briefly, a 3PL owns and operates static assets, like fleets and warehouses, to move goods and materials for customers, managing a direct one-to-one relationship. On the other hand, a 4PL provider does not own fleets or warehouses but rather uses smart and sophisticated technology to sit atop the process of moving goods, managing and coordinating a number of transport companies and their customers.

To survive, you have to do one or the other really well. To lead, you have to do both.

And that's Toll's unique strength, underpinning our powerful year-on-year growth and driving our future prospects. Our business model uniquely combines the benefits of a 3PL provider and the advantages of the strategic and technical capabilities of a 4PL provider, creating a 3.5PL provider, quite unlike any other company in our industry.

Our view, grounded in years of experience of where freight and logistics was headed, was to unlock both 3PL and 4PL capabilities, and, in fact, make them feed each other. We believe the long-term winners – those who achieve consistently excellent results, year after year – are those logistics providers that combine the best attributes of both 3PL and 4PL. It's the only way, we believe, to offer an integrated total logistics solution. We've said that all along – and that's why our vision hasn't changed in nearly 20 years.

There are compelling advantages in being a 3.5PL provider. Our customers want more comprehensive cost effective total solutions across their complete supply chains from *one* source, rather than piece parts. For Toll, it is a powerful point of differentiation in the marketplace, enabling us to take the lead and develop powerful collaborative partnerships for the long-term. And for our shareholders, it is a sustainable and valuable business model with tremendous long-term opportunities.

#### **INFRASTRUCTURE – A FOCUS FOR 2006 AND BEYOND**

Make no mistake, the cornerstone of any integrated total logistics solution today is about infrastructure. But when we talk of infrastructure, we want to distinguish between Toll infrastructure, which is owned and operated by us, and shared infrastructure, such as road and rail networks and so on, which is not owned by the company.

Toll, of course, has a deep commitment, managing and operating the most comprehensive road, rail, sea, ports and warehousing infrastructure in our region, with a scale and diversity that has taken years to build. On page 13, you'll see a list of capabilities which confirms our willingness to invest in infrastructure critical

**Servicing Vietnam**

Toll is servicing **SIX** countries following our commencement of operations in **Vietnam** in September 2005. Toll now has operations in Australia, New Zealand, Malaysia, Thailand, Singapore and Vietnam. Our entry into these countries provides excellent growth opportunities as well as the capability to service our customers' cross border requirements.

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for multi-modal logistics, helping customers integrate all activities across their whole supply chain. It's what sets Toll apart, and we believe a lot of our competitors still don't acknowledge or fully understand the importance our customers place on integration.

We did early on, and have been strengthening our capabilities for over a decade now. In the last 12 months, for example, we have designed and built the largest multi-modal distribution centre, investing tens of millions of dollars adding to our already expansive asset base and range of capabilities.

Such assets are increasingly strategic and differentiating in nature. If you think of the supply chain as a series of veins and arteries moving product from source to consumer, then the distribution centre or logistics centre is definitely the heart of such a system. Understanding this and its consequences is a key to delivering superior services to customers.

**THE VALUE OF TOLL'S CONNECTED WORLD**

There is no doubt technology is improving all facets of our business and what we do for customers. But the battleground is not technology itself, it is what you do with it that makes the difference. Especially in the delivery of global logistics. Off-the-shelf web-based solutions now provide a panacea of services, but increasingly we know our 3PL capabilities of scale, diversity and vertical industry know-how, combined with our 4PL strategic and technical capabilities, offer deeper and more comprehensive solutions that only Toll can deliver.

In the last 12 months we have continued to invest in Toll web-based technologies that now link databases across supply chain partners to provide visibility of inventory, capacity, status of equipment, and orders across the extended supply chains. Toll's supply chain event management systems have the ability to track critical events, and when these events do not unfold as expected, send out alerts and messages to notify appropriate managers to take corrective actions. This is real-time information that goes well beyond electronic proof of delivery, to provide the capacity to respond to exceptions and unplanned events on the status of orders and shipments in transit, and what is being purchased by customers.

Powering this valuable and connected world is a talented team of over 180 Toll technologists and logistics professionals who plan, develop, and run end-to-end supply chain event management IT solutions that go way beyond warehousing and distribution, enhancing customer satisfaction and loyalty.

#### A 'Fast' service to the Nation's Capital

In March 2005, Toll Fast began local courier, taxi truck and permanent fleet services in Australia's capital, with extended services already under consideration.

#### Key QLD rail terminal

Toll's new state of the art facility at Townsville welcomed its first train from Brisbane in May 2005. This world class \$30m facility includes a new distribution warehouse for QRX and Pacific National; and train maintenance facilities, improving rail linehaul services in North Queensland.

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But there is something else, too. On page 12 you'll find the story of Toll Solution Sets. The ability to invent has seen us create unique solution sets that combine our knowledge, our people, our processes, our operational capabilities and our technology, all together in customised packages to solve a particular customer's supply chain problem. It is specifically engineered to meet customer expectations while reducing cost, complexity and risk.

Too often, logistics solutions are standardised while failing to take into account that different customers and customer segments demand different solutions. Developing customised solution sets changes that, increasing our competitive advantage, and our performance.

#### **WE ARE POWERING AHEAD**

We hope this annual report captures a sense of the sheer scope of what is ahead. We are competing in a dynamic global marketplace with what we believe is the most effective, time-tested business model in our industry. If we continue to execute this model with discipline, flair and enthusiasm we shall deliver great results – we find ourselves more optimistic than we've ever been in our history.

And finally, we thank our people for being the best at what they do. We know you cannot see all that a company is by just examining the bottom line. One of Toll's great strengths is our powerful 'can do' attitude that permeates right through the company. We have developed a culture where people are given the freedom, training and motivation to act as entrepreneurs and the results, frankly, speak for themselves. With forces as strong as this at work, it is not surprising that Toll has the momentum to power ahead.

We thank you for your support and look forward to telling you about our achievements in 2006.



JOHN MOULE Chairman



PAUL LITTLE Managing Director

## An exceptional financial performance

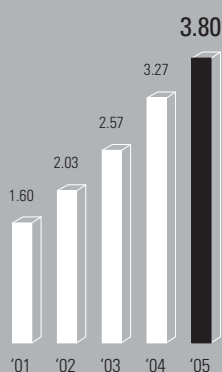
Another great year: double-digit growth in revenue, profit and earnings per share

### FIVE YEAR TRENDS

#### REVENUE

(\$B) Dollars

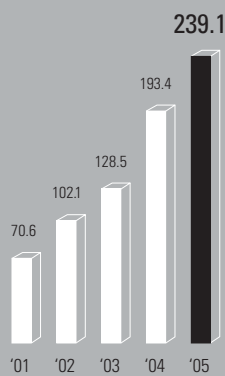
Revenue was up **16%** due to the full year benefits of previous acquisitions and strong organic growth.



#### EBIT

(\$M) Dollars

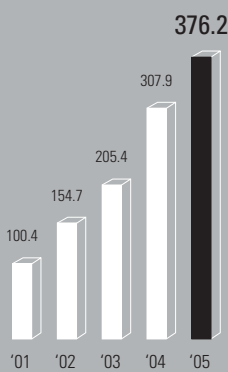
EBIT improved strongly as a result of better utilisation and cost control and the benefits of technology investment.



#### EBITDA

(\$M) Dollars

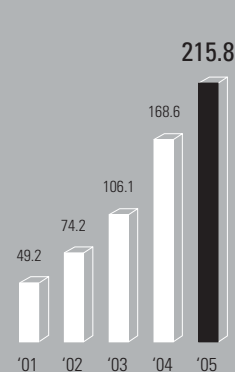
EBITDA was up **22%** to **\$376m** after strong contributions from all Divisions.



#### NPAT

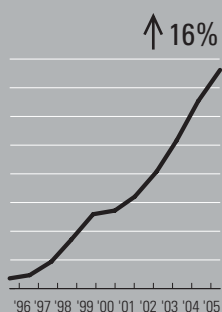
(\$M) Dollars

(pre-significant items) NPAT grew **28%** to **216m**, yet another record for Toll.

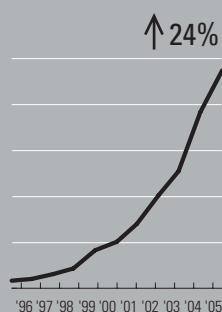


### TEN YEAR TRENDS

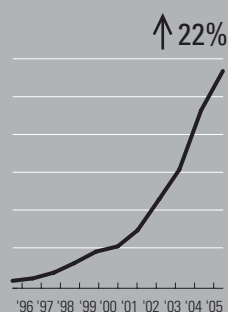
A combination of acquisitions and sustained organic growth have increased revenue consistently.



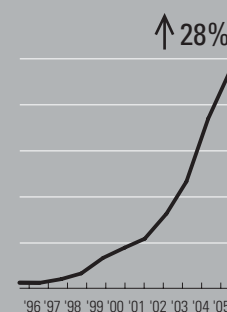
The benefits of continued investment in equipment and infrastructure and continuing focus on technology enhancements, reflects continuing EBIT growth.



Record EBITDA reflects the Group's superior customer focus and solutions capability.



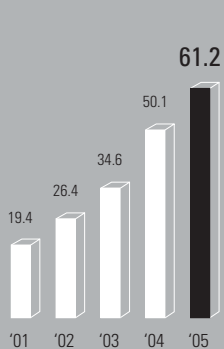
A long history of record results.



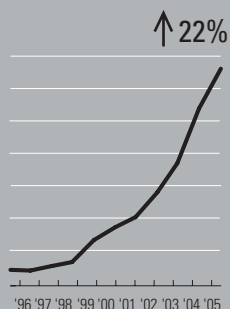
### EPS FULLY DILUTED

(Cents per share)

A **22%** increase on an expanded equity base was a great result.



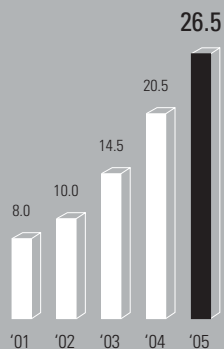
Continuing growth in returns to shareholders has been a feature for Toll.



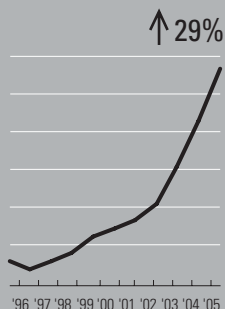
### DIVIDEND PAID

(Cents per ordinary share)

Toll's shareholders continued to enjoy record dividends per share of **26.5** cents up **29%**.



The Group continues to increase the dividends paid to its shareholders.

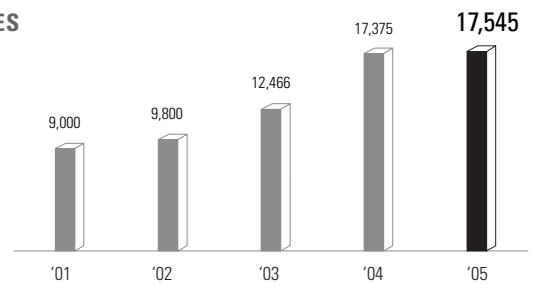


## A strong market leadership position

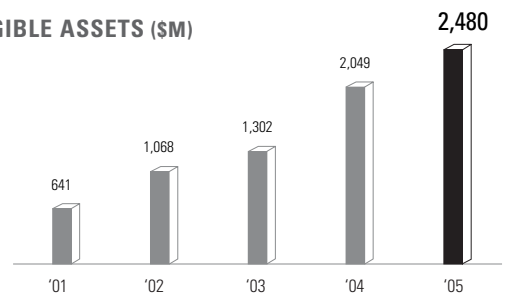
WAREHOUSE CAPACITY **2,000,000m<sup>2</sup>**

SITES **450+**

### EMPLOYEES



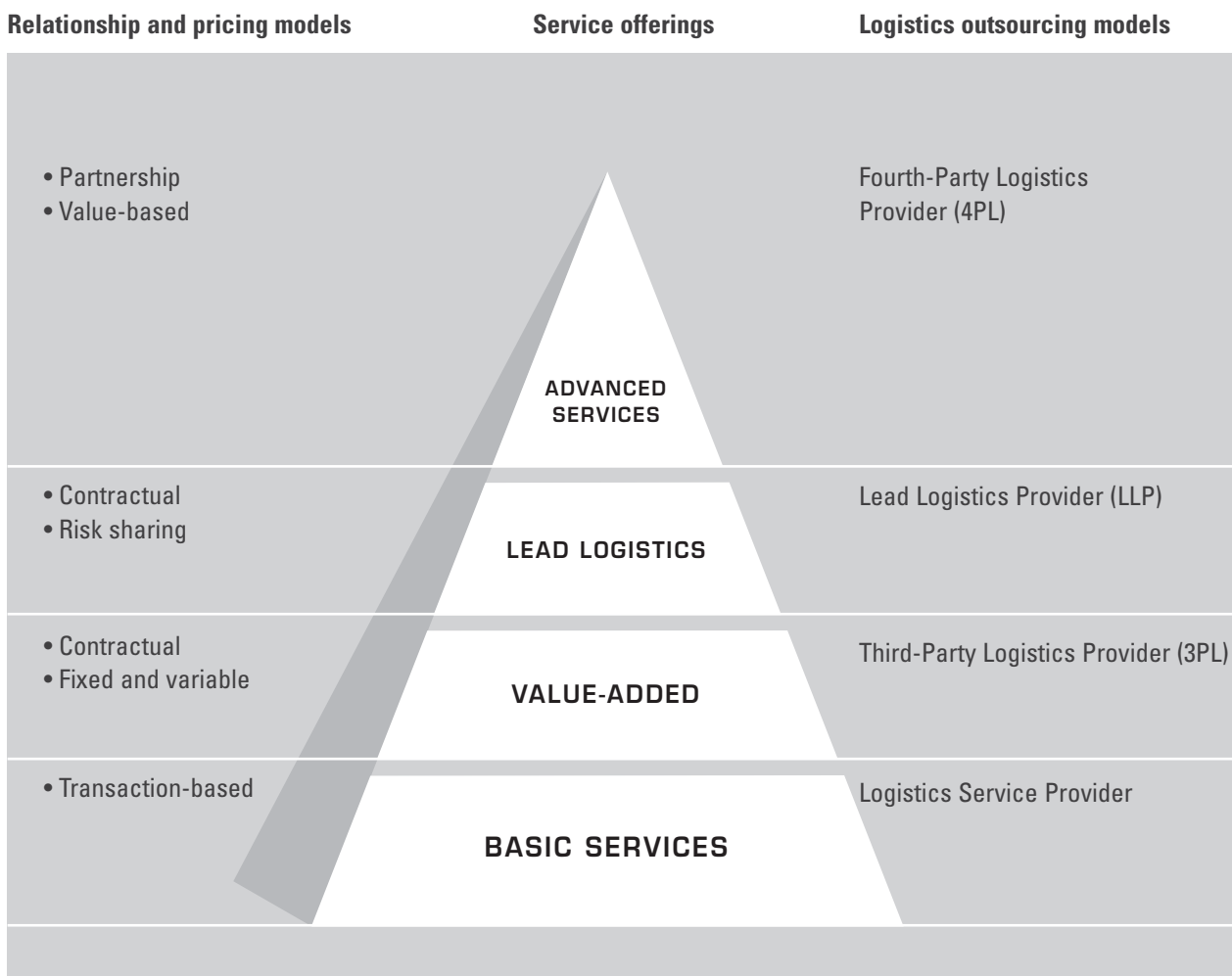
### TOTAL TANGIBLE ASSETS (\$M)



Our willingness to invest in infrastructure critical for multi-modal logistics is a key differentiator

Toll, as a 3.5PL is unique, delivering the best attributes of both 3PL and 4PL providers, quite unlike any other company in our industry.

## How we are powering ahead!



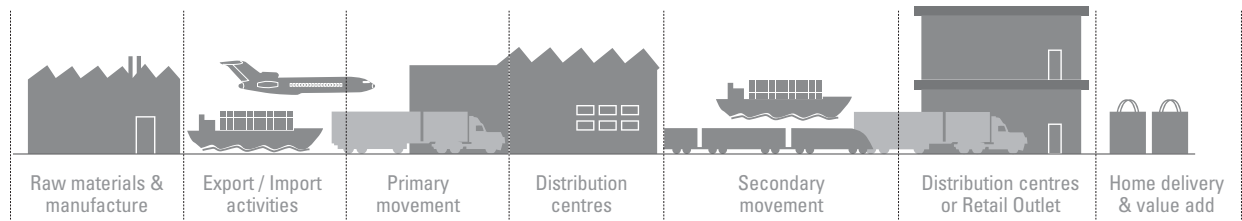
### THE MEANING OF BEING A 3.5PL PROVIDER

Most people don't realise it, but the logistics industry is now two, interrelated industries. One, of course, is the 3PL provider, who owns and operates static assets, like fleets and warehouses, to move goods and materials for customers. The other 'industry', which began in the mid 90s, is the application of strategic planning and smart, sophisticated technology computing to sit atop the

process of moving goods, managing a number of transport companies and their customers – the world of the 4PL provider.

Our goal, of course, is about integrated logistics as an architecture, a model, a system – what all of those individual pieces, when put together, make possible. And if customers are going to look to you as the leader in integrated logistics, you have to be able to drive forward

## INTEGRATED SOLUTIONS ACROSS THE TOTAL SUPPLY CHAIN



Only a 3.5PL provider, combining the best attributes of both 3PL and 4PL, can deliver effectively across the whole supply chain. It's the only way to offer an integrated total logistics solution.

### Key attributes

- Strategic relationships
- Broad supply chain expertise
- Knowledge and information-based
- Shared risk and reward
- Advanced technology capability
- Adaptive, flexible and collaborative

- Project management/contract management
- Single point of contact
- 3PL technology integration

- Enhanced capabilities
- Broader service offerings

- Focused cost reduction
- Niche services

### Toll's roles in the market

#### Strategic Role

##### Move up in the value chain and provide customer with integrated solutions:

- help optimise supply chains
- co-develop logistics solutions
- offer unique value-added services
- integrated solutions
- high-value creation

#### Operational Role

##### Strengthen Toll's 3PL role:

- manage and execute logistics solutions
- offer extra value-added services

##### Leverage Toll's 3PL capabilities:

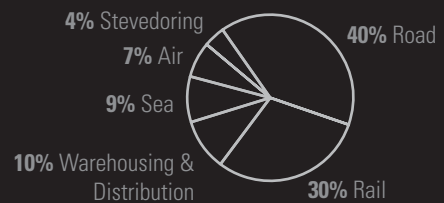
- create economies of scale
- leverage customers' relationships

### TOLL'S 4PL STRATEGIC CAPABILITIES

The goal of any 4PL provider is integration of the whole supply chain. Which means the *process* of logistics and not the function, answering such questions as, what is the present process? How does it work? Where does it fail? Where are the gaps? Where are the redundancies? With years of real world logistics experience, customers value Toll's *applied* intelligence and ability to manage their supply chain, delivering greater visibility and integration.

### TOLL'S 3PL OPERATIONAL CAPABILITIES

A 3PL provider requires real operational diversity. Not just road capabilities, but rail as well. Not just sea, but air. Not just warehousing, but stevedoring and distribution. We have all of that, and more. The scope and impact of what we can deliver is a real competitive advantage.



the entire integrated logistics agenda, not just a piece of it. It's about planning and managing logistics, not just executing logistics. And that means combining the best 3PL and 4PL capabilities to deliver a comprehensive supply chain solution with real competitive advantage.

It's not an overstatement to say that Toll has been unique in stepping to the forefront of both these capabilities – building an unrivalled scale and diversity of assets and

infrastructure, whilst quietly investing in strategic planning and leading-edge technology capabilities – creating our own unique 3.5PL business model.

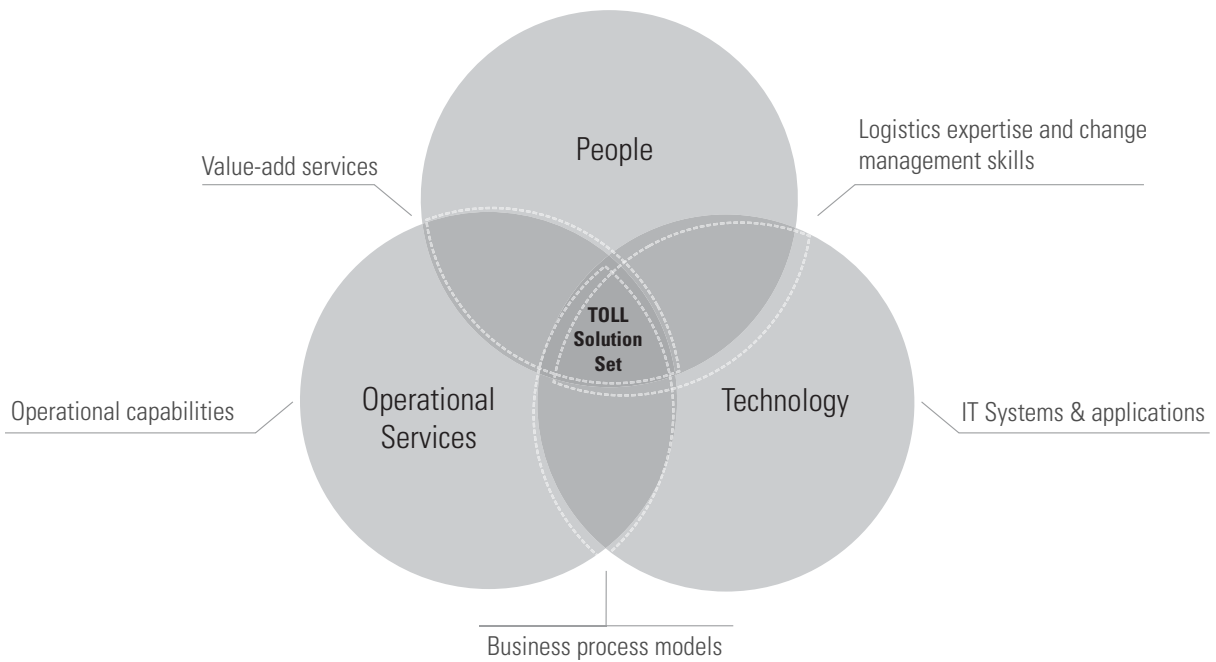
There is no question Toll's brand and business model are very different from those of our competitors. Fundamental to our identity as a corporation is this fusion of 3PL scale and diversity, and 4PL insight and technology leadership. Simply, it's how we are powering ahead.

Customising logistics services for specific buying segments across different markets makes good sense. Why? Because different customer segments demand different logistics services.

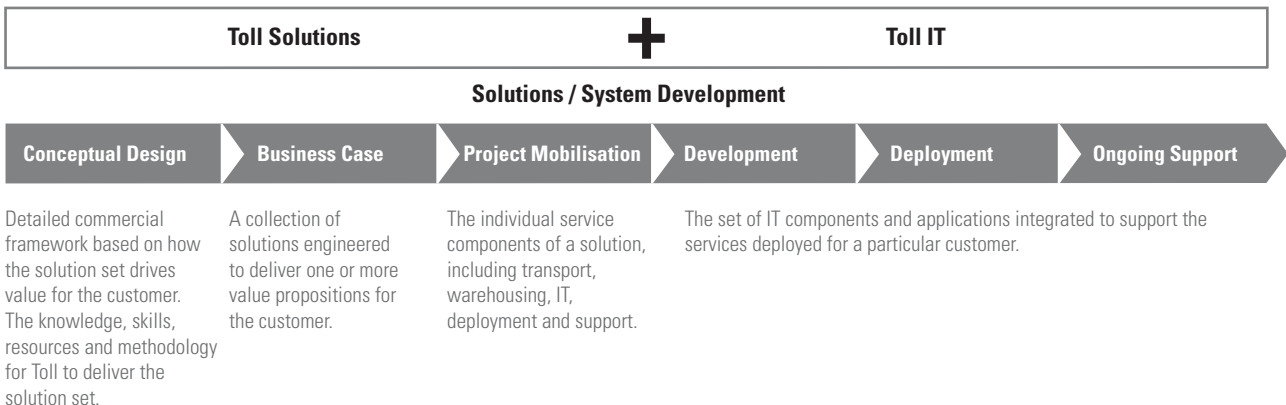
## How we are powering ahead!

### TOLL SOLUTION SETS

Specifically engineered to meet customer expectations, a solution set combines knowledge, people, process, operational capabilities and technology, packaged together to solve a business problem. Well developed solution sets accelerate the delivery of customer value, while reducing cost, complexity, and risk for Toll.




### TOLL SOLUTIONS AND TOLL IT



# Powering ahead with a unique range of services



TOLL NETWORKS	TOLL LOGISTICS	TOLL NORTH	TOLL NZ	PACIFIC NATIONAL
 – Revenue: \$1,366 million – Group Revenue: 30%	 – Revenue: \$1,168 million – Group Revenue: 26%	 – Revenue: \$639 million – Group Revenue: 15%	 – Revenue: \$626 million – Group Revenue: 14%	 – Revenue: \$683 million – Group Revenue: 15%

## GROUP SOLUTIONS

Group Business Development promotes Toll's broader operational capability and new supply chain technology capabilities through key areas such as Tender Response Management, Major Account Management, New Group Business Development and Toll Solutions (MTS)

### ROAD

- Courier Services – Same Day Metropolitan
- Courier, Passport and Visa Advisory Services to the Travel Industry • Parcel Express
  - Palletised Less than Truck Load (LTL) Economy and Express Services
- Full Truck Load (FTL) Services • Intermodal Services • Container Services – Dry, Reefer (FTL)
  - Specialised Transport and Other Services:
    - *Automotive Vehicle and Component*
- *Bulk Handling Transport and Specialist Services to the Mining Industry throughout Qld, NSW and WA*
  - *Fashion • Liquid • Mail (mail exchange and mail room management) • Refrigeration*

### RAIL

Interstate and Intrastate rail services – Australia and New Zealand

### WAREHOUSE & DISTRIBUTION

Lead Logistics Provider (LLP) services, warehousing, distribution and industry-specific solutions for the Automotive, Beverage, Food & Retail, Industrial, Ports, Relocation and Resources sectors, also dangerous goods warehousing and multi-function warehousing

### SEA

- Bass Strait / Cook Strait Shipping Services
- Trans Tasman / PNG / International Freight Forwarding / Overseas Bulk Movements / Customs and Door-to-Door Import / Export Services • Tasmanian Door-to-Door Services

### AIR

- Domestic Freight (Australia and New Zealand) • Interstate and Intrastate Door-to-Door Satchel and Parcel Services
  - Same Day and Overnight • International
- Freight forwarding / Customs and Door-to-Door Import / Export Services

### PORT MANAGEMENT & STEVEDORING

- Port Management / Bulk and Containerised Commodity and Wharf Related Services within Australia and New Zealand

### PROJECT MANAGEMENT

- Project Management and Relocation of Employees, Home and Workplace
- Project Logistics – providing international logistics services – air, sea, specialised handling and charters – to resource companies within Australia and overseas for both construction and ongoing supply line logistics

### FLEET MANAGEMENT

Fleet Maintenance Services

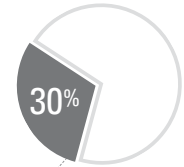
### ASIA

The total logistics solution: Thailand, Malaysia, Vietnam and China

## Review of business operations

### Toll Networks – Financial Performance

	2005	2004	% change
EBIT (\$ million)	82.1	63.5	↑29.3
Revenue (\$ million)	1,366	1,247	↑ 9.5



REVENUE CONTRIBUTION

### Toll Networks – Highlights

- Revenue increased 9.5% to \$1.366 billion.
- EBIT grew 29% to \$82.1 million.
- Strong cost control focus drove margin expansion with the EBIT margin growing 18% to 6%.

### What we are doing

- All businesses in the division performed strongly, driven in part by recent capital expenditure in property, fleet and technology, increasing capacity and efficiencies.
- Toll IPEC: greater use of technology and additional capacity saw new business wins and improved yields.
- Toll Express: increased investment and continued strong cost culture enabled continued margin expansion and enhanced service levels.
- Toll Priority and Toll Fast: both delivered ongoing margin improvement, and a number of new sites are presently being developed to increase capacity, and secure additional economies of scale.
- Toll SPD and Toll Tasmania: solid performances, maintaining leadership positions.

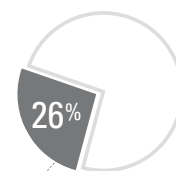
### Outlook 2006

- Benefits continue to flow from investment in new depot infrastructure and increased capacity.
- New technology continues to drive major benefits.

## Review of business operations

### Toll Logistics – Financial Performance

	2005	2004	% change
EBIT (\$ million)	68.7	60.8	↑ 13.0
Revenue (\$ million)	1,168	1,070	↑ 9.1



REVENUE CONTRIBUTION

### Toll Logistics – Highlights

- Revenues increased to \$1,168 billion or 9.1% higher than last year.
- EBIT grew 13% to \$68.7 million.
- Toll Transitions retained the Department of Defence relocations contract.
- TenixToll completed operational transition phase of Defence Integrated Distribution System (DIDS) contract.
- Established Toll Personnel, providing an efficient in-house labour pool to manage fluctuations in labour demand. To date over 1,100 people are now managed by Toll Personnel.

### What we are doing

#### Australia

- Food, beverage and retail sectors very active, driven largely by opportunities of supply chain re-engineering.
- Solid growth in the automotive sector, more opportunities opening up as rail increasingly becomes an important modal alternative.
- Bass Strait shipping operations returned to normal in the second half of the year following the unscheduled outage of one vessel, the Victorian Reliance, in November and December 2004.
- Ports traded satisfactorily. Acquired Western Stevedoring, improving Toll's bulk stevedoring presence in Western Australian ports. Joint venture with Port of Tauranga owned Owens Cargo services was completed mid-year, improving our port services capabilities throughout New Zealand.

#### Asia

- Customers are increasingly seeking Toll support, skills and services in Asia, which is reflected in our rapidly growing international freight forwarding business, extending our reach and service capabilities.
- Thailand, Malaysia and more recently Vietnam, are a stable base and infrastructure from which we are developing further growth, enhancing relationships with both our Australian and global customer base.

### Outlook 2006

- Optimise defence supply chain activities, creating an environment to meet growing customer requirements.
- Grow Toll Personnel significantly.
- Asia: drive more alliance and acquisition opportunities; improve our Asian footprint; and invest in developing relationships in the region.
- Increase capacity and growth through introduction of new terminal facilities, ship configurations and new fleet.

## Review of business operations

### Toll North – Financial Performance

	2005	2004	% change
EBIT (\$ million)	28.6	27.6	↑ 3.6
Revenue (\$ million)	639	540	↑18.3



REVENUE CONTRIBUTION

### Toll North – Highlights

- Revenues grew 18% from \$540 million to \$639 million.
- EBIT grew 3.6% to \$28.6 million over the previous year.
- Features included continued organic revenue growth and margin expansion.
- Launched Pacific National rail linehaul services throughout Queensland, now delivering over 15 train services per week into the northern region.
- NOX, the division's road express forwarder and distribution operator, again posted a strong result.
- Consolidated Toll International freight forwarding and project logistics activities across the group. Grew very strongly during the year.

### What we are doing

#### Australia

- New infrastructure and technology is driving strong and profitable growth.
- QRX, the company's North Queensland rail forwarding operation, had a difficult year and posted a significant loss. The reasons are clear: excessive rail linehaul charges imposed by Queensland Rail and very poor linehaul service levels. With Pacific National now operational in Queensland, this will greatly improve, as customers continue to support our strategy of developing and sustaining cost effective rail freight services into North Queensland.
- The resources sector performed very strongly, with trading in both Queensland and Western Australia at high levels. A number of new opportunities are being pursued.

#### Asia

- The offshore procurement operations of a growing number of our customers continues to provide opportunities, as their customers seek our support in providing seamless solutions for their international trading.

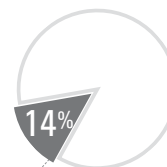
### Outlook 2006

- With the combination of improved service levels and an increase in rail's share of the freight market, it is expected that QRX results will improve over time to generate satisfactory returns on investment.
- The investment by Pacific National and QRX into new infrastructure will enable Queensland based customers to access much needed capacity, as well as benefit from specifically designed logistics solutions.

## Review of business operations

### Toll New Zealand – Financial Performance

	2005	2004	% change
EBIT (\$ million)	59.6	41.6	↑ 43
Revenue (\$ million)	626	415	↑ 51



REVENUE CONTRIBUTION

### Toll New Zealand – Highlights

- The first full year of contribution for Toll NZ.
- Revenue was \$626 million, up from \$415 million, reflecting improved customer focus and a number of new contract wins.
- EBIT grew 43% to \$59.6 million.

### What we are doing

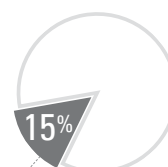
- Refurbishment upgrades to locomotive and rail wagon fleet, delivering improved capacity and operating performance.
- Improvements for the Interisland ferry operations included: refurbishment of the vessel Arahura; replacement of the Lynx and Purbeck with a high capacity passenger and freight vessel, the Kaitaki.

### Outlook 2006

- Steady progress is being made in rail and we shall continue to implement initiatives, significantly improving our rate of return on capital to support new investment and to ensure long-term viability.

### Pacific National – Financial Performance

	2005	2004	% change
EBIT (\$ million)*	91.7	72.5	↑ 26
Revenue (\$ million)*	683	542	↑ 26



REVENUE CONTRIBUTION

\*Toll's 50% share

### Pacific National – Highlights

- Equity contribution increased 23% to \$51.5 million.
- Total revenues of \$1.366 billion, including contribution of \$159 million from Freight Australia acquired in September 2004.
- New business and underlying revenue growth of 10.2%.

### What we are doing

- Intermodal revenue growth continued to gain momentum during the year as higher road transport fuel costs improved rail's relative competitiveness.
- The commencement of the North Queensland intermodal operations occurred in March 2005, reaching planned efficiency. Operations to date have run smoothly and increased cost efficiencies are emerging.
- Coal volumes also continued to grow with high levels of export demand for coal being maintained.

### Outlook 2006

- As the national freight task grows, rail is increasingly seen as an environmentally friendly and cost competitive modal alternative.
- The company is working closely with industry customers and infrastructure providers to improve efficiencies throughout the coal chain.

## Board of directors



### 1. John Moule AM

FCA, FAICD

**Chairman**

**Independent Non Executive Director**

Extensive experience in accounting and financial and general management. Director of MLC Group. Formerly a director of Austrim Nylex Ltd from 2000 to 2002 and The Gribbles Group Ltd from 2001 to 2004. Former Managing Partner of Deloitte Touche Tohmatsu.

Director since 1995.

Appointed Chairman 2002. Age 66.

**Special Responsibilities** Chairman of Board of Directors. Chairman of Nomination and Corporate Governance Committee. Member of the Remuneration and Succession Planning and Audit and Financial Risk Committees.

### 2. Paul Little

FAICD, FCIT

**Managing Director**

Extensive experience and management in the Transport Industry. Managing Director for 18 years.

Director since 1986. Age 57.

**Special Responsibilities** Member of the Nomination and Corporate Governance Committee.

### 3. Mark Rowsthorn

B.Ec, Grad Dip. Bus.

**Executive Director Operations**

Extensive experience and management in the Transport Industry. Directorships include AWX Capital Ltd since 2001, Medica Holdings Ltd since 1998 and Toll NZ Limited since 2003.

Director since 1988. Age 50.

**Special Responsibilities** Chairman of Toll NZ Limited. Chairman of the Risk Management Committee.

### 4. Neil Chatfield

FCCA, AICD

**Chief Financial Officer**

Extensive experience in financial management, capital markets, mergers and acquisitions and risk management. Directorships include Seek Ltd since 2005.

Director since 1998. Age 51.

**Special Responsibilities** Member of the Risk Management Committee.

### 5. Alastair Lucas

FCCA, FSIA

**Independent Non Executive Director**

Extensive experience in financial services, capital markets, mergers and acquisitions. Managing Director, Co Chairman Investment Banking and Co Vice Chairman Goldman Sachs JBWere. Formerly Chairman of the Investment Banking Group Macquarie Bank Limited. Chairman of Burnet Institute.

Director since 2003. Age 53.

**Special Responsibilities** Chairman of the Remuneration and Succession Planning Committee. Member of the Audit and Financial Risk and Nomination and Corporate Governance Committees.

### 6. Ray Horsburgh

B.Chem Eng

**Independent Non Executive Director**

Extensive management experience in the glass and steel industries, in mergers and acquisitions, managing businesses overseas especially in the SE Asian countries and building businesses in mainland China. Directorships include Smorgon Steel Group Ltd since 1998.

Appointed Director 24 November 2004. Age 62.

**Special Responsibilities** Chairman of the Audit and Financial Risk Committee. Member of the Nomination and Corporate Governance and Remuneration and Succession Planning Committees.

### Retired Directors

**W Farrands**

B.Com

**Independent Non Executive Director**

Extensive experience in industry and management. Former Group General Manager of the Building & Industrial Products Division and for the Coated Products Division within BHP Steel.

Director since 1997. Retired as a director on 28 October 2004. Age 72.

**Special Responsibilities** Chairman of the Nomination and Corporate Governance Committee, Member of the Audit and Financial Risk and Remuneration and Succession Planning Committees.

**R Dunning AC**

B.E. (Hons) B.Com

**Independent Non Executive Director**

Extensive experience and management in the railway and resource industries and infrastructure. Director Brisbane Airport Corporation Ltd, Central Queensland Port Authority, Queensland Energy Resources Ltd and Australian Infrastructure Fund Ltd, Chairman – Port of Brisbane Corporation.

Director since 2001. Retired as a director on 28 October 2004. Age 63.

**Special Responsibilities** Chairman of the Audit and Financial Risk, Member of the Nomination and Corporate Governance and Remuneration and Succession Planning Committees.

# Senior management



## 1. John Ludeke

### Group Director Toll Networks

Extensive experience in a number of general management positions with Mayne Nickless for a fifteen year period.

Group Director Toll Networks (formerly Long Distance) since 1997. Age 56.

Joined Toll as General Manager Toll Metro in 1996.

## 2. Don Telford

### Group Director Toll Logistics

Extensive experience in logistics and is a highly regarded speaker at industry functions and conferences. Previously held advisory management positions at Monash University and RMIT.

Group Director Toll Logistics since 1997. Age 56.

**Special Responsibilities** Member of the University of Sydney's Institute of Transport Studies' Logistics Management Advisory Committee.

## 3. Stephen Stanley

### Director Strategy

Extensive experience in industry and management. Responsible for strategy, portfolio review, marketing growth initiatives involving acquisitions, joint ventures and major business developments. Director Strategy since 1999. Age 47.

## 4. Terry Mallon

### Group Director Toll North

Extensive experience and management in the Transport Industry. Responsible for strategic management of time-certain, intermodal distribution between all major Australian cities and regional centres of Queensland. Previously held positions of General Manager, Group General Manager and Executive Director for Carpentaria Transport Pty Ltd for 18 years prior to its acquisition by Toll North in 1997.

Group Director Toll North since 1997. Age 63.

**Special Responsibilities:** Member of the Chartered Institute of Transport (Queensland).

## 5. Hugh Cushing

### Director Group Development

Over 22 years extensive operational and management experience in the Transport Industry. Responsible for the promotion and development of Toll's integrated cross-business service offerings and the Toll Solutions specialised technology development group. Previously held positions in operations management, as General Manager QRX Railfast Division and General Manager Group Development with Carpentaria Transport, prior to its acquisition by Toll North in 1997.

Director Group Development since 2002. Age 48.

**Special Responsibilities** Member of the Chartered Institute of Transport (Queensland).

## 6. Graham Lyon

### Commercial Director

Over 34 years extensive operational and management experience in the Transport Industry. Responsible for the development of the Toll Group's commercial opportunities, including the implementation of e-commerce by Toll Technologies in 2000. Previously held positions with Toll include General Manager Toll Express, Division Director Toll Specialised and Director Operations Toll Technologies. Prior to joining Toll in 1994, Mr Lyon worked for Mayne Nickless for 23 years in various management positions.

Commercial Director since 2004. Age 55.

**Special Responsibilities** Member of the Chartered Institute of Transport and the Australian Logistics Council.

## 7. Bernard McInerney

### Company Secretary

Extensive experience in accounting and financial management within the Transport Industry. Previously with a Melbourne-based local transport and storage group, and prior to that the Transport Division of Mayne Nickless.

General Manager Finance and Company Secretary since 1994. Age 47.

**Special Responsibilities** Member of the Chartered Institute of Company Secretaries and of the Australian Society of Certified Practising Accountants.

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FINANCIAL STATEMENTS AND DIRECTORS REPORT  
FOR YEAR ENDED 30 JUNE 2005

**TOLL**

# DIRECTORS' REPORT

The directors present their report together with the financial report of Toll Holdings Limited ('the Company') and the consolidated financial report of the consolidated entity, being the Company and its controlled entities ('the Group'), for the year ended 30 June 2005 and the auditors' report thereon.

## Directors

The following persons held office as directors of the Company during or since the end of the financial year:

John Moule AM (Chairman)	Director since 1995
Paul Little (Managing Director)	Director since 1986
Mark Rowsthorn	Director since 1988
Neil Chatfield	Director since 1998
Alastair Lucas	Director since 2003
Ray Horsburgh	Appointed on 24 November 2004
William Farrands	Retired on 28 October 2004
Ross Dunning AC	Retired on 28 October 2004

## Principal Activities

The principal activities of the Group during the year consisted of:

- Less than full load express and economy freight forwarding service using all modes of transport;
- Full load road and rail freight forwarding service including transcontinental rail linehaul operation;
- Temperature controlled transport service for full load and less than full load clients;
- Warehousing and distribution of bulk dry and refrigerated goods;
- Wharf cartage, container handling and storage;
- Contract distribution services;
- Time sensitive parcel freight distribution services;
- Specialised international forwarding services;
- Ports management and stevedoring services;
- Removals and relocation brokerage service;
- Vehicle transport and distribution;
- Bulk liquid transportation;
- Shipping linehaul operations for freight and passengers; and
- Rail passenger operations.

There were no significant changes in the nature of the activities of the Group during the year.

## Consolidated Result

The consolidated profit from ordinary activities for the year attributable to the members of the Company was:

	2005 \$'000	2004 \$'000
Net profit attributable to members of the Company	216,554	168,639
<b>Earnings per share</b>		
Basic earnings per share	61.85¢	50.82¢
Diluted earnings per share	61.25¢	50.09¢

## Review of Operations

The Group announced a record \$215.8 million after tax profit, with one off significant items lifting the overall result to \$216.6 million.

The net profit of \$215.8 million represents a 28% increase over the previous period. Net one off significant items relate to a gain of \$7.0 million in respect of an increase in the asset tax base, arising from the introduction of tax consolidation. This was mostly offset by the one off after tax cost of \$6.3 million restatement of long service leave entitlements relating largely to past acquisitions. Neither of these items had a cash impact during the year.

Revenue for the Group was \$3.8 billion for the year, excluding our equity share of Pacific National Pty Ltd ('Pacific National'), and represented a 16% increase over the previous year. The increase was driven by the full year impact of Toll NZ revenues together with strong organic growth. Organic growth, including major new contracts increased by over 8% for the year, thus continuing to demonstrate the underlying strength throughout the Group of superior customer solutions.

EBIT for the Group, excluding the equity share of Pacific National, increased from \$193 million to \$239 million for the year. This increase was driven by a continuation of improved trading from Toll NZ, together with the solid earnings growth throughout each major division. In particular, the Networks division which benefited from upgrades in infrastructure and technology, was able to achieve further margin expansion.

For the year Toll NZ posted an EBIT of \$59.6 million on revenues of \$626 million. This compared to EBIT of \$41.5 million on revenues of \$415 million for the year to June 2004, which covered only 9 months from acquisition date.

EBIT margins continued to grow with the overall margin increasing from 5.91% to 6.29% on EBIT of \$239 million. Margin excluding Toll NZ was 5.66% on EBIT of \$180 million, up from 5.32% margin on \$152 million EBIT previously.

EBITDA for the group, excluding Pacific National, increased 22% for the year to \$376m.

As advised at the interim 2005 earnings announcement, no income tax charge has been recorded in relation to Toll NZ as a result of ongoing income tax losses. Based on current projections, no charge is expected for the 2006 year.

For the year, the Group's 50% owned rail joint venture, Pacific National, contributed equity accounted after tax earnings of \$51.5 million compared to \$41.7 million in the previous year.

A summary of the composition of earnings (excluding net significant items gain of \$0.7m) is as follows:

# DIRECTORS' REPORT

CONTINUED

ASM	BASE OPERATIONS	TOLL NZ	SUB-TOTAL	PACIFIC NATIONAL (50% SHARE)	GROUP TOTAL
Revenue	3,172	626	3,798	683	4,481
EBIT	179.5	59.6	239.1	91.7	330.8
Net Interest	6.6	17.2	23.8	19.8	43.6
Tax	45.1	(1.0)	44.1	20.4	64.5
Minority Interest	—	6.9	6.9	—	6.9
NPAT	127.8	36.5*	164.3	51.5*	215.8

\* Excludes funding cost of initial acquisition, which is included in base operations.

## Review of Operations (continued)

Group cashflows remained very strong with operating cashflow after interest and tax increasing 52% to \$318 million for the year. Group net debt to book equity gearing reduced to 24% at year end with net debt being \$311 million. Interest cover continued to be very strong at over 10 times.

The Group continued to invest heavily in new infrastructure and equipment. This investment was specifically targeted at improving the level of our return on capital, which is critical to support new long term investment.

In the year to 30 June 2005, the Group made capital expenditure of \$234m, this included in excess of \$60 million expended in New Zealand as strategic development and equipment upgrade plans were implemented. In addition, new property development expenditure was over \$70 million reflecting new terminal rail infrastructure in Queensland as well as a number of new warehousing developments.

Since 30 June 2005, the Group has announced the formation of a property venture with Macquarie Goodman. This relationship will provide the Group with access to direct development funding and strategic properties, without impacting on the balance sheet or diluting return on capital. Two properties valued at \$37 million were sold into the new structure prior to year end, whilst three other properties have been sold since year end.

During the last six months the Group has invested \$156 million to secure a 3.9% stake in Patrick Corporation Limited, whilst the 12% stake in Owens Limited in New Zealand was sold yielding a small profit. Since balance date the Patrick stake was increased to 4.3% with the total investment of \$170 million.

For the year Earnings Per Share (fully diluted) increased 22% from 50.1 cents to 61.3 cents. Over the past 5 years the Group has achieved a 29% compound annual growth rate in EPS.

The Company has declared a final fully franked ordinary share dividend of 15.5 cents per share, bringing the full year dividend to 26.5 cents per share, an increase of 29% over the previous year, another record for the Group. Total ordinary share dividend payout in respect of the 2005 financial year is \$87.1 million, an increase of 32% over the previous year.

## Divisional Performances

Whilst economic conditions remained relatively stable, the transport and logistics sector continued to experience high levels of competition

in an environment where customers are continually requiring enhanced supplier capabilities.

All divisions improved earnings for the year with strong organic growth also achieved.

For the purposes of divisional segment reporting, all Toll NZ operations are now treated as a separate segment and no longer reported within the Toll Networks and Toll Logistics segments. This reflects the integrated nature of the Toll NZ activities.

### Toll Networks

Revenue increased 9.5% to \$1.366 billion, whilst divisional EBIT grew 29% to \$82.1 million. The division is benefiting from recent capital expenditure in property, fleet and technology resulting in increased capacity and efficiencies. A strong cost control focus is also driving margin expansion with the EBIT margin growing 18% to 6%.

Toll IPEC again performed well as greater use of technology and additional capacity resulted in new business and improved yields.

Toll Express is also realising the benefits of investment and the maintenance of a strong cost culture, enabling continuing margin expansion and enhanced service levels.

Pleasingly Toll Priority and Toll Fast are delivering ongoing margin improvement and a number of new sites are presently being developed, in order to increase capacity and secure additional economies of scale.

Toll SPD and Toll Tasmania both returned solid performances and maintained their leadership positions.

### Toll North

The division posted an increased EBIT of \$28.6 million or a 3.8% gain over the previous year, on revenues which grew 18% from \$540 million to \$639 million. This result was achieved notwithstanding very difficult conditions for QRX.

NQX, the division's road express forwarder and distribution operator, again posted a strong result. Continued organic revenue growth together with margin expansion were features of their trading. Like many other operations, investment in new infrastructure and technology is promoting further profitable growth.

QRX, which is the Group's North Queensland rail forwarding operation, had a particularly difficult year and posted a significant loss. For the most part of the year QRX suffered from excessive rail linehaul charges imposed by Queensland Rail, in addition to very poor linehaul service

levels. It is pleasing that customers have continued to support our strategy of developing and maintaining cost effective rail freight services into North Queensland.

During March 2005, Pacific National commenced rail linehaul services throughout Queensland and is now delivering over 15 train services per week into the northern region. The investment by Pacific National and QRX into new infrastructure will enable Queensland based customers to access much needed capacity, as well as benefit from specifically designed logistics solutions.

With the combination of improved service levels and an increase in rail's share of the freight market, it is expected that QRX results will improve over time to generate satisfactory returns on investment.

The resources sector, the activities of which are included in Toll North, performed very strongly throughout the year. Trading in both Queensland and Western Australia was at high levels and a number of new opportunities are being pursued.

Toll International consolidated the international freight forwarding and project logistics activities across the Group and grew very strongly during the year. The offshore procurement operations of a growing number of our customers continues to provide opportunities, as their customers seek our support in providing seamless solutions for their international trading.

#### ***Toll Logistics***

The logistics division performed solidly for the year recording an EBIT of \$68.8 million, an increase of 13% over the previous year. Revenues for the division increased to \$1.168 billion or 9.1% higher than last year.

The Food, Beverage and Retail sector remained very active, as supply chain re-engineering was again a prominent theme. The Group remains well positioned to participate in the growing list of opportunities being presented as these initiatives roll-out.

The automotive sector also continued its solid growth and the Group has maintained its focus on delivering superior solutions to the sector, with rail increasingly becoming an even more important modal alternative.

Bass Strait shipping operations returned to normal in the second half of the year following the unscheduled outage of one vessel, the Victorian Reliance, in November and December 2004.

Port Operations traded satisfactorily, with our Western Stevedoring acquisition improving the Group's bulk stevedoring presence in Western Australian ports. The joint venture operations with Port of Tauranga owned Owens Cargo services, was completed mid year and has assisted in improving our port services capability throughout New Zealand.

Toll Transitions ended the year on a very positive note after successfully retaining the Department of Defence ('Defence') relocations contract. Revenues improved on the previous year as increased corporate and workplace relocations work was achieved.

The Tenix Toll joint venture successfully completed the operational transition phase of the Defence Integrated Distribution System (DIDS) contract during the year. We are presently working with Defence to optimise supply chain activities and to create an environment capable of meeting the dynamic nature of the customers requirements.

During the year Toll Personnel was established with the intent of providing an efficient in-house labour pool to manage fluctuations

in labour demand. This business unit has focussed on providing a consistent reserve of quality trained people to a range of Group operations. To date over 1,100 people are now managed by Toll Personnel.

#### ***Asia***

The Group's activities throughout Asia continue to grow in importance, as customers seek support in the region. With a strongly growing international freight forwarding business our reach and service capabilities are also more competitive.

In country contracts, in Thailand, Malaysia and more recently Vietnam, are providing a stable base and infrastructure from which to develop further growth and to enhance relationships with both our Australian and Global customer base.

The Group has been examining a number of alliance and acquisition opportunities in order to further improve our Asian footprint and at the same time investing in developing relationships in the region. Any acquisition will only be considered if it meets our requirement for a low risk entry, has an attractive customer base and satisfies our financial criteria.

#### ***Toll NZ***

The 2005 financial year represented the first full year of contribution for Toll NZ following the takeover in October 2003.

Revenue for the year was \$626 million compared to \$415 million reported in the period from acquisition last year. On a full year comparative basis revenue grew over 7%. This reflected the improved customer focus as well as a number of new contracts.

EBIT grew 43% to \$59.6 million for the year, and likewise on a year on year basis increased from \$40.6 million in the full 2004 year to \$59.6 million in the current year.

The improvement in overall EBIT margin to 9.5%, an increase of 34% on a full year basis, was driven by greater cost efficiencies, continuing reduction in overheads and the benefits of integration.

The overall contribution of Toll NZ on an after tax and minority interests basis was \$36.5 million, compared to \$23.3 million in the previous year. As previously indicated no income tax charge was made against earnings due to continuing losses carried forward. It is also expected, based on current projections, that the tax charge, if any, for the next financial year ending June 2006 will not be material.

During the year, the rail track infrastructure was transitioned back to the New Zealand Government and the Group has been working to assist the Government in formulating long term policies designed to deliver a sustainable rail network. At the same time, the Group has been implementing a refurbishment and upgrade program to its locomotive and rail wagon fleet, which is delivering improved capacity and operating performance.

Whilst steady progress is being made in rail, we continue to implement initiatives to significantly improve our rate of return on capital, in order to support new investment and to ensure long-term viability.

A number of developments were made in the Interisland ferry operations over the year. These include refurbishment of the vessel Arahura, and the decision to replace the Lynx and Purbeck with a high

# DIRECTORS' REPORT

CONTINUED

## Review of Operations (continued)

capacity passenger and freight vessel, the Kaitaki, which arrived in New Zealand during August 2005.

### Pacific National

The Group's 50% owned rail joint venture, Pacific National, made an equity contribution of \$51.5 million for the year. This represented an increase of 23% over the previous year.

Total revenues for Pacific National were \$1.366 billion, which included the contribution of \$159 million from Freight Australia which was acquired in September 2004. This reflects new business and underlying revenue growth of 10%.

Intermodal revenue growth continued to gain momentum during the year as higher road transport fuel costs improved rail's relative competitiveness. In addition, as the national freight task grows, rail is increasingly seen as an environmentally friendly and cost competitive linehaul modal alternative.

Coal volumes also continued to grow with high levels of export demand for coal being maintained. The company is working closely with industry customers and infrastructure providers to improve efficiencies throughout the coal chain.

Low grain volumes due to drought conditions, particularly in Victoria, had a major impact on Freight Australia earnings since acquisition of the business in September 2004. The immediate outlook has improved with recent rains.

## Economy and Cost Structure

The Australian and New Zealand economies have shown solid growth over the year and whilst some limited slowdown was experienced in particular sectors, overall activity was not materially impacted and trading remained strong. Based on current trading we do not envisage any significant deterioration in economic activity. At the same time,

interest rates and inflation appear benign and are also unlikely to disrupt the solid growth outlook.

Major costs across the Group are well managed and the cost structure continues to be relatively stable. Labour issues are well defined and Enterprise Agreements within Australia and New Zealand have been settled over the last 6 months with minimal disruption.

The Group remains committed to improving safety standards across all aspects of its operations. During the current year, the lost time frequency rate fell over 36%, with a compound annual reduction exceeding 35% over the past 3 years. This reduction reflects the Group's focus on driver training, fatigue management and accident prevention.

Fuel costs have continued at very high levels throughout the year and there is no present indication that global fuel prices will reduce by any material extent in the short to medium term.

The control and recovery of increased fuel costs however are major issues for the industry, and it is vital that these are efficiently managed. Whilst the Group has a sound regime of fuel cost recoveries, it continues to monitor closely opportunities to reduce the impact on our customer base by adopting innovative solutions including fuel efficient practices and the greater use of rail.

## Outlook

The 2005 year was another outstanding year for the Group, with development of new platforms for growth through a number of major new contracts and the increased operations within the Asian region.

In addition, the Group has increased operational capacity through the introduction of new terminal facilities, ship configurations and new fleet, all of which will lead to further profitable growth in the future.

In terms of the outlook for 2006, given the present economic climate, the Group expects to produce a year of record results. Trading since 30 June 2005 has been strong, and results have been ahead of budget.

## Dividends

Dividends paid or declared by the Company to members since the end of the previous financial year were:

TYPE	CENTS PER SHARE	TOTAL \$'000	FRANKING	DATE OF PAYMENT
• In respect of the previous financial year <i>Paid or declared during the year</i>				
– Final – ordinary	12.0	38,579	100%	30 Sep 2004
• In respect of the current financial year: <i>Paid or declared during the year</i>				
– Interim – ordinary	11.0	35,911	100%	24 Mar 2005
– Half yearly – reset preference shares 6.2%	–	7,814	100%	11 Nov 2004
– Half yearly – reset preference shares 6.2%	–	7,686	100%	11 May 2005
<i>Paid or declared after end of year</i>				
– Final – ordinary	15.5	51,177	100%	30 Sep 2005
		102,588		
	<b>NOTE</b>			
Dealt with in the financial report as:				
– Dividends	6	89,990		
– Noted as a subsequent event	6	51,177		
		141,167		

## Significant Changes in the State of Affairs

Significant changes in the state of affairs of the Group during the financial year were:

(a) An increase in paid up capital of \$86 million to \$808 million which included the following:

- Issue of 2,147,592 fully paid ordinary shares in accordance with the Dividend Reinvestment Plan;
- Placement of 1,800,000 ordinary shares during the year;
- Issue of 3,963,800 ordinary shares as a result of conversion of Executive Share Options throughout the year;
- Issue of 963,800 ordinary shares in relation to the Employee Share Ownership Plan.

(b) An increase in assets and liabilities due to the purchase of approximately \$156 million of shares in Patrick Corporation Limited during the year. A takeover offer for Patrick Corporation Limited was announced by the Group on 22 August 2005.

## Financial Reporting

The Managing Director and the Chief Financial Officer have declared in writing to the board that the Group's financial reports are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board.

Monthly actual results are reported against budgets approved by the directors and revised forecasts, if required, are prepared.

Convergence with Australian Equivalents to International Financial Reporting Standards (AIFRS) is a key financial reporting project and the board has established a formal project, monitored by a steering committee, to ensure a smooth transition to AIFRS reporting, beginning with the half-year ending 31 December 2005.

Details of the progress of the implementation project and the expected impact of transition to AIFRS on the financial report for the year ended 30 June 2005 are included in Note 34.

The consolidated entity is expected to be in a position to fully comply with the reporting requirements of AIFRS for the year ending 30 June 2006.

## Environmental Regulation

The operations of the Group in Australia are subject to various environmental regulations under both Commonwealth and State legislation.

In making this report, the directors note that the Group's operations frequently involve the use or development of land, the transport of goods and the storage, transport and disposal of waste. Some of these activities require a licence, consent or approval from Commonwealth or State regulatory bodies. This regulation of the Group's activities is typically of a general nature, applying to all persons carrying out such

activities, and does not in the directors' view comprise particular and significant environmental regulation.

Based upon enquiries within the Group, the directors are not aware of any breaches of particular and significant environmental regulation affecting the Group's operations.

The directors believe the environmental performance of the Group is sound and that the Group has appropriate systems in place for the management of its ongoing corporate environmental responsibilities.

## Events Subsequent to Balance Date

### *Takeover Offer*

On 22 August 2005, the Company announced a proposed takeover offer for Patrick Corporation Limited. The Company currently owns approximately 4.3% of Patrick Corporation Limited stock for an investment of approximately \$170 million.

### *Dividends*

A final dividend of 15.5 cents per share has been declared by the directors.

## International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005 the consolidated entity must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board. The implementation plan and potential impact of adopting AIFRS are detailed in Note 34.

Other than the items noted above there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of these operations, or the state of affairs of the Group, in future financial years.

## Likely Developments and Expected Results of Operations

The Group will continue to pursue its policy of increasing the profitability and market share of its businesses during the next financial year.

Information as to likely developments in the operations of the Group and the expected results of those operations in future financial years has not been included in this report because, the directors believe on reasonable grounds, that to include such information would be likely to result in unreasonable prejudice to the Group.

# DIRECTORS' REPORT

CONTINUED

## Information on Directors

DIRECTOR	EXPERIENCE & QUALIFICATIONS	AGE	SPECIAL RESPONSIBILITIES*
<b>J A Moule AM</b> FCA, FAICD Chairman Independent Non Executive Director	Extensive experience in accounting and financial and general management. Director MLC Group, Former Managing Partner Deloitte Touche Tohmatsu Director since 1995 Appointed Chairman 2002	66	Chairman of Board of Directors. Chairman of the Nomination and Corporate Governance Committee Member of the Remuneration and Succession Planning and Audit and Financial Risk Committees
<b>P A Little</b> FAICD, FCIT Managing Director	Extensive experience and management in the Transport Industry. Managing Director for 18 years Director since 1986	57	Member of the Nomination and Corporate Governance Committee
<b>M Rowsthorn</b> B Ec, Grad Dip Bus. Executive Director Operations	Extensive experience and management in the Transport Industry Director since 1988	50	Chairman of Toll NZ Limited Chairman of the Risk Management Committee
<b>N Chatfield</b> FCPA, AICD Chief Financial Officer	Extensive experience in financial management, capital markets, mergers and acquisitions and risk management. Director since 1998	51	Member of the Risk Management Committee
<b>R.Horsburgh</b> B.Chem Eng Independent Non Executive Director	Extensive management experience in the glass and steel industries, in mergers and acquisitions, managing businesses overseas especially in the SE Asian countries and building businesses in mainland China. Appointed Director 24 November 2004	62	Chairman of the Audit and Financial Risk Committee Member of the Nomination and Corporate Governance and Remuneration and Succession Planning Committees
<b>A Lucas</b> FCPA, FSIA Independent Non Executive Director	Extensive experience in financial services, capital markets, mergers and acquisitions. Managing Director, Co Chairman Investment Banking and Co Vice Chairman Goldman Sachs JBWere. Formerly Chairman Investment Banking Group Macquarie Bank Limited Chairman of Burnet Institute Director since 2003	53	Chairman of the Remuneration and Succession Planning Committee Member of the Audit and Financial Risk and Nomination and Corporate Governance Committees
<b>FORMER DIRECTORS</b>			
<b>R Dunning AC</b> B.E. (Hons) B.Com Independent Non Executive Director	Extensive experience and management in the railway and resource industries and infrastructure. Director Brisbane Airport Corporation Ltd, Central Queensland Port Authority, Queensland Energy Resources Ltd and Australian Infrastructure Fund Ltd, Chairman – Port of Brisbane Corporation. Director from 2001 to retirement on 28 October 2004	63	Former Chairman of the Audit and Financial Risk Committee Former Member of the Nomination and Corporate Governance and Remuneration and Succession Planning Committees
<b>W Farrands</b> B.Com Independent Non Executive Director	Extensive experience in industry and management. Former Group General Manager of the Building & Industrial Products Division and for the Coated Products Division within BHP Steel Director from 1997 to retirement on 28 October 2004	72	Former Chairman of the Nomination and Corporate Governance Committee Former Member of the Audit and Financial Risk and Remuneration and Succession Planning Committees

\* Refer Meetings of Directors as detailed on the following page.

### Company Secretary

Mr Bernard B McInerney (B.Bus, CPA, Grad. Dip.(Accounting)) has held the position of company secretary since 1994. Mr McInerney has been involved in finance and administration positions in the transport and logistics industry for the last 20 years.

### Directors' Interests

The relevant interest of each director in the shares, options or reset preference shares issued by the companies within the Group and other related bodies corporate, as notified by the directors to the Australian Stock Exchange in accordance with S205G(1) of the Corporations Act 2001, at 12 August 2005 is as follows:

THE COMPANY	ORDINARY SHARES	RESET PREFERENCE SHARES	OPTIONS OVER ORDINARY SHARES
P A Little	36,931,300	1,500	1,300,000
M Rowsthorn	30,194,383	1,500	1,300,000
J A Moule	719,866	—	—
N Chatfield	430,484	1,000	350,000
A Lucas	228,597	—	—
R Horsburgh	891	—	—

### Meetings of Directors

The following table sets out the number of meetings of the Company's directors (including meetings of committees of directors) held during the year ended 30 June 2005 and the number of meetings attended by each director who held office during the financial year.

DIRECTOR	DIRECTORS' MEETINGS				AUDIT AND FINANCIAL RISK COMMITTEE MEETINGS		REMUNERATION AND SUCCESSION PLANNING COMMITTEE MEETINGS		NOMINATION CORPORATE AND GOVERNANCE COMMITTEE MEETINGS	
	FULL AGENDA		RESTRICTED AGENDA		NO OF MEETINGS		NO OF MEETINGS		NO OF MEETINGS	
	ATTENDED	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED	HELD	ATTENDED	HELD
P A Little	12	12	3	3	4*	4	—*	—	1	2
M Rowsthorn	10	12	3	3	—*	—	—*	—	—*	—
J A Moule	11	12	2	3	4	4	6	6	2	2
W Farrands	4	5	1	3	1	1	2	3	—	—
N Chatfield	12	12	3	3	4*	4	—*	—	—*	—
R Dunning	4	5	3	3	1	1	3	3	—	—
A Lucas	12	12	3	3	4	4	6	6	2	2
R Horsburgh	7	7	—	—	3	3	3	3	2	2

In addition, as required, matters were dealt with by circular resolution and ratified at the next Board Meeting.

\* May attend meetings as an invitee.

### Share Options

During or since the end of the financial year, the Company granted options over unissued ordinary shares.

Options to take up ordinary shares in the capital of the Company have been granted as follows:

# DIRECTORS' REPORT

CONTINUED

## Senior Executive Option Plan and Executive Share Option Scheme

As at the 12 August 2005, unissued ordinary shares of the Company under option are:

GRANT DATE	TOTAL OPTIONS GRANTED	UNEXPIRED OPTIONS	NO OF EXECUTIVES	EXERCISE PRICE \$	EXPIRY DATE
29 May 2000	4,460,000	10,000	1	1.9925	28 May 2005*
25 Jan 2002	5,052,000	1,721,200	70	6.7525	24 Jan 2007
31 Oct 2002	1,600,000	1,600,000	2	6.5575**	30 Oct 2007
9 Sep 2004	5,291,000	5,188,000	229	10.9500	8 Sep 2009
28 Oct 2004	350,000	350,000	1	10.9500	8 Sep 2009
2 Nov 2004	1,000,000	1,000,000	2	11.5300***	1 Nov 2009

Each option is convertible into one ordinary share at any time after the initial qualifying period, which is usually between three and five years after the grant date. The options granted to 31 October 2002 are only exercisable on the satisfaction of specific hurdle criteria with regard to the Company's Total Shareholder Return (TSR) and diluted EPS growth relative to the ASX 200 Industrials (excluding banks), during the period from grant date to the end of the qualifying period (generally a three year period). Options granted from 9 September 2004 are only exercisable on the satisfaction of specific hurdle criteria with regard to the Company's TSR relative to the ASX 100 excluding banks, oil and gas and metals and mining companies over a 3 year period commencing 1 July 2004. All options will vest if the Group's TSR percentile ranking is greater than 75%, i.e. the Group is ranked in the top 25%. Between 50% and 75%, a pro-rata allocation is vested. Below 50%, no options will vest.

3,963,800 shares were issued at various prices per share during the financial year on the exercise of options granted under either the Senior Executive Option Plan or the Executive Share Option Scheme (2004: 5,720,000 shares). No ordinary shares have been issued since the end of the financial year on the exercise of options granted under the scheme. (2004: Nil shares)

\* Option expiry date has been extended

\*\* Issue price of \$0.7606 per option is payable on or before exercise of options

\*\*\* Issue price of \$1.3375 per option is payable on or before exercise of options

## Toll NZ Limited Equity Incentive Plan

Toll NZ Limited have an Equity Incentive Plan in operation. The Equity Incentive Plan (the 'Plan') allows for Toll NZ Limited to award, at its discretion within specified limits, option rights, appreciation rights and restricted shares to employees. The terms and conditions of such awards are to be determined at Toll NZ Limited's discretion up to a maximum of 15,000,000 ordinary shares that may be issued under the Plan. The directors of the Company are not currently authorised to issue new option rights, appreciation rights and restricted shares to employees pursuant to the Plan.

## Redeemable Restricted Share Capital

All of these items were acquired by the Group in the acquisition of Tranz Rail Holdings Limited. None of these are held by independent parties.

## Share Options

A total of 1,174,079 options exist in Toll NZ Limited. Of this balance 983,823 options were purchased by the Group in the acquisition of Tranz Rail Holdings Limited. The balance remaining of options on issue are as follows:

NUMBER ON ISSUE	EXERCISE PRICE (\$)	EXPIRY DATE
62,500	5.78	19 Feb 2008
127,756	3.50	23 Dec 2009
190,256		

## Remuneration Report

This report outlines the remuneration arrangements in place for directors and executives of Toll Holdings Limited and its controlled entities (the Group).

### (a) Details of Specified Directors and Specified Executives

#### (i) Specified Directors

##### Non Executive Directors

John Moule	Chairman	
William Farrands	Director	Retired 28 Oct 2004
Ross Dunning	Director	Retired 28 Oct 2004
Alastair Lucas	Director	
Ray Horsburgh	Director	Appointed 24 Nov 2004

##### Executive Directors

Paul Little	Managing Director
Mark Rowsthorn	Executive Director Operations
Neil Chatfield	Chief Financial Officer

#### (ii) Specified Executives

John Ludeke	Divisional Director Networks
Don Telford	Divisional Director Logistics
Terry Mallon	Divisional Director Toll North
Stephen Stanley	Director Strategy
Hugh Cushing	Director Business Development
Graham Lyon	Commercial Director

### (b) Remuneration of Specified Directors and Specified Executives

#### (i) Remuneration Policy

The Remuneration and Succession Planning Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to the Managing Director, Executive Director Operations, non-executive directors and where appropriate, senior executives. It also reviews and makes recommendations regarding the policies applicable to staff salary reviews. The Group aims to ensure remuneration levels are competitively set to attract appropriately qualified and experienced directors and senior executives.

The Toll Remuneration Policy is performance driven and is designed to support the needs and direction of the business. The level of remuneration of non-executive directors, executive directors and other senior executives is determined by reference to the market via survey data and input from remuneration consultants. Remuneration programs are designed to be appropriately competitive but financially responsible.

For executive directors and other senior executives, remuneration programs are balanced with a mix of fixed and variable rewards. Remuneration levels are reviewed annually by the Remuneration and Succession Planning Committee. External consultants provide analysis and advice to the Committee to ensure the directors and senior executives remuneration is competitive in the market place. Executive directors and senior executives are given the opportunity to receive their fixed remuneration in a variety of forms including cash and fringe benefits such as motor vehicles and expense payment plans. The structure of both short and long term variable incentives is performance based.

#### Short Term Incentives

Short-term incentives typically require the achievement of goals relating to annual Business Unit/Division/Group performance, or achieving strategic objectives. Currently, the criteria relate to achievement of a mixture of budgeted EBIT, NPAT, revenue, EPS growth, cash based returns on assets, debtors days outstanding and safety measures. Payments made are usually delivered as a cash bonus or superannuation contributions.

#### Long Term Incentives

Long-term incentives through the shareholder approved Senior Executive Option Plan focus on linking executive reward with overall Group performance.

Options granted to 31 October 2002 are only exercisable on the satisfaction of specific hurdle criteria. The Company's Total Shareholder Return (TSR) must exceed a 35% increase over a three year period from the date of grant and diluted EPS growth must at least be equal to the ASX 200 Industrials (excluding banks), during the period from grant date to the end of the qualifying period (generally a three year period).

Options granted from 9 September 2004 are only exercisable on the satisfaction of specific hurdle criteria with regard to the Company's TSR relative to the ASX 100 excluding banks, oil and gas and metals and mining companies over a 3 year period commencing 1 July 2004. All options will vest if the Group's TSR percentile ranking is greater than 75%, i.e. the Group is ranked in the top 25%. Between 50% and 75%, a pro-rata allocation is vested. Below 50%, no options will vest.

#### Group Performance

In assessing whether the performance hurdles for each grant of options have been met, the Group receives independent data, at the end of the vesting period, from its financial advisers on each hurdle. Set out below is the Group's performance in the above measures over the past 5 years.

	2005	2004	2003	2002	2001
Net Profit (\$m)	216.6	168.6	106.1	74.2	49.2
Dividends paid (\$m)	87.1	65.6	44.4	27.5	20.2
Change in Share Price (\$)	2.34	3.64	(0.85)	3.05	2.41
EPS (fully diluted) (cents)	61.3	50.1	34.6	26.4	19.4

# DIRECTORS' REPORT

CONTINUED

## Remuneration Report (continued)

### Non Executive Director Remuneration

Non-executive director remuneration comprises fees (inclusive of committee fees) and superannuation. Accrued entitlements of non-executive directors under a retirement benefits program, which operated in accordance with Section 200G of the Corporations Act, were frozen as at 30 June 2003. Other than for the payment of accrued entitlements, the retirement benefits program terminated from 1 July 2003. Non-executive directors received a compensatory increase in Directors fees as a consequence of the freezing of their accrued entitlements and termination of the retirement benefits program. Unlike executives, non-executive directors do not receive any performance-related remuneration or share options. Non-executive directors fees are reviewed annually by the Board. Non-executive directors are required each year to receive a minimum of 22 percent of their remuneration in Toll Holdings Limited shares, which are acquired on market.

### (ii) Service Contracts

As at 30 June 2005, a service contract is in place for the CFO, Neil Chatfield. This contract is for a period of three years finishing on 31 December 2006. His remuneration is set out in the Directors Report

and is to be reviewed annually. The Group may terminate employment of the Executive by giving 12 months notice. A restraint period of 18 months exists following any termination of employment.

As at 30 June 2005, a service contract has been drafted for the CEO, Paul Little. Both parties have not yet signed this contract. Major conditions of this contract are detailed below. This contract is for a period of three years from the execution date. His remuneration is set out in the Directors Report and is to be reviewed annually. Either the Group or the Executive may terminate the employment of the Executive by giving 12 months notice. If the Executive or the Group gives notice and the Executive serves the full notice period, he is entitled to a payment of an additional 6 months Fixed Remuneration at the end of the notice period. The Group may terminate the employment by paying the Executive 18 months Fixed Remuneration in lieu of notice. If either the Group or the Executive has given notice, the Group may terminate the employment during the notice period and pay the Executive the Fixed Remuneration he was to earn during the remainder of the notice period plus an additional 6 months. Upon termination, the Executive may also be entitled to amounts in respect of short term incentives. Subject to compliance with the Corporations Act and the ASX Listing Rules, upon

## Remuneration of Specified Directors and Specified Executives

NAME	PERIOD	PRIMARY		POST EMPLOYMENT		EQUITY COMPENSATION		TOTAL	BONUS VESTED DURING YEAR (C)	PERFORMANCE RELATED REMUNERATION	VALUE OF OPTIONS AS % OF REMUNERATION
		SALARY & FEES	BONUS	NON MONETARY BENEFITS	SUPER-ANNUATION	RETIREMENT BENEFITS	VALUE OF OPTIONS				
		\$	\$	\$	\$	\$	\$	\$	%	%	%
<b>Specified Directors</b>											
<b>– Non Executive</b>											
John Moule	2005	180,000	–	70,000	11,585	–	–	261,585	–	–	–
	2004	180,000	–	70,000	11,001	–	–	261,001	–	–	–
William Farrands	2005	41,786	–	–	–	176,314	–	218,100	–	–	–
(Retired 28/10/04)	2004	100,050	–	25,300	–	–	–	125,350	–	–	–
Ross Dunning	2005	48,867	–	–	–	93,835	–	142,702	–	–	–
(Retired 28/10/04)	2004	100,050	–	25,300	–	–	–	125,350	–	–	–
Alastair Lucas	2005	–	–	115,000	10,350	–	–	125,350	–	–	–
	2004	40,833	–	74,167	10,350	–	–	125,350	–	–	–
Ray Horsburgh	2005	–	–	75,320	6,981	–	–	82,301	–	–	–
<b>– Executive</b>											
Paul Little	2005	1,681,412	1,780,000	28,588	40,000	–	870,138	4,400,138	100.0	60.2	19.8
	2004	1,400,328	1,380,000	55,460	44,213	–	660,190	3,540,191	92.0	57.6	18.6
Mark Rowsthorn	2005	1,418,692	1,460,000	19,722	11,584	–	870,138	3,780,136	94.2	61.6	23.0
	2004	1,223,073	950,000	15,925	11,001	–	660,190	2,860,189	76.0	56.3	23.1
Neil Chatfield	2005	806,906	400,000	31,509	11,584	–	477,093	1,727,092	100.0	50.8	27.6
	2004	698,402	175,000	40,596	11,001	–	441,221	1,366,220	100.0	45.1	32.3
Total	2005	4,177,663	3,640,000	340,139	92,084	270,149	2,217,369	10,737,404			
	2004	3,742,736	2,505,000	306,748	87,566	–	1,761,601	8,403,651			

## Remuneration of Specified Directors and Specified Executives (continued)

NAME	S300A/ AASB 1046	PERIOD	PRIMARY			POST EMPLOYMENT		EQUITY COMPENSATION	TOTAL	BONUS VESTED DURING YEAR (C)	PERFOR- MANCE RELATED REMUN- ERATION	VALUE OF OPTIONS AS % OF REMUN- ERATION
			SALARY & FEES	BONUS	NON MONETARY ANNUATION BENEFITS	SUPER- ANNUATION	RETIRE- MENT BENEFITS	VALUE OF				
								OPTIONS				
\$	\$	\$	\$	\$	\$	\$	\$	%	%	%		
<b>Specified Executives</b>												
John Ludeke	A.B	2005	636,729	250,000	53,271	60,000	–	298,618	1,298,618	100	42.3	23.0
	A.B	2004	516,729	100,000	53,271	60,000	–	228,333	958,333	100	34.3	23.8
Don Telford	A.B	2005	654,020	200,000	–	95,980	–	298,618	1,248,618	80	39.9	23.9
	A.B	2004	538,851	100,000	–	91,149	–	228,333	958,333	100	34.3	23.8
Terry Mallon	A.B	2005	508,169	100,000	10,855	45,000	–	266,088	930,112	100	39.4	28.6
	A.B	2004	355,271	60,000	34,179	40,000	–	171,250	660,700	100	35.0	25.9
Stephen Stanley	A.B	2005	570,000	150,000	–	30,000	–	298,618	1,048,618	100	42.8	28.5
	A.B	2004	518,750	25,000	–	30,000	–	228,333	802,083	100	31.6	28.5
Hugh Cushing	B	2005	285,906	75,000	25,392	38,702	–	106,435	531,435	100	34.1	20.0
	B	2004	265,454	60,000	25,392	36,754	–	68,500	456,100	100	28.2	15.0
Graham Lyon	A.B	2005	325,745	45,000	45,122	34,000	–	132,459	582,326	90	30.5	22.8
	A	2004	315,299	50,000	52,005	28,000	–	114,167	559,471	100	29.3	20.4
<b>Total</b>	B	2005	2,980,569	820,000	134,640	303,682	–	1,400,836	5,639,727			
	B	2004	2,195,055	345,000	112,842	257,903	–	924,749	3,835,549			

termination of the employment, (other than by way of summary dismissal) or mutually agreed retirement on terms acceptable to the Board, the Board will exercise its discretion under the Group's Senior Executive Option Plan to extend the expiry of any options previously issued to the Executive which remain unexercised as at the date of cessation of employment to a date 60 days after the applicable exercise date for those options. However, the exercise of those options will remain subject to satisfaction of their performance hurdles.

A restraint period of between 6 and 18 months exists following termination of employment, depending on the circumstances.

A. Executive is included as one of the five named Group executives or relevant group executives who receive the highest remuneration in the current financial year in accordance with Section 300A of the Corporations Act 2001.

B. Executive is included as a specified executive in accordance with Accounting AASB1046 Director and Executive Disclosures for Disclosing Entities for the consolidated entity.

C. The difference between this balance and 100% has been forfeited due to the performance criteria not being met in relation to the current financial year. No amounts vest in future financial years in respect of the STI bonus scheme for the 2005 financial year.

In addition to the above amounts all executives are entitled to statutory long service leave benefits. The Group also paid insurance premiums of \$401,211 (2004: \$313,339) during the year to insure officers of the Group. The officers of the Group include the Directors, Secretary and managers of the Group.

### (c) Equity Instruments

#### *Options Granted as Remuneration*

All options refer to options over ordinary shares of the Company, which are exercisable on a one-for-one basis under the Executive Share Option Plan.

The assessed fair value at grant date of options granted to directors and specified executives is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using the Binomial method.

During the reporting period, 6,641,000 options over ordinary shares were issued (2004: nil).

During the reporting period, the following options vested and/or shares were issued on the exercise of options previously granted as remuneration.

# DIRECTORS' REPORT

CONTINUED

## Remuneration Report (continued)

### Remuneration of Specified Directors and Specified Executives (continued)

NAME	GRANT DATE	VESTING DATE	VESTED DURING YEAR %	NUMBER OF OPTIONS VESTED	NUMBER OF OPTIONS EXERCISED	OPTION VALUE \$	AMOUNT PAID PER SHARE \$	TOTAL AMOUNT PAID \$
<b>Specified Directors</b>								
Paul Little			–	–	–	–	–	–
Mark Rowsthorn				–	–		–	–
Neil Chatfield	31/10/02	24/1/05	100	480,000	480,000	2.055	6.7525	3,241,200
<b>Total</b>				<b>480,000</b>	<b>480,000</b>			<b>3,241,200</b>
<b>Specified Executives</b>								
John Ludeke	25/1/02	24/1/05	100	400,000	400,000	1.713	6.7525	2,701,000
Don Telford	25/1/02	24/1/05	100	400,000	400,000	1.713	6.7525	2,701,000
Terry Mallon	25/1/02	24/1/05	100	300,000	300,000	1.713	6.7525	2,025,750
Stephen Stanley	25/1/02	24/1/05	100	400,000	–	1.713	–	–
Hugh Cushing	25/1/02	24/1/05	100	120,000	120,000	1.713	6.7525	810,300
Graham Lyon	25/1/02	24/1/05	100	200,000	–	1.713	–	–
<b>Total</b>				<b>1,820,000</b>	<b>1,220,000</b>			<b>8,238,050</b>

### Option Holdings

NAME	VESTED BALANCE 1 JULY 2004	TOTAL BALANCE 1 JULY 2004	NUMBER	GRANTED AS REMUNERATION				EXERCISED DURING YEAR	TOTAL BALANCE 30 JUNE 2005	VESTED BALANCE 30 JUNE 2005
				GRANT DATE	VESTING DATE	VALUE AT GRANT DATE	EXERCISE PRICE			
<b>Specified Directors</b>										
Paul Little	–	800,000	500,000	2/11/04	1/11/07	\$2.56	\$11.53	–	1,300,000	–
Mark Rowsthorn	–	800,000	500,000	2/11/04	1/11/07	\$2.56	\$11.53	–	1,300,000	–
Neil Chatfield	–	480,000	350,000	28/10/04	8/9/07	\$2.75	\$10.95	480,000	350,000	–
<b>Total</b>	–	<b>2,080,000</b>	<b>1,350,000</b>					<b>480,000</b>	<b>2,950,000</b>	–
<b>Specified Executives</b>										
John Ludeke	–	400,000	300,000	9/9/04	8/9/07	\$2.09	\$10.95	400,000	300,000	–
Don Telford	–	400,000	300,000	9/9/04	8/9/07	\$2.09	\$10.95	400,000	300,000	–
Terry Mallon	–	300,000	300,000	9/9/04	8/9/07	\$2.09	\$10.95	300,000	300,000	–
Stephen Stanley	–	400,000	300,000	9/9/04	8/9/07	\$2.09	\$10.95	–	700,000	400,000
Hugh Cushing	–	120,000	120,000	9/9/04	8/9/07	\$2.09	\$10.95	120,000	120,000	–
Graham Lyon	–	200,000	120,000	9/9/04	8/9/07	\$2.09	\$10.95	–	320,000	200,000
<b>Total</b>	–	<b>1,820,000</b>	<b>1,440,000</b>					<b>1,220,000</b>	<b>2,040,000</b>	<b>600,000</b>

NAME	VALUE OF OPTIONS			
	GRANTED IN YEAR* \$'000	EXERCISED IN YEAR** \$'000	FORFEITED IN YEAR \$'000	TOTAL OPTION VALUE IN YEAR \$'000
<b>Specified Directors</b>				
Paul Little	1,280	–	–	1,280
Mark Rowsthorn	1,280	–	–	1,280
Neil Chatfield	963	3,195	–	4,158
<b>Specified Executives</b>				
John Ludeke	627	2,527	–	3,154
Don Telford	627	2,527	–	3,154
Terry Mallon	627	2,015	–	2,642
Stephen Stanley	627	–	–	627
Hugh Cushing	251	799	–	1,050
Graham Lyon	251	–	–	251
<b>Total</b>	<b>6,533</b>	<b>11,063</b>	<b>–</b>	<b>17,596</b>

\* The total value of the options granted is included in the table. The amount is allocated to remuneration over the 3 year vesting period.

\*\* Value of exercised options during the year is calculated as the market price of shares of the Company on the ASX as at close of trading on the date the options were exercised after deducting the price paid to exercise the option.

## Equity Holdings and Transactions

### Ordinary Shares of Toll Holdings Limited

NAME	BALANCE 1 JULY 2004	PURCHASES	EXERCISE OF OPTIONS	DIVIDEND REINVESTMENT	SALES	BALANCE 30 JUNE 2005
<b>Specified Directors</b>						
<b>– Non Executive</b>						
John Moule	709,299	6,859	–	3,708	–	719,866
Alastair Lucas	220,143	8,454	–	–	–	228,597
Ray Horsburgh	–	891	–	–	–	891
<b>– Executive</b>						
Paul Little	36,931,300	–	–	–	–	36,931,300
Mark Rowsthorn	31,023,008	–	–	–	(828,625)	30,194,383
Neil Chatfield	503,484	–	180,000	–	(253,000)	430,484
<b>Total</b>	<b>69,387,234</b>	<b>16,204</b>	<b>180,000</b>	<b>3,708</b>	<b>(1,081,625)</b>	<b>68,505,521</b>
<b>Specified Executives</b>						
John Ludeke	401,400	200	400,000	–	(193,363)	608,237
Don Telford	408,500	200	400,000	–	(400,000)	408,700
Terry Mallon	7,900	200	300,000	–	(300,000)	8,100
Stephen Stanley	14,904	40,225	–	634	–	55,763
Hugh Cushing	6,400	200	120,000	–	–	126,600
Graham Lyon	899,996	200	–	–	(200,000)	700,196
<b>Total</b>	<b>1,739,100</b>	<b>41,225</b>	<b>1,220,000</b>	<b>634</b>	<b>(1,093,363)</b>	<b>1,907,596</b>

# DIRECTORS' REPORT

CONTINUED

## Remuneration Report (continued)

### Reset Preference Shares of Toll Holdings Limited

NAME	BALANCE 1 JULY 2004	PURCHASES	SALES	BALANCE 30 JUNE 2005
<b>Specified Directors</b>				
- Non Executive				
John Moule	–	–	–	–
Alastair Lucas	–	–	–	–
Ray Horsburgh	–	–	–	–
- Executive				
Paul Little	1,500	–	–	1,500
Mark Rowsthorn	1,500	–	–	1,500
Neil Chatfield	1,000	–	–	1,000
<b>Total</b>	<b>4,000</b>	<b>–</b>	<b>–</b>	<b>4,000</b>
<b>Specified Executives</b>				
John Ludeke	–	–	–	–
Don Telford	1,000	–	–	1,000
Terry Mallon	–	–	–	–
Stephen Stanley	–	–	–	–
Hugh Cushing	–	–	–	–
Graham Lyon	–	–	–	–
<b>Total</b>	<b>1,000</b>	<b>–</b>	<b>–</b>	<b>1,000</b>

#### Insurance of officers

During the financial year, the Group paid premiums of \$401,211 (2004: \$313,339) to insure officers of the Company and related bodies corporate.

The officers of the Group covered by the insurance policy include the directors, P A Little, M Rowsthorn, J A Moule, N Chatfield, A Lucas, R Horsburgh and the secretary B B McInerney and former directors R Dunning and W Farrands. Other officers covered by the policy are directors or secretaries of controlled entities who are not also directors or secretaries of the Group, past directors of companies within the Group and managers of the Group.

The liabilities insured, subject to specific exclusions, include costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Company or a related body corporate.

#### Indemnification of officers

The Company has agreed to indemnify the directors of the Company and the secretary, and its controlled entities, against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as directors or secretary of the Company and its controlled entities, except where the liability arises out of conduct involving a lack of good faith. The agreement stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses.

#### Rounding off

The Company is of the kind referred to in ASIC Class Order 98/100 dated 10 July 1998 and in accordance with that Class Order, amounts in the financial report, and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

#### Non – audit services

During the year KPMG, the Group's auditor, has performed certain other services in addition to their statutory duties.

The board has considered the non-audit services provided during the year by the auditor and in accordance with written advice provided by resolution of the audit committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- All non-audit services were subject to the corporate governance procedures adopted by the Group and have been reviewed by the audit committee to ensure they do not impact the integrity and objectivity of the auditor; and
- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in Professional Statement F1 Professional Independence, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Group, acting as an advocate for the Group or jointly sharing risks and rewards.

### Auditors Remuneration

Details of the amounts paid to the auditor of the Group, KPMG, and its related practices for audit and non-audit services provided during the year are set out below:

	CONSOLIDATED	
	2005 \$'000	2004 \$'000
Audit services:		
Auditors of the Group	1,604	1,559
Other services:		
– Taxation services	1,175	975
– Other assurance services	21	51
	1,196	1,026
Related practices of the auditor:		
– Due diligence and other services	24	182
Total	2,824	2,767

### Lead Auditors Independence Declaration under Section 307C of the Corporations Act 2001

The lead auditors independence declaration is set out on page 36 and forms part of the directors' report for the year ended 30 June 2005.

### Auditor

KPMG continues in office in accordance with Section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of the directors.



J A Moule  
Director



P A Little  
Director

Dated at Melbourne this 21st day of September 2005.

# DIRECTORS' REPORT

CONTINUED

## Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

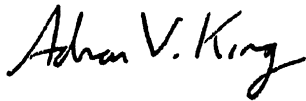
To: the directors of Toll Holdings Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2005 there have been:

- no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- no contraventions of any applicable code of professional conduct in relation to the audit

The logo for KPMG, consisting of the letters 'KPMG' in a stylized, handwritten font.

KPMG

A handwritten signature in black ink that reads 'Adrian V. King'.

Adrian V King  
Partner

Melbourne  
21 September 2005

# CORPORATE GOVERNANCE STATEMENT

This statement outlines the main corporate governance policies and practices of the Group. Except where indicated, they are in accord with the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations (ASX Guidelines). During the year these policies and practices have been enhanced to address new requirements and expectations where necessary.

## Board Processes

The Board operates under a formal Charter detailing its functions and responsibilities. In summary:

- The Board seeks to ensure that it adds value by guiding, assisting and supporting management to achieve the Group's goals. This includes creating and maintaining a Group which generates sustainable growth and profitability for the benefit of all stakeholders. The Board is committed to abiding by all relevant laws and regulations and to providing employees with a safe and rewarding working environment. It will have consideration in its deliberations for the broader community, external and internal stakeholders and the Group's responsibilities as a corporate citizen of good standing.
- The Board is responsible for the overall operation and stewardship of the Group and, in particular, is responsible for strategy, risk management, reporting and disclosure, management performance, corporate governance, Board committees, and delegation of authority to management.

The Board's role includes evaluating the performance of the Managing Director, approving criteria for assessing, monitoring and evaluating the performance of senior executives, as well as undertaking an annual performance review of its effectiveness.

During the year the Chairman discussed Board and Committee effectiveness with the Board as a whole and with each director individually, using as a resource assessments of the competencies of the Board and its Committees contributed to by each Board member at the time. These discussions form the basis for further Board consideration of continuous improvement.

In addition to its regular meetings, the Board's annual program includes regular reviews of Group activities and strategies, and directors visiting operations around the Group. Opportunities are provided both at and outside Board meetings for directors to meet with senior executives and personnel. The Board plans to continue these important interactions.

## Composition of the Board

Members of the Board bring considerable and wide-ranging competencies to Board considerations. These include skills, experience and expertise in international business including SE Asia, major resource industries, railways management, investment banking, finance and accounting, mergers and acquisitions, general management plus extensive experience in transport logistics management and development.

The names and further information regarding the skills, experience, qualifications and relevant expertise of the directors and secretary are set out in the Directors' Report.

Policy is that the Board should comprise a majority of independent non-executive directors including the Chairman. The Board met this criteria until 28 October 2004 when two non-executive directors retired at the 2004 Annual Meeting. A further independent non-executive director was appointed on 24 November 2004 and from then the Board of Directors has included three independent non-executive directors, including the Chairman.

The Board considers that a return to ensuring a majority of independent non-executive directors is both desirable and imminent. The Board structure will be further deliberated during and after the course of the Group's takeover bid of Patrick Corporation Limited to ensure appropriate skills are represented on the Board.

The Board considers that, fundamentally, the independence of directors is based on their capacity to put the best interests of the Group and its shareholders ahead of all other interests, so that directors are objectively capable of exercising independent judgment. Capacity to act independently and the skill sets and experience of individual directors to complement the skills and experience of the Board overall are critical criteria in candidate selection. The capacity to add value to the Board is very important.

When evaluating candidates, the Board has regard to the potential for conflicts of interest, whether actual or perceived, and the extent or materiality of these in the ongoing assessment of director independence. In this respect the Board has regard to the definition of 'independence' in the ASX Guidelines. The Board does not believe that the existence of one or more of the relationships in the definition will necessarily result in the relevant director not being classified as independent, particularly given the criteria outlined above, and that the Group will seek to implement additional safeguards to ensure independence. An overall review of these considerations is used by the Board to determine whether individual directors are independent.

Additional policies, such as directors not being present during discussions or decision making in matters in which they have or could be seen to potentially have a material conflict of interest, as well as directors being excluded from taking part in the appointment of third party service providers where the director has an interest, provide both further separation and safeguards to independence. The Board has considered materiality thresholds in relation to independence, but has determined not to establish fixed thresholds, believing that, if taken in isolation and out of context, these can be misleading and inconclusive.

Using these criteria, the Board has determined that its three non-executive members are independent at this time, with the exception of Alastair Lucas in relation to the takeover bid for Patrick Corporation Limited. To ensure compliance with the Group's governance requirements, Alastair Lucas has withdrawn from any deliberations and voting on any matter to do with the Patrick Corporation Limited takeover bid to avoid any perception of conflict due to his position of Managing Director, Investment Banking, with Goldman Sachs JB Were. The Board supports Alastair's approach and is satisfied that he remains independent with regard to all other matters brought to the Board.

In accordance with the Corporations Act 2001 and the Company's Constitution directors must keep the Board advised, on an ongoing

# CORPORATE GOVERNANCE STATEMENT

CONTINUED

basis, of any interest that could potentially conflict with those of the Group, and any development which may impact the director's perceived or actual independence. The Board has procedures in place to allow directors to disclose potential conflicts of interest.

Each director has the right, with the Chairman's approval, to seek independent professional advice at the Group's expense.

## Securities Trading Policy

The Group has in place a detailed securities trading policy. In summary, directors, executives and employees are prohibited from trading in the Company's securities, related financial products and derivatives whenever they have price sensitive information which is not generally available. Apart from such occasions, trading is normally permitted for the six-weeks period commencing after two full trading days following the release of half year and full year results, the Annual General Meeting, or other Board sanctioned occasions where price sensitive information has been released by the Company.

## Ethical Standards

All directors, managers and employees are expected to act with integrity and objectivity, striving at all times to enhance the reputation and performance of the Group. The Group's Code of Practice, which has been in place for several years and is issued to all employees, was supplemented from May 2004 with a Code of Conduct for Directors and Senior Executives, based on a code prepared by the Australian Institute of Company Directors. All employees have nominated supervisors to whom they may refer any issues arising from their employment.

## Board Committees

To assist in the execution of its responsibilities, the Board has established a number of Board Committees, comprising a Nomination and Corporate Governance Committee, Audit and Financial Risk Committee and a Remuneration and Succession Planning Committee. These committees have written terms of reference, which are regularly reviewed. Matters attended to by Board Committees are reported to the Board following each committee meeting. Board Committees are authorised to seek any information they require from any officer or employee of the Group and may take such independent professional advice as they consider necessary. They have no executive powers regarding their findings and recommendations. The Chairman and a majority of members of each Committee are independent non-executive directors. The Board may at any time determine to address matters identified within a committee's terms of reference at the full Board level. Details of members and their attendance at committee meetings during the year are set out in the Directors' Report.

## Nomination and Corporate Governance Committee

Membership of the Committee throughout the year has comprised all independent non-executive directors and the Managing Director, and is at all times to comprise no less than three directors (including the Managing Director), the majority of whom are to be independent. The Chairman of the Committee, John Moule, is an independent non-executive director. The Committee meets as necessary, and has met on two occasions during the year. The purpose of the Committee is to assist the Board by:

- monitoring the size and composition of the Board and its Committees;
- recommending individuals for nomination as members of the Board and its Committees;
- reviewing Board succession plans;
- ensuring that the performance of the Board and its Committees is reviewed;
- ensuring that the Board Chairman reviews the performance of each Board member; and
- establishing and monitoring the procedures to protect the ethical standards of the Group. This includes periodically reviewing the Group's:
  - Corporate Governance Guidelines and establishing procedures to promote compliance;
  - Code of Practice, as well as procedures to promote compliance;
  - Continuous Disclosure Policy; and
  - policies on sensitive matters such as environmental, Equal Opportunity, and drugs and alcohol.

## Remuneration and Succession Planning Committee

Membership of the Committee throughout the year has comprised all independent non-executive directors. At all times membership of the Committee will be no less than three non-executive directors. The Chairman of the Committee is Alastair Lucas, an independent non-executive director.

The Remuneration and Succession Planning Committee reviews and makes recommendations to the Board on remuneration packages and policies applicable to the Managing Director, Executive Director Operations, non-executive directors and, where appropriate, senior executives. Meetings are held as required, with at least two meetings to be held each year, one in each half year, including at least one prior to the financial year end to review the senior executive salary review process. The Committee also reviews and makes recommendations regarding the policies applicable to staff salary reviews. One of the Group's requirements is to ensure remuneration levels are competitively set to attract and retain appropriately qualified and experienced directors and senior executives.

The Group's Remuneration Policy is performance driven and is designed to support the needs and direction of the business. The level of remuneration of non-executive directors, executive directors and other senior executives is determined by reference to the market via survey data and input from remuneration consultants. Remuneration programs are designed to be appropriately competitive but financially responsible.

For executive directors and other senior executives, remuneration programs are balanced with a mix of fixed and variable rewards. The structure of both short and long term variable incentives is performance based. Short-term incentives typically require the achievement of goals relating to annual Business Unit/Division/Group performance, or achieving strategic objectives. Long-term incentives through the shareholder-approved Senior Executive Option Plan focus on linking executive reward with overall Group performance. Current performance hurdles to be met require the achievement of predetermined targets of

Earnings Per Share growth and Total Shareholder Return, as set out in the Directors' Report.

Non-executive director remuneration comprises fees (inclusive of committee fees) and superannuation (or an allowance for superannuation). From 1 July 2003 non-executive directors have received a minimum of 22% of their directors' fees as ordinary shares in the Company. A higher percentage of their directors' fees may be taken as shares if desired by the director. Unlike executives, non-executive directors do not receive any performance related remuneration. A retirement benefits program for non-executive directors was terminated from 1 July 2003, other than for payment on cessation of accrued entitlements calculated up to that date.

Further information and the components of remuneration for directors and senior executives, together with the Remuneration Report, are set out in the Directors' Report.

The duties of the Remuneration and Succession Planning Committee are as follows:

- review, determine and approve remuneration, allowances and incentives of the Managing Director and Executive Director Operations;
- consider and negotiate service agreements with senior executives;
- review and, if considered appropriate, make recommendations to the Managing Director on remuneration, allowances and incentives of other executive directors ;
- review non-executive directors' fees for the approval of Executive Directors and for submission to the Board;
- review and ratify senior executive remuneration, allowances and incentives;
- oversee compliance with statutory responsibilities relating to remuneration disclosure;
- review policies and reporting responsibilities relating to employee share and option plans;
- review the Group's superannuation plan and compliance with relevant laws and regulations;
- review and recommend to the Board senior executive and director payments on retirement or termination;
- review and monitor fringe benefits;
- review adequacy of professional indemnity and directors' and officers' liability insurance policies; and
- monitor executive succession planning.

#### **Audit and Financial Risk Committee**

Membership of the Committee is to be no less than three non-executive directors, with an independent non-executive director as Chairman, currently Ray Horsburgh. Membership of the Committee throughout the year has comprised all independent non-executive directors.

The Audit and Financial Risk Committee considers any matters relating to the financial affairs of the Company and the Group's external audit that it determines to be desirable. In addition, the Committee examines any other matters referred to it by the Board.

The duties of the Audit and Financial Risk Committee are as follows:

- monitor any matters outstanding with auditors, Australian Taxation Office, Australian Securities and Investments Commission, Australian Stock Exchange and financial institutions and compliance with the Corporations Act 2001 and ASX Listing Rules;
- monitor corporate risk assessment and internal controls;
- review and monitor compliance with the Group's Auditor Independence Policy;
- liaise with external auditors;
- review the annual audit plan with the auditors;
- review information derived from the audit;
- review interim financial information;
- review accounting policies;
- review effectiveness of internal audit and cross divisional reviews;
- monitor risks relating to business continuity, disaster recovery, reputation, currency exposure and interest rate exposure;
- review compliance with relevant government regulations;
- assess the performance of financial management;
- review adequacy of insurance coverage and risk management of self insurance areas;
- recommend to the Board the appointment, re-appointment or replacement of the external auditors;
- review performance and compensation of the external auditors; and
- supervise special investigations as directed by the Board.

Meetings are held at least three times a year or as otherwise required, including:

- at the final planning stage of the audit;
- before the issue of the half yearly profit announcement; and
- before the issue of the final profit announcement and approval of the annual report and accounts.

A longstanding pre-condition to the Committee's consideration of the profit announcement and recommendation of the annual report and accounts is its review of a statement in writing to the Board signed by the Managing Director and Chief Financial Officer. The statement certifies that the Group's financial reports present a true and fair view, in all material respects, of the Group's financial condition and operational results and are in accordance with relevant accounting standards. This certification is supported by appropriate sign offs from divisional and business unit management. This declaration expands the formal evaluation of risk management, compliance and internal control across all business units, divisions, and Group functions.

#### **Risk Management**

Good risk management underpins a successful business and is an integral part of the management processes and culture at the Group. The Group embraces the active management of risk by all Toll employees, supported by clear accountability and performance evaluation, to achieve strategic and business objectives. While the acceptance of risk is necessary to achieving corporate goals, success is

# CORPORATE GOVERNANCE STATEMENT

CONTINUED

## Risk Management (continued)

derived from the Group's ability to identify key risks in a timely manner and implement appropriate strategies to maximise business opportunities, manage uncertainties, and minimise potential hazards. By continually evaluating the risk and reward balance, and building risk management into daily activities, the Group's risk management framework addresses the interests of all stakeholders – including shareholders, customers, suppliers, regulators, employees and members of the public.

The Board, through the Audit and Financial Risk Committee, oversees the establishment, implementation and ongoing review of the Group's risk management and internal compliance and control system. The internal control system covers financial, operational and compliance risks. The Audit and Financial Risk Committee also approves the annual program and scope of Business Assurance and Internal Audit (BA&IA) reviews. The Nomination and Corporate Governance Committee reviews corporate governance practice, compliance, and relevant Group policies.

The Managing Director is responsible for implementation of the risk management policy and internal compliance and control system. In practice, Divisional Directors are responsible for risk management within their respective divisions. To promote accountability, Divisional Directors delegate day-to-day responsibility for risk management, compliance and control to Business Unit General Managers. This responsibility includes adopting the group standard approach to designing and implementing a sound system of risk management and internal control that identifies, assesses, monitors, and manages key risks that impact achievement of business objectives. Specialist risk or occupational health and safety (OH&S) managers support business units in establishing and monitoring risk management processes and awareness.

The Board has received and considered the annual certification from the Managing Director and Chief Financial Officer which states that:

- (a) in their opinion, the Group's financial records have been properly maintained and the financial reports for the year ended 30 June 2005 present a true and fair view, in all material respects, of the financial position and operational results of the Company and Group and are in accordance with relevant accounting standards in all material respects;
- (b) to the best of their knowledge and belief:
  - (i) the statements in (a) above regarding the integrity of the financial reports are founded on a sound system of risk management and internal compliance and control which, in all material respects, implement the financial and governance policies adopted by the Board,
  - (ii) the Group's risk management and internal compliance and control systems, relating to financial reporting and other selected operational risks, for the year ended 30 June 2005, were operating effectively, in all material respects, based on the risk management and compliance model adopted by the Group.
  - (iii) nothing has come to their attention since 30 June 2005 that would indicate any material change to the statements made in (i) and (ii) above, and

- (iv) majority-owned entities are included for the purposes of this statement. Separate confirmations have been received from material joint ventures.

This certification provides a reasonable but not an absolute level of assurance, and does not imply a guarantee against adverse events or more volatile outcomes arising in the future. These certifications are supported by detailed declarations provided by business units, divisions, and significant corporate functions, which continue to evolve in line with changing business risks and compliance requirements. The certification relating to financial reporting controls covers the period up to signing the annual financial report, while confirmations relating to additional operational risks and controls are as at the date of the annual financial report. These declarations are reviewed, and further supported by the results of other audit and assurance processes (internal and external), management enquiries, and specific verification as appropriate.

The full text of the Group's comprehensive Risk Management Policy and Internal Compliance and Control System is set out in the Risk Management Policy Statement on the Corporate Governance section of the Company's website at [www.toll.com.au](http://www.toll.com.au). The following is a summary.

Integrated risk management programs aimed at ensuring risks are identified, assessed and appropriately managed include regular reports to the Board on the status of business risks. The Audit and Financial Risk Committee also receives reports on financial risks in accordance with its charter, and is also responsible for reviewing the effectiveness of the Group's risk management and internal control system.

As a transport and logistics provider, the Group is focused on managing key business risks that may arise from such matters as OH&S (including vehicle and driver safety), environment and property management, business continuity, managing customer service and supplier expectations, contractual obligations, transport industry consolidation, financial and capital management, risk financing and insurance, fluctuations in fuel prices, and development and use of information systems and technology. Managing significant joint venture relationships, offshore businesses, and the growth in the Group's New Zealand operations are also key business areas that must be effectively managed. The approach to managing many of these risks is outlined in 'Internal Compliance and Control' below.

The Group's business risk profile is also subject to a formal review as part of the annual strategic and business planning cycle.

The Executive Group Risk Management Committee, chaired by the Executive Director Operations, formulates Group policies and strategies for selected key risks, has a risk performance monitoring role, as well as being a forum to discuss and manage any major risk issues. This Committee seeks to identify the key business risks which could prevent the Group from achieving its objectives and ensures that appropriate controls are in place to manage these risks.

The Group Risk Management function is responsible for providing technical advice, developing risk management policies and procedures, and coordinating risk reporting to the Executive Group Risk Management Committee and the Board on matters such as OH&S, security, environment, dangerous goods/hazards, contracts, risk financing, and insurance. Through General Managers, Financial Controllers, and business unit risk or OH&S managers, Group Risk Management assists

divisions to implement appropriate risk processes and practices. In doing so it promotes the active day-to-day management of risk and ongoing performance improvement. Significant risk matters are also reported on a monthly basis to the Board.

BA&IA reports to the Audit and Financial Risk Committee and is responsible for independently evaluating the effectiveness and efficiency of selected risk management and internal compliance and control systems. The BA&IA function co-ordinates its program with other Group 'assurance' activities covering occupational health & safety, hazardous goods, financial integrity, and internal compliance programs. It also assists in monitoring the Group and Divisional business risk analysis program. BA&IA liaises and consults with the Group Risk Management function and the Executive Group Risk Management Committee on selected risk and compliance matters.

### Internal Compliance and Control

The strength of the Group's risk management and internal control framework is founded on a combination of 'formal' policies, procedures, and analysis; and 'informal' controls such as management competence, judgment, ethics and values, and specific accountability; all actively promoted by senior management. The Board is responsible for the internal compliance and control framework but recognises that no cost effective internal control system will preclude all errors and irregularities. Selected internal compliance and control mechanisms employed to support the business include:

- Business and Strategic Planning, Budgeting and Reporting – A comprehensive business and strategic planning and budgeting process includes evaluation of strategies, objectives, and risks which underpin business strategic plans and an annual budget approved by the Board. Monthly actual performance is reported against budget and revised forecasts for the year are prepared regularly. Monitoring of division and business unit performance is supported by regular senior management forums, Executive Group Risk Management Committee meetings, and reporting to the Board and Board committees.
- Quality and integrity of employees – there are clearly defined accountabilities, performance measures, and reinforcement of values and ethics by senior management. The Group quality management system, supported by training, development, succession planning, and appraisal, requires the involvement and commitment of management, employees and subcontractors to ensure continuous improvement and management of risk.
- Corporate policies – Board approved corporate policies address matters such as Code of Practice, OH&S, Equal Opportunity, Driver Health, Compliance, Environment, Drugs and Alcohol, Corporate Governance, Management Performance Review and Development, Continuous Disclosure, Securities Trading Policy, Treasury, Trade Practices, and Privacy. Documented confirmation is obtained from divisions on the implementation of Board approved policies, which is supported by ongoing compliance training, and internal and external audits.

- Business systems, procedures and controls – comprehensive financial, business process, project management and IT system controls and procedures exist at the Group, division and business unit level. The current focus on achieving compliance with the new IFRS regime is supported by a steering committee, project teams and formal project plans.
- Investment appraisal – the Group has documented guidelines for capital expenditure, investment appraisals and due diligence for acquisitions. These include annual budgets, appraisal against financial hurdle targets, expenditure review procedures, and appropriate levels of authority. Post investment reviews are performed to assess the effectiveness of funds invested in capital assets and business acquisitions. Comprehensive and proven business integration strategies are used to derive maximum value from acquisitions.
- Group assurance and monitoring activities – these include Internal Audit, OH&S, environment, and dangerous goods audits, balance sheet reviews, and group compliance programs.

### Communicating with Shareholders

The Company is committed to keeping shareholders fully informed regarding developments and important information affecting the Group. It endeavours to do so using plain language, with transparency and openness.

The Company uses a range of channels to achieve these objectives and continues to seek additional and more effective ways to enhance communications with its shareholders. It aims to provide a level playing field for the provision of information to all shareholders. Information is communicated to shareholders as follows:

- All matters requiring disclosure or reporting under the ASX Listing Rules are communicated to the ASX Online Announcements Office for immediate dissemination to the market in accordance with the Company's Continuous Disclosure Policy.
- The Annual Report is distributed to all shareholders (unless a shareholder has specifically requested not to receive the document).
- The Annual General Meeting is the main opportunity for shareholders to hear the Managing Director and Chairman provide updates on Group performance, ask questions of the Board, and to express views and vote on the various matters of business on the agenda. Shareholders may also ask questions of the Group's auditors at the meeting regarding the conduct of the audit, preparation and content of the auditor's report, accounting policies adopted by management and auditor independence. The auditor will also be given reasonable opportunity to answer appropriate written questions from shareholders. Shareholders unable to attend in person may appoint a proxy to attend and vote on their behalf, and they may view the meeting via web cast. In addition, where appropriate, additional meetings of shareholders are held to consider relevant proposals that need to be dealt with outside the time frame of the Annual General Meeting.

# CORPORATE GOVERNANCE STATEMENT

CONTINUED

## Communicating with Shareholders (continued)

- The Company's internet website at [www.toll.com.au](http://www.toll.com.au) is regularly updated and provides the following information under the Shareholder Information section:
- Information regarding the latest AGM, Notice and explanatory memoranda concerning the AGM.
- Annual Reports for the past 5 years and presentations made to the market regarding annual results.
- Half Yearly reports and presentations made to the market regarding them.
- Ten Year financial history summary.
- Announcements made to the ASX over the past 4 years.
- 'Toll Today' quarterly newsletters published for the last 5 years.
- Current (20 minute delayed) share price of the Company's ordinary shares trading on the ASX.
- Direct link to the Company's share registrar's website.

## Relating to our Stakeholders

The Group recognises that its actions and behaviour as a large public company affect many stakeholders. Shareholders, employees, customers, suppliers, unions, governments and members of the public may all be affected by the Group's corporate presence to some extent. The Group believes in openness and transparency within its operations and its relationships with stakeholders. To assist this process, the Group has developed a number of codes of conduct or policies which set out what various groups of people may expect when they interact with the Group, and where appropriate, what the Group expects of them. These policies embrace the following, which are available on the Company's internet website at [www.toll.com.au](http://www.toll.com.au) under the Company Policies section:

- Directors and Senior Executives
- Employees
- Occupational Health and Safety
- Environment
- Compliance
- Drugs and Alcohol
- Rehabilitation
- Driver Health
- Dangerous Goods
- Privacy

In addition, information on the following matters is accessible under the Corporate Governance section of the Company's internet website at [www.toll.com.au](http://www.toll.com.au):

- Board charter
- Terms of reference of Board committees
- Procedure for the selection and appointment of new directors
- Securities trading policy for directors and employees
- Code of conduct for directors and senior executives
- Auditor independence policy
- Continuous disclosure policy
- Communications with shareholders

- Risk management policy statement
- Performance evaluation process for Board and key executives
- Codes of conduct with stakeholders

With over 17,000 full-time equivalent employees, the Group takes seriously its responsibilities as a significant member of the wider community. For many years it has been actively involved in supporting, either corporately or through its employees, various community projects. Two significant current examples are:

- **Tsunami Relief** – The Tsunami in the Indian Ocean off the island of Sumatra, Indonesia on 26 December 2004 created a huge human disaster. In addition to the enormous loss of life, millions were at risk through lack of water, food, clothes, shelter and medical attention. Toll Thailand, in conjunction with Shell, quickly utilised their new bulk liquid tankers to supply fresh water to people in need in the affected area of Phuket. The Group's employees arranged fund raising activities and various Group businesses transported customers' donated products to aid agencies. In addition, the Group made a cash donation and provided transport and warehouse services to World Vision totalling \$250,000, which with the other initiatives represented a total Group contribution to the Tsunami relief of \$350,000.
- **The Second Step Program** – The Second Step Program is a Toll concept designed to offer employment experience for people who have overcome chemical addictions. Dignity and integrity of individuals are protected and no judgments are made. The program allows successful candidates the opportunity to engage in training and employment, under special conditions, within the Group for a period of twelve months. The program is now well established and positions within the Group are chosen to meet the skills and interests of the Second Step candidates. During the twelve month employment period, Second Step candidates are offered appropriate training as well as an on-site mentor in conjunction with the continued support of the First Step program and Disability Employment Action Centre. The Toll Chaplaincy program, which is designed to offer care and counselling to all employees facing difficulties, is also involved. The majority of candidates who have completed their employment through the Second Step Program have subsequently accepted full-time employment.

# STATEMENTS OF FINANCIAL PERFORMANCE

FOR THE YEAR ENDED 30 JUNE 2005

	NOTE	CONSOLIDATED		THE COMPANY	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Revenue from ordinary activities	2	3,883,465	3,313,998	173,675	135,979
Expenses from ordinary activities before borrowing costs, depreciation and amortisation and income tax expense	3	(3,513,718)	(3,006,451)	(45,726)	(58,008)
Depreciation and amortisation	4	(137,134)	(114,459)	(6,130)	(3,264)
Borrowing costs	4	(28,882)	(26,081)	(25,918)	(18,555)
Share of net profits of associates and joint ventures accounted for using the equity method	28	54,162	45,108	–	–
<b>Profit from ordinary activities before income tax expense</b>		<b>257,893</b>	<b>212,115</b>	<b>95,901</b>	<b>56,152</b>
Income tax expense relating to ordinary activities	5(a)	(34,431)	(38,684)	1,108	(1,699)
<b>Profit from ordinary activities after income tax expense</b>		<b>223,462</b>	<b>173,431</b>	<b>97,009</b>	<b>54,453</b>
Net profit attributable to outside equity interests	21	(6,908)	(4,792)	–	–
<b>Net profit attributable to members of the parent entity</b>	20	<b>216,554</b>	<b>168,639</b>	<b>97,009</b>	<b>54,453</b>
<b>Non-owner Transaction Changes in Equity</b>					
Net exchange difference on translation of financial statements of self sustaining foreign operations	19	(721)	6,643	–	–
<b>Total changes in equity from non-owner related transactions attributable to the members of the parent entity</b>		<b>215,833</b>	<b>175,282</b>	<b>97,009</b>	<b>54,453</b>
Basic earnings per share – ordinary shares	32	61.85¢	50.82¢		
Diluted earnings per share – ordinary shares	32	61.25¢	50.09¢		

The above statements of financial performance are to be read in conjunction with the accompanying notes to the financial statements set out on pages 46 to 98.

# STATEMENTS OF FINANCIAL POSITION

AS AT 30 JUNE 2005

	NOTE	CONSOLIDATED		THE COMPANY	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>Current Assets</b>					
Cash assets	31(a)	151,476	102,389	136	507
Receivables	7	420,283	444,994	83,272	260,924
Inventories	8	17,369	15,698	–	33
Other	9	25,110	31,752	8,000	8,198
<b>Total Current Assets</b>		<b>614,238</b>	<b>594,833</b>	<b>91,408</b>	<b>269,662</b>
<b>Non-Current Assets</b>					
Receivables	7	56,982	27,125	27,049	9,315
Investments accounted for using the equity method	10	450,086	398,374	–	–
Other financial assets	11	158,410	9,950	725,225	481,778
Property, plant and equipment	12	1,060,167	1,009,043	45,343	68,079
Intangible assets	13	92,319	101,999	–	–
Deferred tax assets	5(d)	44,855	23,882	44,968	36,028
Other	9	5,196	9,663	–	–
<b>Total Non-Current Assets</b>		<b>1,868,015</b>	<b>1,580,036</b>	<b>842,585</b>	<b>595,200</b>
<b>Total Assets</b>		<b>2,482,253</b>	<b>2,174,869</b>	<b>933,993</b>	<b>864,862</b>
<b>Current Liabilities</b>					
Payables	14	362,763	335,703	16,783	4,638
Interest bearing liabilities	15	30,279	5,956	–	–
Current tax liabilities	5(b)	39,332	22,588	36,630	20,477
Provisions	17	181,174	180,470	19,205	21,975
Deferred gains		5,592	7,990	–	–
<b>Total Current Liabilities</b>		<b>619,140</b>	<b>552,707</b>	<b>72,618</b>	<b>47,090</b>
<b>Non-Current Liabilities</b>					
Interest bearing liabilities	15	432,028	413,258	–	50,000
Deferred tax liabilities	5(c)	26,340	21,698	26,133	25,620
Provisions	17	75,615	72,382	17,926	17,800
Deferred gains		16,970	20,444	–	–
<b>Total Non-Current Liabilities</b>		<b>550,953</b>	<b>527,782</b>	<b>44,059</b>	<b>93,420</b>
<b>Total Liabilities</b>		<b>1,170,093</b>	<b>1,080,489</b>	<b>116,677</b>	<b>140,510</b>
<b>Net Assets</b>		<b>1,312,160</b>	<b>1,094,380</b>	<b>817,316</b>	<b>724,352</b>
<b>Equity</b>					
Contributed equity	18	807,955	722,010	807,955	722,010
Reserves	19	5,370	6,091	–	–
Retained profits	20	455,979	329,415	9,361	2,342
<b>Total parent entity interest</b>		<b>1,269,304</b>	<b>1,057,516</b>	<b>817,316</b>	<b>724,352</b>
Outside equity interests	21	42,856	36,864	–	–
<b>Total Equity</b>		<b>1,312,160</b>	<b>1,094,380</b>	<b>817,316</b>	<b>724,352</b>

The above statements of financial position are to be read in conjunction with the accompanying notes to the financial statements set out on pages 46 to 98.

# STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2005

	NOTE	CONSOLIDATED		THE COMPANY	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>Cash Flows from Operating Activities</b>					
Cash receipts in the course of operations		4,168,096	3,488,399	54,752	139,733
Cash payments in the course of operations		(3,788,621)	(3,212,739)	(34,119)	(103,848)
Restructure costs paid		(9,335)	(19,124)	–	(1,277)
Interest received		5,104	3,001	2,745	740
Dividends received from associates		1,780	210	–	–
Dividends received from related parties		–	–	90,000	52,000
Dividends and distributions received from others		2,151	1,139	1,246	–
Interest and other costs of finance paid		(26,845)	(23,119)	(22,699)	(18,555)
Income taxes paid	5(b)	(34,206)	(28,639)	(34,206)	(1,521)
<b>Net cash inflow/(outflow) from operating activities</b>		<b>318,124</b>	<b>209,128</b>	<b>57,719</b>	<b>67,272</b>
<b>Cash Flows from Investing Activities</b>					
Payment for entities and businesses, net of cash acquired		(10,835)	(145,760)	–	(86)
Payment for property, plant and equipment		(234,391)	(163,524)	(66,081)	(51,393)
Proceeds from sale of property, plant and equipment	2	104,991	33,550	12,250	17,827
Proceeds from sale of investments		7,374	670	–	–
Payment for investments		(156,423)	(6,734)	(235,079)	–
Payment for loan to other entities		(5,994)	(1,251)	(5,994)	(1,251)
Payment for loan to related parties		–	–	–	(125,788)
Proceeds from repayment of loans with other entities		973	665	973	652
<b>Net cash inflow/(outflow) from investing activities</b>		<b>(294,305)</b>	<b>(282,384)</b>	<b>(293,931)</b>	<b>(160,039)</b>
<b>Cash Flows from Financing Activities</b>					
Proceeds from related party borrowings		–	–	300,530	–
Proceeds from other borrowings		386,189	415,884	50,000	–
Repayment of borrowings		(342,839)	(576,520)	(100,000)	(160,982)
Dividends paid	6	(64,414)	(45,149)	(64,414)	(45,149)
Dividends paid to minority interest		(94)	–	–	–
Proceeds from share issue		49,725	299,353	49,725	299,353
Finance lease payments		(2,810)	(7,166)	–	–
<b>Net cash inflow/(outflow) from financing activities</b>		<b>25,757</b>	<b>86,402</b>	<b>235,841</b>	<b>93,222</b>
<b>Net increase/(decrease) in cash held</b>		<b>49,576</b>	<b>13,146</b>	<b>(371)</b>	<b>455</b>
Cash at the beginning of the financial year		102,389	88,299	507	52
Effects of exchange rate fluctuations on the balances of cash held in foreign currencies		(489)	944	–	–
<b>Cash at the end of the financial year</b>	31(a)	<b>151,476</b>	<b>102,389</b>	<b>136</b>	<b>507</b>
Financing arrangements	16				
Non-cash financing and investing activities	31(e)				

The above statements of cash flows are to be read in conjunction with the accompanying notes to the financial statements set out on pages 46 to 98.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

## 1. Statement of Significant Accounting Policies

The significant policies which have been adopted in the preparation of this financial report are:

### (a) Basis of Preparation

The financial report is a general purpose financial report which has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

It has been prepared on the basis of historical costs, and except where stated, does not take into account changing money values or fair values of non-current assets.

The accounting policies have been consistently applied by each entity in the Group and are consistent with those of the previous year.

### (b) Principles of Consolidation

#### *Controlled Entities*

The consolidated financial statements of the Group include the financial statements of the Company, being the parent entity and its controlled entities ('the Group').

Where an entity began or ceased to be controlled during the year, the results are included only from the date control commenced or up to the date control ceased.

Outside interests in the equity and results of the entities that are controlled by the Group are shown as a separate item in the consolidated financial statements.

#### *Associates*

Associates are those entities, over which the Group exercises significant influence and which are not intended for sale in the near future.

In the consolidated financial statements investments in associates are accounted for using equity accounting principles. Investments in associates are carried at the lower of the equity accounted amount and recoverable amount. The Group's equity accounted share of the associates' net profit or loss is recognised in the consolidated statement of financial performance from the date significant influence commences until the date significant influence ceases. Other movements in reserves are recognised directly in consolidated reserves.

#### *Transactions Eliminated on Consolidation*

Unrealised gains and losses and inter-entity balances resulting from transactions with or between controlled entities are eliminated in full on consolidation.

Unrealised gains resulting from transactions with associates are eliminated to the extent of the Group's interest. Unrealised gains relating to associates are eliminated against the carrying amount of the investment. Unrealised losses are eliminated in the same way as unrealised gains, unless they evidence a recoverable amount of impairment.

### (c) Goodwill

Goodwill, representing the excess of the purchase consideration and incidental expenses over the fair value of the identifiable net assets

acquired on the acquisition of a controlled entity is amortised on a straight line basis. The period of amortisation is the period of time during which benefits are expected to arise, and varies from 5 to not more than 20 years.

Where a discount on acquisition arises the cost of individual identifiable assets is determined by reducing proportionately the fair value of non-monetary assets acquired until the discount is eliminated. Any balance of the discount is credited to the statements of financial performance. The carrying value of goodwill is reviewed regularly and written down where appropriate to reflect its recoverable amount.

For associates the consolidated financial statements include the carrying amount of goodwill in the equity accounted investment carrying amount.

### (d) Revenue Recognition

#### *(i) Revenue*

Revenue comprises revenue earned (net of GST, returns, discounts and allowances) from the provision of services to entities outside the Group. Revenue is recognised when the services are provided.

#### *(ii) Interest Income*

Interest income is recognised as it accrues unless collectibility is in doubt.

#### *(iii) Asset Sales*

The gross proceeds of asset sales are included as revenue of the Group. The profit or loss on disposal of assets is brought to account at the date an unconditional offer and acceptance of sale is determined. The profit or loss on disposal is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal.

#### *(iv) Other Revenue*

Revenue recognition policies for investments and property, plant and equipment are described in accounting policy notes 1(h) and 1(k) respectively.

#### *(v) Dividends*

Revenue from dividends and distributions from controlled entities is recognised by the parent entity when they are declared by the controlled entities.

Revenue from dividends from associates is recognised by the parent entity when dividends are received.

Revenue from dividends from other investments are recognised when received.

Dividends received out of pre-acquisition reserves are eliminated against the carrying amount of the investment and not recognised in revenue.

#### *(vi) Internal Recharges*

Internal recharge revenue comprises revenue from the provision of services to related parties including property, payroll, information technology, risk, secretarial and management services.

## **(e) Taxation**

### ***Income Tax***

The Group adopts the income statement liability method of tax effect accounting.

Income tax expense is calculated on operating profit adjusted for permanent differences between taxable and accounting income. The tax effect of timing differences, which arise from items being brought to account in different periods for income tax and accounting purposes, is carried forward in the statements of financial position as a future income tax benefit or a provision for deferred income tax.

### ***Tax Consolidation***

The Company is the head entity in the tax-consolidated group comprising all the Australian wholly-owned subsidiaries set out in Note 27. The head entity recognises all of the current and deferred tax assets and liabilities of the tax-consolidated group (after elimination of intragroup transactions).

The tax-consolidated group has entered into a tax funding agreement that requires Australian wholly-owned subsidiaries to make contributions to the head entity for:

- deferred tax balances recognised by the head entity on implementation date, including the impact of any relevant reset tax cost bases; and
- current tax assets and liabilities and deferred tax balances arising from external transactions occurring after the implementation of tax consolidation.

Under the tax funding agreement, the contributions are calculated on a 'stand-alone basis' so that the contributions are equivalent to the tax balances generated by external transactions entered into by the Australian wholly-owned subsidiaries. The contributions are payable as set out in the agreement and reflect the timing of the head entity's obligations to make payments for tax liabilities to the relevant tax authorities. The assets and liabilities arising under the tax funding agreement are recognised as intercompany assets and liabilities with a consequential adjustment to income tax expense/revenue.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond reasonable doubt. Future income tax benefits relating to entities with tax losses are only brought to account when their realisation is virtually certain.

The tax effect of capital losses is not recorded unless realisation is virtually certain.

## **(f) Non-Current Assets**

The carrying amounts of non-current assets are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of a non-current asset exceeds the recoverable amount, the asset is written down to the lower amount. The write-down is recognised as an expense in the net profit or loss in the reporting period in which it occurs. In assessing recoverable amounts the relevant cash flows have not been discounted to their present value.

## **(g) Receivables**

### ***Trade Debtors***

The collectibility of debts is assessed at balance date and provision is made for any doubtful accounts. Trade debtor terms vary from 7 to 30 days and are carried at amounts due.

## **(h) Investments**

### ***Controlled Entities***

Investments in controlled entities are carried in the Group's financial statements at the lower of cost and recoverable amount.

### ***Associates***

In the Group's financial statements investments in unlisted shares of associates are carried at the lower of cost and recoverable amount.

### ***Other Entities***

Investments in other listed and unlisted entities are measured at the lower of cost and recoverable amount.

## **(i) Inventories**

Inventories are carried at the lower of cost and net realisable value.

## **(j) Land and Buildings Held for Resale**

### ***Valuation***

Development properties are carried at the lower of cost and net realisable value. Cost includes the costs of acquisition, development, and holding costs such as interest, rates and taxes. Interest and other holding costs incurred after completion of development are expensed as incurred.

### ***Recognition of Income***

Income from sales is recognised when unconditional contracts are exchanged and a significant non-refundable deposit is received.

## **(k) Property, Plant and Equipment**

### ***(i) Acquisition***

Items of property, plant and equipment are recorded at cost and depreciated as outlined below.

The cost of property, plant and equipment constructed by the Group includes the cost of materials and direct labour and an appropriate proportion of fixed and variable overheads.

### ***(ii) Revaluations***

Land and buildings are independently valued every three years on an existing use basis of valuation. This is in addition to the annual review for recoverable amount referred to in Note 1(f). Refer Note 12 for further details.

As these revaluations are not recorded in the Group's accounts, items of property, plant and equipment are carried at the lower of cost, less accumulated depreciation, and recoverable amount.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

## 1. Statement of Significant Accounting Policies (continued)

### (k) Property, Plant and Equipment (continued)

#### (iii) Depreciation and Amortisation

Items of property, plant and equipment, including buildings and leasehold property but excluding freehold land, are depreciated over their estimated useful lives. Depreciation rates used for each class of asset are as follows:

- |                              |           |
|------------------------------|-----------|
| • Buildings                  | 2½% – 4%  |
| • Leasehold improvements     | 2½% – 15% |
| • Plant and equipment        | 8½% – 40% |
| • Leased plant and equipment | 8½% – 33% |

The straight-line method and the reducing balance method are used. Assets are depreciated or amortised from the date of acquisition, or in respect of internally constructed assets, from the time an asset is completed and held ready for use. No change has occurred in the above depreciation rates during the year.

#### (iv) Leased Plant and Equipment

Leases of plant and equipment under which the Company or its controlled entities assume substantially all the risks and benefits of ownership are classified as finance leases. Other leases are classified as operating leases.

Assets acquired under finance lease are capitalised. A lease asset and a lease liability equal to the present value of the minimum lease payments are recorded at the inception of the lease. Contingent rentals are written off as an expense of the accounting period in which they are incurred. Capitalised lease assets are amortised on a straight-line basis or diminishing value over the term of the relevant lease, or where it is likely the Group will obtain ownership of the asset, the life of the asset. Lease liabilities are reduced by repayments of principal. The interest components of the lease payments are charged to the statement of financial performance.

Payments made under operating leases are charged against profits in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

### (l) Provisions

A provision is recognised when there is a legal, equitable or constructive obligation as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

#### (i) Employee Entitlements

##### Annual Leave

The provisions for employee entitlements to annual leave represent the amount, which the Group has, a present obligation to pay resulting from employees' services provided up to the balance date. The provision has been based on expected future wage and salary rates and includes related on-costs.

##### Long Service Leave

The liability for employee entitlements to long service leave represents the present value of the estimated future cash outflows to be made by the employer resulting from employees' services provided up to the balance date.

Liabilities for employee entitlements, which are not expected to be settled within twelve months, are discounted using the rates attaching to national government securities at balance date, which most closely match the terms of maturity of the related liabilities.

In determining the liability for employee entitlements, consideration has been given to future increases in wage and salary rates, and the Group's experience with staff departures. Related on-costs have also been included in the liability.

#### (ii) Dividends

A provision for dividends payable is recognised in the reporting period in which the dividends are declared, for the entire undistributed amount, regardless of the extent to which they will be paid in cash.

#### (iii) Restructure

A provision for restructuring on acquisition is only recognised at the date of acquisition where there is a demonstrable commitment and a detailed plan such that there is little or no discretion to avoid payments to other parties and the amount can be reliably estimated.

The provision relates only to costs associated with the acquired entity.

Other provisions for restructuring are only recognised when a detailed plan has been approved and the restructuring has either commenced or been publicly announced. Costs related to ongoing activities are not provided for.

#### (iv) Workers Compensation

Provisions for workers compensation using self-insurance are based on independent actuarial assessments.

#### (v) Other Provisions

This class of provisions provides for items including mainly payroll related items, bonuses, damages, pallets and stock losses.

### (m) Senior Executive Option Plan, Executive Share Option Scheme and Employee Share Scheme

The Company grants options to certain executives under the Executive Share Option Scheme approved by members on 2 November 2000. Members approved the adoption of the Senior Executive Option Plan at a general meeting on 7 July 1999. Other than the costs incurred in administering the plan and scheme, which are expensed as incurred, there is no other expense charged to the Group. Details are disclosed in relation to Directors and specified executives in the Directors' Report.

The Company may issue shares to Group employees. Shares are issued to employees after a qualifying period at the current market price.

Employees are required to pay a nominal amount for these shares, with the balance made up by an interest free loan from the Company. The interest free loan is reduced via the dividends on the employee shares. Options and shares issued to employees, including Directors, are recorded in contributed equity for the consideration received.

#### **(n) Superannuation Funds**

The Company and its controlled entities contribute to employee accumulation superannuation funds. Contributions are expensed as they are incurred.

#### **(o) Cash**

For purposes of the statements of cash flows, cash includes deposits at call, which are readily convertible to cash on hand, and which are used in the cash management function on a day-to-day basis, net of outstanding bank overdrafts.

#### **(p) Earnings per Share**

##### ***(i) Basic Earnings per Share***

Basic earnings per share is determined by dividing the net profit after income tax attributable to members of the Company, by the weighted average number of ordinary shares outstanding during the financial year.

##### ***(ii) Diluted Earnings per Share***

Diluted EPS earnings is calculated by adjusting the basic EPS earnings for the after tax effect of financing costs and the effect of conversion to ordinary shares associated with dilutive potential ordinary shares.

The diluted EPS weighted average number of shares includes the number of ordinary shares assumed to be issued for no consideration in relation to dilutive potential ordinary shares. The number of ordinary shares assumed to be issued for no consideration represents the difference between the number that would have been issued at the exercise price and the number that would have been issued at the average market price.

The identification of dilutive potential ordinary shares is based on net profit or loss from continuing ordinary operations and is applied on a cumulative basis, taking into account the incremental earnings and incremental number of shares for each series of potential ordinary share.

#### **(q) Payables**

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether or not billed to the company or Group. Trade accounts payable are normally settled within 30 days.

#### **(r) Commercial Bills**

Commercial bills are carried on the statements of financial position at their principal amount. Interest on bills is paid at the time bills are rolled over or when drawn down and expensed over the period over which the bill is outstanding. Any amounts not expensed by year-end are included in 'prepayments'.

#### **(s) Derivatives**

The principal objective of using derivative financial instruments is to manage the interest rate and foreign exchange exposure on the net borrowings of the Group. To achieve this objective, a combination of derivatives including interest rate swaps, forward rate agreements and interest rate options may be used. Derivative financial instruments are not held for speculative purposes.

#### ***(i) Hedges***

##### ***Anticipated transactions***

Transactions are designated as a hedge of the anticipated specific purchase of qualifying assets, or an anticipated interest transaction, only when they are expected to reduce exposure to the risks being hedged, are designated prospectively so that it is clear when an anticipated transaction has or has not occurred and it is probable the anticipated transaction will occur as designated. Gains or losses on the hedge arising up to the date of the anticipated transaction, together with any costs or gains arising at the time of entering into the hedge, are deferred and included in the measurement of the anticipated transaction when the transaction has occurred as designated. Any gains or losses on the hedge transaction after that date are included in the statement of financial performance.

The net amounts receivable or payable under forward foreign exchange contracts and the associated deferred gains or losses are recorded on the statement of financial position from the date of inception of the hedge transaction. When recognised, the net receivables or payables are revalued using the foreign currency current at reporting date. Refer to Note 22.

The net amounts receivable or payable under interest rate and commodity swaps, and the associated deferred gains or losses are not recorded on the statement of financial position until the hedge transaction occurs. When recognised the net receivables or payables are revalued using the interest or commodity rates current at reporting date. Refer to Note 22.

Where a hedge transaction is terminated early and the anticipated transaction is still expected to occur as designated, the deferred gains or losses that arose on the hedge prior to its termination continue to be deferred and are included in the measurement of the purchase or sale or interest transaction when it occurs. Where a hedge transaction is terminated early because the anticipated transaction is no longer expected to occur as designated, deferred gains or losses that arose on the hedge prior to its termination are included in the statement of financial performance for the period.

Where a hedge is redesignated as a hedge of another transaction, gains or losses arising on the hedge prior to its redesignation are only deferred where the original anticipated transaction is still expected to occur as designated. When the original anticipated transaction is no longer expected to occur as designated, any gains or losses relating to the hedge instrument are included in the statement of financial performance for the period.

Gains or losses that arise prior to and upon the maturity of transactions entered into under hedge rollover strategies are deferred and included in the measurement of the hedged anticipated transaction if the transaction is still expected to occur as designated. If the anticipated transaction is no longer expected to occur as designated, the gains or losses are recognised immediately in the statement of financial performance.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

## 1. Statement of Significant Accounting Policies (continued)

### (s) Derivatives (continued)

#### *(ii) Interest rate swaps and forward rate agreements*

Net interest payments under interest rate swap contracts are recognised on an accruals basis in the statement of financial performance as an adjustment to interest expense during the period.

#### *(iii) Interest rate options*

Interest rate options are purchased to hedge interest rate exposures. The premiums paid on interest rate options and any realised gains or losses on exercise are included in other assets and are amortised to interest expense over the terms of the agreements.

### (t) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Tax Office (ATO). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or liability in the statement of financial position. Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the ATO are classified as operating cash flows.

### (u) Foreign Currency

#### *(i) Transactions*

Foreign currency transactions are translated to Australian currency at the rates of exchange ruling at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are translated at the rates of exchange ruling on that date.

Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the statement of financial performance in the financial year in which the exchange rates change, except where:

- Hedging specific anticipated transactions or net investments in self-sustaining operations;
- Relating to amounts payable or receivable in foreign currency forming part of a net investment in a self-sustaining foreign operation. In this case, the exchange difference, together with any related income tax expense/revenue, is transferred to the foreign currency translation reserve on consolidation.

#### *(ii) Translation of controlled foreign entities*

The assets and liabilities of foreign operations, including associates, that are self-sustaining, are translated at the rates of exchange ruling at balance date. Equity items are translated at historical rates. The statements of financial performance are translated at a weighted average rate for the year. Exchange differences arising on translation are taken directly to the foreign currency translation reserve.

### (v) Borrowing costs

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings and amortisation of ancillary costs incurred in connection with the arrangement of borrowings. Ancillary costs incurred in connection with the arrangement of borrowings are capitalised and amortised over the life of the borrowings.

Where funds are borrowed specifically for the acquisition, construction or production of a qualifying asset, the amount of borrowing costs capitalised is that incurred in relation to that borrowing, net of any interest earned on those borrowings. Where funds are borrowed generally, borrowing costs are capitalised using a weighted average capitalisation rate.

### (w) Deferred Gains

Deferred gains relate mainly to gains made on sale and leaseback transactions where the gain is deferred and amortised over the term of the lease.

### (x) Comparatives

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.

## 2. Revenue from Ordinary Activities

	CONSOLIDATED		THE COMPANY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>Revenue from Operating Activities</b>				
Services	3,798,363	3,271,929	5,261	4,619
<b>Other Revenue</b>				
From operating activities				
Dividends				
– Related parties	–	–	90,000	52,000
– Other parties	1,324	126	1,246	–
Distribution from trust	827	827	5,805	4,572
Rental revenue	3,947	4,565	220	1,012
Internal Recharges	–	–	56,148	55,209
Interest				
– Other parties	5,104	3,001	2,745	740
From outside operating activities				
Proceeds from sale of non-current assets	73,900	33,550	12,250	17,827
<b>Total revenue from ordinary activities</b>	<b>3,883,465</b>	<b>3,313,998</b>	<b>173,675</b>	<b>135,979</b>

## 3. Expenses from Ordinary Activities

	CONSOLIDATED		THE COMPANY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Direct transport costs	1,857,017	1,628,596	–	–
Wages and salaries	1,094,287	995,219	15,765	18,213
Property costs	143,310	130,184	3,927	3,738
Written down value of disposed fixed assets	70,657	36,533	9,702	21,588
Corporate administrative costs	–	–	16,332	14,469
Other	348,447	215,919	–	–
<b>Total expenses from ordinary activities</b>	<b>3,513,718</b>	<b>3,006,451</b>	<b>45,726</b>	<b>58,008</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

## 4. Profit from Ordinary Activities before Income Tax Expense

	CONSOLIDATED		THE COMPANY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
(a) Individually significant expenses/(revenues) included in profit from ordinary activities before income tax expense:				
Restatement of long service leave entitlement	8,994	–	–	–
(b) Profit from ordinary activities before income tax has been arrived at after charging/(crediting) the following items:				
<b>Charging</b>				
Borrowing costs:				
Other parties	30,611	26,814	25,918	18,555
Finance charges on capitalised leases	200	681	–	–
Less capitalised borrowing costs	(1,929)	(1,414)	–	–
Total borrowing costs	28,882	26,081	25,918	18,555
Depreciation of:				
Buildings and leasehold improvements	6,794	6,807	647	767
Plant and equipment	117,430	92,491	5,483	2,497
Total depreciation	124,224	99,298	6,130	3,264
Amortisation of:				
Right of Way	823	577	–	–
Leased assets capitalised	1,147	2,480	–	–
Goodwill	10,940	12,104	–	–
Borrowing costs	–	–	–	–
Total amortisation	12,910	15,161	–	–
Amounts set aside to provision for:				
Doubtful trade debts	679	1,063	87	–
Employee entitlements	20,162	19,875	(163)	5,132
Operating lease rental expense:				
Property	78,272	71,956	–	412
Plant and equipment	95,295	89,182	940	1,134
<b>Crediting</b>				
Amortisation of deferred gains	(5,872)	(5,477)	–	–
Net (gains)/losses on sales of property, plant and equipment	(3,243)	2,983	(2,548)	3,761

## 5. Taxation

	CONSOLIDATED		THE COMPANY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>(a) Income Tax Expense</b>				
Prima facie income tax expense on the profit from ordinary activities @ 30% (2004 – 30%)	77,368	63,635	28,770	16,846
Tax effect of permanent differences				
Non deductible expenditure	664	595	470	908
Non deductible depreciation and amortisation	3,603	4,278	21	23
Imputation credit gross up on dividend	160	31	11,732	6,686
Franking credit on dividend received	(534)	(103)	(39,106)	(22,286)
Tax deductible expenditure and depreciation not included in operating profit	(6,384)	(7,305)	(610)	(489)
Non-assessable gains	(1,687)	(1,120)	(1,741)	(1,426)
Utilisation of tax losses not previously recognised	(12,723)	(8,341)	–	–
Assessable gains	1,955	21	434	–
Net deferred tax balances recognised by head entity in relation to wholly owned subsidiaries within the tax consolidated group upon implementation of Tax Consolidation	–	–	–	33,164
Recovery of income tax expense under a tax funding agreement at transition	–	–	–	(33,164)
Amendments to reset tax values initially determined on implementation of tax consolidation	(6,969)	–	–	–
Share of associates net profit	(16,249)	(13,532)	–	–
Income tax expense on the profit from ordinary activities	39,204	38,159	(30)	262
Under/(Over) provision in prior years accounts	(4,773)	525	(1,078)	1,437
Income tax expense attributable to profit from ordinary activities	34,431	38,684	(1,108)	1,699
Total income tax expense is made up of:				
Current year's income tax provision	58,083	37,461	(65)	(732)
Deferred income tax provision	(12,134)	(6,208)	(217)	776
Future income tax benefit	(6,745)	6,906	252	218
Under/(Over) provision in prior year	(4,773)	525	(1,078)	1,437
	34,431	38,684	(1,108)	1,699
<b>(b) Current Tax Liabilities</b>				
<b>Provision for Current Income Tax</b>				
Movements during the year were as follows:				
Balance at beginning of year	22,588	14,735	20,477	(260)
Income tax paid	(34,206)	(28,639)	(34,206)	(1,521)
Income tax provision acquired	109	228	–	–
Current year's income tax expense on profit from ordinary activities	58,083	37,461	(65)	(732)
Income tax related to wholly owned subsidiary transactions in a tax consolidated group	–	–	56,433	21,370
Under/(Over) provision in prior year	(7,242)	(1,197)	(6,009)	1,620
	39,332	22,588	36,630	20,477

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

## 5. Taxation (continued)

	CONSOLIDATED		THE COMPANY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>(c) Deferred Tax Liabilities</b>				
<b>Provision for Deferred Income Tax</b>				
Provision for deferred income tax comprises the estimated expense at the applicable rate of 30% (2004: 30%) on the following items:				
Difference in depreciation and amortisation of property, plant and equipment for accounting and income tax purposes				
	21,263	14,933	21,056	18,855
Expenditure currently deductible for tax but deferred and amortised for accounting purposes				
	5,077	6,765	5,077	6,765
	26,340	21,698	26,133	25,620
<b>(d) Deferred Tax Assets</b>				
<b>Future Income Tax Benefit</b>				
Future income tax benefit comprises the estimated future benefit at the applicable rate of 30% (2004: 30%) on the following items:				
Provisions and accrued employee entitlements not currently deductible				
	44,855	23,882	44,968	36,028
<b>Future Income Tax Benefit Not Taken to Account</b>				
The future income tax benefits arising from tax losses and timing differences in a controlled entity, which is a Company, which have not been recognised as an asset because recovery is not virtually certain:				
Tax losses carried forward				
	19,882	20,434	—	—

The potential future income tax benefit, which has not been recognised, as an asset will only be obtained if:

- the relevant company derives future assessable income of a nature and an amount sufficient to enable the benefit to be realised, or the benefit can be utilised by another company in the Group in accordance with relevant income tax legislation;
- the relevant company and/or the Group continues to comply with the conditions for deductibility imposed by the law; and
- no changes in tax legislation adversely affect the relevant company and/or the Group in realising the benefit.

## 6. Dividends Paid and Declared

	CENTS PER SHARE	TOTAL (\$'000)	FRANKING (%)	PAYMENT DATE
Dividends provided or paid by the Company during the year:				
<b>Ordinary Shares</b>				
<b>2005</b>				
2004 Final Dividend recognised when declared during year	12.0	38,579	100	30/09/2004
2005 Interim Dividend	11.0	35,911	100	24/03/2005
		74,490		
<b>2004</b>				
2003 Final Dividend recognised when declared during year	8.0	24,842	100	01/10/2003
2004 Interim Dividend	8.5	27,051	100	26/03/2004
		51,893		
<b>Reset Preference Shares</b>				
<b>2005</b>				
Half Yearly Dividend (6.2%)		7,814	100	11/11/2004
Half Yearly Dividend (6.2%)		7,686	100	11/05/2005
		15,500		
<b>2004</b>				
Half Yearly Dividend (6.2%)		7,708	100	11/05/2004
Franked dividends declared or paid during the year were franked at the tax rate of 30%.				
<b>Subsequent Events</b>				
Since the end of the financial year directors declared the following dividend:				
Final Ordinary	15.5	51,177	100	30/09/2005

The financial effect of this dividend has not been brought to account in the financial statements for the year ended 30 June 2005 and will be recognised in subsequent financial reports.

	THE COMPANY	
	2005 \$'000	2004 \$'000
<b>Dividend franking account</b>		
Net Class C (30%) franking credits (2004: 30%) available to Shareholders of the Company for subsequent financial years.	45,700	51,465

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:

- (a) Franking credits that will arise from the payment of the amount of the provision for current income tax
- (b) Franking debits that will arise from the payment of dividends recognised as a liability at year-end
- (c) Franking credits that will arise from the receipt of dividends recognised as receivables at year-end
- (d) Franking credits that the entity may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

## 6. Dividends Paid and Declared (continued)

Dividends actually paid, satisfied by the issue of shares under the dividend reinvestment plan or satisfied by the reduction in employee loans under the employee share ownership plan during the years ended 30 June 2005 and 30 June 2004 were as follows:

	2005 \$'000	2004 \$'000
Paid in cash – ordinary shares	48,914	37,441
Paid in cash – reset preference shares	15,500	7,708
Total dividends paid in cash	64,414	45,149
Satisfied by issue of shares	25,314	14,311
Satisfied by reduction in employee share plan loans	262	141
	89,990	59,601

The above figures are reconciled to cash at the end of the financial year as shown in the statements of cash flows.

## 7. Receivables

	CONSOLIDATED		THE COMPANY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>Current</b>				
Trade debtors	369,802	403,048	9,474	1,983
Less: Provision for doubtful trade debtors	11,992	12,834	89	2
	357,810	390,214	9,385	1,981
Loans to controlled entities (note 26)	–	–	63,421	244,189
Other debtors	62,473	54,780	10,466	14,754
	420,283	444,994	83,272	260,924
<b>Non-Current</b>				
Loans to associates	27,232	7,167	16,125	8,064
Other debtors	18,826	18,707	–	–
Other loans	10,924	1,251	10,924	1,251
	56,982	27,125	27,049	9,315

## 8. Inventories

	CONSOLIDATED		THE COMPANY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Raw materials and stores	17,369	15,698	–	33

## 9. Other Assets

	CONSOLIDATED		THE COMPANY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>Current</b>				
Prepayments	25,110	31,752	8,000	8,198
<b>Non-Current</b>				
Prepayments	5,196	9,663	–	–

## 10. Investments Accounted for using the Equity Method

	CONSOLIDATED		THE COMPANY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>Non-Current</b>				
Associates (note 28 (a))	450,086	398,374	–	–

## 11. Other Financial Assets

	CONSOLIDATED		THE COMPANY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>Non-Current</b>				
<b>Investments in other entities</b>				
Shares in controlled entities, unquoted – at cost	–	–	567,563	479,802
Shares in associate entities, unquoted – at cost	–	–	1,976	1,976
Listed shares – at cost	155,686	7,035	155,686	–
Unlisted shares – at cost	2,724	2,915	–	–
	158,410	9,950	725,225	481,778

## 12. Property, Plant and Equipment

	CONSOLIDATED		THE COMPANY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>Land and Buildings</b>				
Freehold land – at cost	27,768	33,755	544	2,546
Freehold buildings – at cost	123,931	81,538	3,443	13,434
Less: Accumulated depreciation	11,231	14,451	397	2,811
	112,700	67,087	3,046	10,623
Leasehold improvements – at cost	54,771	58,394	5,518	5,399
Less: Accumulated depreciation	27,976	27,131	3,010	2,674
	26,795	31,263	2,508	2,725
<b>Total Land and Buildings</b>	167,263	132,105	6,098	15,894

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

## 12. Property, Plant and Equipment (continued)

	CONSOLIDATED		THE COMPANY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>Plant and Equipment</b>				
Plant and equipment – at cost	1,143,849	1,263,777	27,017	17,498
Less: Accumulated depreciation	375,278	511,279	17,249	11,766
	768,571	752,498	9,768	5,732
Right of Way – at cost	54,756	54,756	–	–
Less: Accumulated amortisation	823	372	–	–
	53,933	54,384	–	–
Leased plant and equipment – at cost	11,104	19,258	–	–
Less: Accumulated amortisation	8,620	11,944	–	–
	2,484	7,314	–	–
Total Plant and Equipment	824,988	814,196	9,768	5,732
Capital Work in progress – at cost	67,916	62,742	29,477	46,453
Total Property, Plant and Equipment – Net book value	1,060,167	1,009,043	45,343	68,079

### Reconciliations

Reconciliations of the carrying amounts for each class of property, plant and equipment are set out below:

	CONSOLIDATED		THE COMPANY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>Freehold Land</b>				
Carrying amount at beginning of year	33,755	32,405	2,546	2,102
Additions	3,470	1,448	–	444
Acquisitions through entities/businesses acquired	–	732	–	–
Transfer from capital work in progress	3,885	–	–	–
Net foreign currency differences on translation of self sustaining operations	5	37	–	–
Disposals	(13,347)	(867)	(2,002)	–
Carrying amount at end of year	27,768	33,755	544	2,546
<b>Buildings</b>				
Carrying amount at beginning of year	67,087	40,052	10,623	8,155
Additions	6,773	4,549	195	1,559
Acquisitions through entities/businesses acquired	–	22,922	–	–
Transfer from capital work in progress	65,313	17,970	–	1,233
Disposals	(23,598)	(17,329)	(7,461)	–
Disposal of entities	(71)	–	–	–
Net foreign currency differences on translation of self sustaining operations	154	985	–	–
Depreciation	(2,958)	(2,062)	(311)	(324)
Carrying amount at end of year	112,700	67,087	3,046	10,623

## Reconciliations (continued)

	CONSOLIDATED		THE COMPANY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>Leasehold Improvements</b>				
Carrying amount at beginning of year	31,263	32,657	2,725	3,041
Additions	1,159	1,229	119	127
Acquisitions through entities/businesses acquired	38	1,507	–	–
Transfer from capital work in progress	203	497	–	497
Disposals	(2,099)	(74)	–	(497)
Net foreign currency differences on translation of self sustaining operations	67	192	–	–
Depreciation	(3,836)	(4,745)	(336)	(443)
Carrying amount at end of year	26,795	31,263	2,508	2,725
<b>Plant and Equipment</b>				
Carrying amount at beginning of year	752,498	296,435	5,732	9,266
Additions	127,579	98,529	8,172	2,725
Acquisitions through entities/businesses acquired	7,546	408,731	–	–
Transfer from capital work in progress	20,652	38,051	1,586	17,330
Disposals	(27,696)	(15,007)	(239)	(21,092)
Disposal of entities	(2,089)	–	–	–
Net foreign currency differences on translation of self sustaining operations	3,485	18,250	–	–
Depreciation	(117,430)	(92,491)	(5,483)	(2,497)
Other movements	4,026	–	–	–
Carrying amount at end of year	768,571	752,498	9,768	5,732
<b>Right of Way</b>				
Carrying amount at beginning of year	54,384	–	–	–
Acquisitions through entities/businesses acquired	–	52,314	–	–
Net foreign currency differences on translation of self sustaining operations	372	2,647	–	–
Amortisation	(823)	(577)	–	–
Carrying amount at end of year	53,933	54,384	–	–
<b>Leased Plant and Equipment</b>				
Carrying amount at beginning of year	7,314	13,240	–	–
Additions	233	9	–	–
Disposals	(3,916)	(3,455)	–	–
Amortisation	(1,147)	(2,480)	–	–
Carrying amount at end of year	2,484	7,314	–	–

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

## 12. Property, Plant and Equipment (continued)

### Reconciliations (continued)

	CONSOLIDATED		THE COMPANY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>Capital Work in Progress</b>				
Carrying amount at beginning of year	62,742	47,963	46,453	35,267
Additions	95,177	56,629	57,595	46,983
Acquisitions through entities/businesses acquired	–	13,958	–	–
Net foreign currency differences on translation of self sustaining operations	50	710	–	–
Transfer to related entities	–	–	(72,985)	(16,737)
Transfer to plant and equipment, land and buildings	(90,053)	(56,518)	(1,586)	(19,060)
Carrying amount at end of year	67,916	62,742	29,477	46,453

Borrowing costs were capitalised to land at a weighted average rate of 6.0% (2004: 6.0%).

### Valuation of Land and Buildings

Independent valuations were prepared as at 30 June 2004 on all major properties in Australia by Jones Lang Laselle on the basis of fair market value based on existing use. This valuation totalled \$138 million and this reflected a surplus over carrying values of \$34 million. These valuations are in accordance with the Group's policy of obtaining an independent valuation of land and buildings every three years. This surplus has not been recognised in the Group's accounts.

## 13. Intangible Assets

	CONSOLIDATED		THE COMPANY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Goodwill – at cost	134,173	133,046	–	–
Less Accumulated amortisation	41,854	31,047	–	–
	92,319	101,999	–	–

## 14. Payables

	CONSOLIDATED		THE COMPANY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>Current</b>				
Trade creditors	117,564	142,515	1,963	–
Other creditors and accruals	245,199	193,188	14,820	4,638
	362,763	335,703	16,783	4,638

## 15. Interest Bearing Liabilities

	CONSOLIDATED		THE COMPANY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>Current</b>				
Commercial bills – unsecured	27,000	–	–	–
Bank loans – unsecured	–	3,090	–	–
Subordinated bonds – unsecured	–	–	–	–
Lease liabilities – secured (note 25(d))	2,799	2,389	–	–
Hire purchase liabilities (note 25(e))	480	477	–	–
	<b>30,279</b>	<b>5,956</b>	–	–
<b>Non-current</b>				
Commercial bills – unsecured	424,280	296,569	–	50,000
Bank loans – unsecured	6,808	21,466	–	–
Other loans – unsecured	–	–	–	–
Subordinated bonds – unsecured	–	91,060	–	–
Lease liabilities – secured (note 25(d))	–	2,788	–	–
Hire purchase liabilities (note 25(e))	940	1,375	–	–
	<b>432,028</b>	<b>413,258</b>	–	<b>50,000</b>

The nature and terms of bank and other credit facilities available to the Group are set out in Note 16.

## 16. Financing Arrangements

The Toll Group has unrestricted access at balance date to the following lines of credit:

	CONSOLIDATED		THE COMPANY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Bank overdraft – unsecured	500	500	–	–
Bank loans – unsecured	6,808	24,556	–	–
Commercial bills/Cash Advance – unsecured	700,000	765,359	–	100,000
Subordinated bonds – unsecured	–	91,060	–	–
Other facilities	111,631	117,041	59,303	39,899
	<b>818,939</b>	<b>998,516</b>	<b>59,303</b>	<b>139,899</b>
<b>Facilities utilised at balance date:</b>				
Bank overdraft – unsecured	–	–	–	–
Bank loans – unsecured	6,808	24,556	–	–
Commercial bills / Cash Advance – unsecured	451,280	296,569	–	50,000
Subordinated bonds – unsecured	–	91,060	–	–
Other facilities	77,948	84,433	59,303	39,899
	<b>536,036</b>	<b>496,618</b>	<b>59,303</b>	<b>89,899</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

## 16. Financing Arrangements (continued)

	CONSOLIDATED		THE COMPANY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>Facilities not utilised at balance date:</b>				
Bank overdraft – unsecured	500	500	–	–
Bank loans – unsecured	–	–	–	–
Commercial bills / Cash Advance – unsecured	248,720	468,790	–	50,000
Subordinated bonds – unsecured	–	–	–	–
Other facilities	33,683	32,608	–	–
	<b>282,903</b>	<b>501,898</b>	<b>–</b>	<b>50,000</b>

### Security

All current financing is subject to negative pledge arrangements.

### Bank Overdraft

The bank overdraft is payable on demand and is subject to annual review. Interest on bank overdrafts is charged at prevailing market rates.

### Bank Loans

All bank loans are denominated in Thailand baht and New Zealand dollars. The Thailand baht bank loans are unsecured and repayable on or before 5 July 2007 on an equal instalment basis. These loans are not subject to review.

The New Zealand dollar loan facility of NZD 16.5 million which was fully drawn at 30 June 2004 was repaid and cancelled on 10 August 2004.

### Commercial Bill Acceptance Facility / Cash Advance Facility

The commercial bill acceptance facility and cash advance facility is available for varying periods and due for review as follows:

	\$'000	REVIEW DATE
Floating Rate Funded	50,000	25 October 2005
Floating Rate Funded	25,000	29 October 2005
Floating Rate Funded	100,000	12 November 2005
Floating Rate Funded	50,000	3 December 2005
Floating Rate Funded	25,000	5 January 2006
Floating Rate Funded	25,000	25 March 2006
Floating Rate Funded	50,000	25 October 2006
Floating Rate Funded	125,000	5 January 2007
Floating Rate Funded	75,000	25 March 2007
Floating Rate Funded	25,000	16 October 2007
Floating Rate Funded	25,000	25 October 2007
Floating Rate Funded	25,000	29 October 2007
Floating Rate Funded	50,000	15 December 2007
Floating Rate Funded	25,000	5 January 2008
Floating Rate Funded	25,000	25 March 2008
	<b>700,000</b>	

The weighted average effective interest rate is 6.64%.

### Other Bank Facilities

These represent payroll/tape negotiation authority, bank guarantee facilities and encashment negotiation advices.

### Subordinated Bonds

The subordinated debt matured on 15 October 2004. This debt was unsecured, denominated in New Zealand dollars and carried a fixed interest rate of 8.95%. At maturity, the subordinated bonds were replaced with floating rate debt from the Group's facilities.

## 17. Provisions

	CONSOLIDATED		THE COMPANY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>Current</b>				
Restructure	11,909	11,139	–	–
Dividends (note 6)	–	–	–	–
Employee entitlements	115,230	109,035	9,235	8,899
Other	54,035	60,296	9,970	13,076
	181,174	180,470	19,205	21,975
<b>Non-Current</b>				
Restructure	–	12,411	–	–
Employee entitlements	37,950	21,805	1,531	1,531
Other	37,665	38,166	16,395	16,269
	75,615	72,382	17,926	17,800
<b>Employee Entitlements</b>				
Aggregate employee entitlements, including on costs				
Current	115,230	109,035	9,235	8,899
Non-current	37,950	21,805	1,531	1,531
	153,180	130,840	10,766	10,430
Number of employees at year end	17,545	17,375		
<b>Reconciliations</b>				
<i>Dividends</i>				
Provisions made during the year				
– Final ordinary dividend previous year	38,579	24,842	38,579	24,842
– Interim ordinary dividend current year	35,911	27,051	35,911	27,051
– Reset preference share dividends	15,500	7,708	15,500	7,708
Payments made during the year	(89,990)	(59,601)	(89,990)	(59,601)
Carrying amount at end of year	–	–	–	–
<i>Restructure – Current</i>				
Carrying amount at beginning of year	11,139	7,656	–	–
Increase through acquisition of entity	–	14,185	–	–
Provisions made during the year	500	–	–	–
Net foreign currency differences on translation of self sustaining operations	64	722	–	–
Transfer from non-current restructure provision	12,496	1,108	–	–
Payments made during the period	(9,335)	(12,532)	–	–
Other movements	(2,955)	–	–	–
Carrying amount at end of year	11,909	11,139	–	–

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

## 17. Provisions (continued)

	CONSOLIDATED		THE COMPANY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>Reconciliations (continued)</b>				
<i>Restructure – Non-Current</i>				
Carrying amount at beginning of year	12,411	7,700	–	–
Increase through acquisition of entity	–	11,810	–	–
Net foreign currency differences on translation of self sustaining operations	85	601	–	–
Transfer to current restructure provision	(12,496)	(1,108)	–	–
Payments made during the period	–	(6,592)	–	–
Carrying amount at end of year	–	12,411	–	–

## 18. Contributed Equity

### (a) Issued and Paid Up Capital

	CONSOLIDATED		THE COMPANY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>Share Capital</b>				
330,171,887 ordinary shares fully paid (2004 – 321,296,695)	562,833	476,888	562,833	476,888
<b>Other Contributed Equity</b>				
2,500,000 Reset Preference Shares (2004 – 2,500,000)	245,122	245,122	245,122	245,122
	807,955	722,010	807,955	722,010

### (b) Dividend Reinvestment Plan

The Company has an established Dividend Reinvestment Plan, for the purpose of providing shareholders the opportunity to apply dividends paid or declared by the Company in subscribing for shares rather than receiving those dividends in cash. Shares are issued under the plan currently at a 2.5% (2004: 2.5%) discount to the weighted average market price over the five business days immediately after the transfer books close date for the purposes of the dividend payment.

### (c) Movements in issued and paid up ordinary share capital of the Company during the past year were as follows:

DATE	DETAILS	NUMBER OF SHARES	ISSUE PRICE	SHARE CAPITAL \$'000
<b>Ordinary Shares</b>				
01/07/04	Opening Balance	321,296,695		476,888
30/09/04	Dividend Reinvestment Plan	1,222,871	10.98	13,432
21/10/04	Employee Share Ownership Plan	963,800	11.32	10,906
23/03/05	Share Placement	1,800,000	13.50	24,300
24/03/05	Dividend Reinvestment Plan	924,721	12.92	11,882
Various	Share Option Exercise	3,963,800	Various	25,844
Various	Capital raising costs	–	–	(419)
30/06/05	Closing Balance	330,171,887		562,833

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders meetings.

## 18. Contributed Equity (continued)

(d) The Company issued 2.5 million reset preference shares with a face value of \$100 each on 11 November 2003.

Dividends are payable half-yearly on 11 November and 11 May at a dividend rate of 6.2% p.a. Holders of reset preference shares have the same rights as holders of Ordinary Shares to receive audited accounts, reports and notices and to attend meetings of the Company's members. Holders may not speak or vote at meetings of Toll Holdings Limited except in the following circumstances:

- if at the time of the meeting, a Dividend has been determined to be payable and the relevant Dividend Payment Date has passed but the Dividend has not been paid in full;
- on a proposal:
  - (i) to reduce the share capital of the Company;
  - (ii) that affects the rights attaching to Toll RPS;
  - (iii) to wind up the Company; or
  - (iv) for the disposal of the whole of the property, business and undertaking of the Company;
- on a resolution to approve the terms of a buy-back agreement; or
- during the winding-up of the Company, in which case, Holders shall have the same right to vote as a holder of Ordinary Shares.

### (e) Senior Executive Option Plan and Executive Share Option Scheme

As at 30 June 2005 unissued ordinary shares of the Company under option are:

GRANT DATE	EXPIRY DATE	EXERCISE PRICE (\$)	BALANCE 01/07/04	OPTIONS GRANTED	OPTIONS LAPSED	OPTIONS EXERCISED	BALANCE 30/06/05	VESTED BALANCE	PROCEEDS	# SHARES ISSUED	MARKET VALUE
									RECEIVED (\$'000)		AGGREGATE (\$'000)
29/05/00	28/05/05	1.9925	130,000	—	—	120,000	10,000*	10,000	239	120,000	1,402
27/06/01	26/06/06	4.9775	160,000	—	—	160,000	—	—	796	160,000	1,733
28/11/01	27/11/06	5.9350	80,000	—	—	80,000	—	—	475	80,000	533
25/01/02	24/07/07	6.7525	4,919,000	—	63,000	3,123,800	1,732,200	1,732,200	21,093	3,123,800	41,736
31/10/02	30/10/07	6.5575	1,600,000	—	—	—	1,600,000	—	—	—	—
31/10/02	24/01/07	6.7525	480,000	—	—	480,000	—	—	3,241	480,000	6,334
09/09/04	08/09/09	10.9500	—	5,291,000	33,000	—	5,258,000	—	—	—	—
28/10/04	08/09/09	10.9500	—	350,000	—	—	350,000	—	—	—	—
02/11/04	01/11/09	11.5300	—	1,000,000	—	—	1,000,000	—	—	—	—
			7,369,000	6,641,000	96,000	3,963,800	9,950,200	1,742,200	25,844	3,963,800	51,738

The Company has an Executive Share Option Scheme and Senior Executive Option Plan, which have been approved by the members at previous Annual General Meetings.

Each option is convertible into one ordinary share at any time after the initial qualifying period, which is usually between three and five years after the grant date. The options granted to 31 October 2002 are only exercisable on the satisfaction of specific hurdle criteria with regard to the Company's Total Shareholder Return (TSR) and diluted EPS growth relative to the ASX 200 Industrials (excluding banks), during the period from grant date to the end of the qualifying period (generally a 3 year period). Options granted from 9 September 2004 are only exercisable on the satisfaction of specific hurdle criteria with regard to the Company's TSR relative to the ASX 100 excluding banks, oil and gas and metals and mining companies over a 3 year period commencing 1 July 2004. All options will vest if Toll's TSR percentile ranking is greater than 75%, i.e. Toll is ranked in the top 25%. Between 50% and 75%, a pro-rata straightline allocation is vested. Below 50%, no options will vest.

3,963,800 ordinary shares were issued during the financial year on the exercise of options granted under the executive share option scheme (2004: 5,720,000 shares).

\* Option expiry date has been extended.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

## 18. Contributed Equity (Continued)

### (f) Toll NZ Limited Equity Incentive Plan

Toll NZ Limited has an Equity Incentive Plan in operation. The Equity Incentive Plan (the 'Plan') allows for Toll NZ Limited to award, at its discretion within specified limits, option rights, appreciation rights and restricted shares to employees. The terms and conditions of such awards are to be determined at Toll NZ Limited's discretion up to a maximum of 15,000,000 ordinary shares that may be issued under the Plan. The Directors of the Company are not currently authorised to issue new option rights, appreciation rights and restricted shares to employees pursuant to the Plan.

(i) Redeemable restricted share capital

All of these shares were acquired by the Group in the acquisition of Tranz Rail Holdings Limited.

(ii) Share Options

The options have no rights to voting or dividends. A total of 1,174,079 options exist in Toll NZ Limited. Of this balance 983,823 options were purchased by Toll in the acquisition of Tranz Rail Holdings Limited. The balance remaining of options on issue at 30 June 2005 are as follows:

NUMBER ON ISSUE	EXERCISE PRICE (NZD)	EXPIRY DATE
62,500	5.78	19 Feb 2008
127,756	3.50	23 Dec 2009
190,256		

## 19. Reserves

	CONSOLIDATED		THE COMPANY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>Foreign Currency Translation</b>				
Balance at beginning of year	6,091	(552)	–	–
Net translation adjustment	(721)	6,643	–	–
Balance at end of year	5,370	6,091	–	–

### Nature and purpose of reserves

#### Foreign currency reserve

The foreign currency translation reserve records the foreign currency differences arising from the translation of self-sustaining foreign operations.

## 20. Retained Profits

	CONSOLIDATED		THE COMPANY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Retained profits at beginning of year	329,415	220,377	2,342	7,490
Net profit attributable to members of the parent entity	216,554	168,639	97,009	54,453
Dividends (Note 6)	(89,990)	(59,601)	(89,990)	(59,601)
Retained profits at the end of the year	455,979	329,415	9,361	2,342

## 21. Outside Equity Interests

	CONSOLIDATED	
	2005 \$'000	2004 \$'000
Outside equity interests in controlled entities comprise:		
Interest in retained profits at the beginning of the financial year	4,616	1,889
Outside equity interests in entities acquired during the financial year	(158)	(2,065)
Interest in dividends paid	(94)	—
Interest in profit from ordinary activities after income tax	6,908	4,792
Interest in retained profits at the end of the financial year	11,272	4,616
Interest in share capital	31,584	32,248
Total outside equity interests	42,856	36,864

## 22. Additional Financial Instruments Disclosure

### (a) Interest rate risk

The Group enters into interest rate derivatives to manage cashflow risks associated with the interest rates on borrowings.

#### *Interest Rate Swaps*

Interest rate swaps allow the Group to manage the percentage of fixed rates against floating rates in the total Group interest rate exposures. Swap contracts are principally matched against known debt maturities.

Each contract involves quarterly payment of the net amount of interest. At 30 June 2005, the weighted average fixed rate was 5.47% (2004: 6.43%) and the floating rates were at bank bill rates. The weighted average effective floating interest rate at 30 June 2005 was 6.64% (2004: 6.34%).

#### *Interest Rate Collar*

Interest rate collars allow the Group to fix a range for its floating rate borrowings to ensure less volatility in interest rate costs. Maturities are generally for three years. The range of the interest rate collars is from 4.09% to 5.50%.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

## 22. Additional Financial Instruments Disclosure (continued)

### (a) Interest rate risk (continued)

#### Interest rate risk exposures

2005	WEIGHTED AVERAGE INTEREST RATE	FLOATING INTEREST RATE \$'000	FIXED INTEREST MATURING IN:				TOTAL \$'000
			1 YEAR OR LESS \$'000	OVER 1 TO 5 YEARS \$'000	MORE THAN 5 YEARS \$'000	NON-INTEREST BEARING \$'000	
<b>Financial Assets</b>							
Cash	5.00%	151,476	–	–	–	–	151,476
Receivables		–	–	–	–	477,265	477,265
Investments		–	–	–	–	158,410	158,410
		151,476	–	–	–	635,675	787,151
<b>Financial Liabilities</b>							
Bank overdraft and loans	6.64%	451,280	1,022	5,786	–	–	458,088
Payables		–	–	–	–	362,763	362,763
Lease and HP liabilities	6.73%	–	3,279	940	–	–	4,219
		451,280	4,301	6,726	–	362,763	825,070
Interest rate swaps*		(286,702)	55,000	155,001	76,701	–	–

2004	WEIGHTED AVERAGE INTEREST RATE	FLOATING INTEREST RATE \$'000	FIXED INTEREST MATURING IN:				TOTAL \$'000
			1 YEAR OR LESS \$'000	OVER 1 TO 5 YEARS \$'000	MORE THAN 5 YEARS \$'000	NON-INTEREST BEARING \$'000	
<b>Financial Assets</b>							
Cash	4.75%	102,389	–	–	–	–	102,389
Receivables		–	–	–	–	472,119	472,119
Investments		–	–	–	–	9,950	9,950
		102,389	–	–	–	482,069	584,458
<b>Financial Liabilities</b>							
Bank overdraft and loans	6.77%	311,569	94,150	6,466	–	–	412,185
Payables		–	–	–	–	335,703	335,703
Lease and HP liabilities	6.73%	–	2,866	4,163	–	–	7,029
		311,569	97,016	10,629	–	335,703	754,917
Interest rate swaps*		(185,000)	75,000	110,000	–	–	–

\* Notional principal amount

### ***Credit Risk Exposures***

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

#### *Recognised Financial Instruments*

The credit risk on financial assets, excluding investments, of the Group, which have been recognised in the statements of financial position, is the carrying amount, net of any provision for doubtful debts.

The Group minimises concentrations of credit risk by undertaking transactions with a large number of customers and counterparties.

The Group is not materially exposed to any individual customer.

#### *Unrecognised Financial Instruments*

The credit risk exposures arising from derivative financial instruments not recognised in the statement of financial position is measured by the net fair value of the contracts. The concentration of credit risk is minimised, as counterparties are recognised financial intermediaries with acceptable credit ratings.

### **(b) Foreign exchange risk**

The Group enters into forward foreign exchange contracts to hedge a proportion of anticipated purchase commitments denominated in US dollars. The amount of anticipated future purchases is forecast in light of current conditions in foreign markets and experience.

The following table sets out the gross value to be paid under foreign currency contracts, the weighted average contracted exchange rates and the settlement periods of outstanding contracts for the Group.

	WEIGHTED AVERAGE RATE	2005 \$'000
<i>Buy US dollars</i>		
Not later than one year	0.63	19,852
Later than one year but not later than two years	0.61	18,140
Later than two years but not later than five years	0.59	29,223
		67,215

The net deferred costs and exchange gains and losses on hedges of anticipated foreign currency purchases and the timing of their anticipated recognition as part of purchases are:

	NET GAINS/ (LOSSES)
	2005 \$'000
Not later than one year	(573)
Later than one year but not later than two years	(202)
Later than two years but not later than five years	(754)
	(1,529)

### **(c) Commodity Price Risk**

As at year-end, the consolidated entity did not have any outstanding forward contracts to hedge (or hedge a portion of) commodity purchase prices on anticipated specific purchase commitments.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

## 22. Additional Financial Instruments Disclosure (continued)

### (d) Net fair values of financial assets and liabilities

#### Valuation approach

Net fair values of financial assets and liabilities are determined by the Group on the following basis:

#### Recognised Financial Instruments

Monetary financial assets and financial liabilities not readily traded in an organised financial market are determined by valuing them at the present value of contractual future cash flows on amounts due from customers or due to suppliers. The carrying amounts of bank term deposits, accounts receivable, accounts payable, bank loans, lease and hire purchase liabilities approximate net fair value.

The net fair value of investments in unlisted shares in other corporations is determined by reference to the underlying net assets and an assessment of future maintainable earnings and cash flows of the respective corporations.

#### Unrecognised Financial Instruments

The valuation of financial instruments not recognised on the statements of financial position detailed in this note reflects the estimated amounts which the Group expects to pay or receive to terminate the contracts (net of transaction costs) or to replace the contracts at their current market rate as at reporting date. This is based on independent market quotations and is determined using standard valuation techniques.

#### Recognised Financial Instruments

The carrying amount and net fair values of financial assets and liabilities as at the reporting date are as follows:

	CONSOLIDATED		CONSOLIDATED	
	2005 CARRYING AMOUNT \$'000	2005 NET FAIR VALUE \$'000	2004 CARRYING AMOUNT \$'000	2004 NET FAIR VALUE \$'000
<b>Financial Assets</b>				
Cash	151,476	151,476	102,389	102,389
Receivables	477,265	477,265	472,119	472,119
Investments	158,410	154,013	9,950	9,950
	<b>787,151</b>	<b>782,754</b>	<b>584,458</b>	<b>584,458</b>
<b>Financial Liabilities</b>				
Bank overdrafts and loans	458,088	458,088	412,185	412,185
Payables	362,763	362,763	335,703	335,703
Lease and hire purchase liabilities	4,219	4,219	7,029	7,029
	<b>825,070</b>	<b>825,070</b>	<b>754,917</b>	<b>754,917</b>

#### Unrecognised Financial Instruments

The net fair value of financial instruments not recognised on the statement of financial position held as at the reporting date are:

	2005 \$'000	2004 \$'000
Interest rate derivatives	4,869	4,162

### 23. Auditors' Remuneration

	CONSOLIDATED		THE COMPANY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Audit services:				
Auditors of the Group	1,604	1,559	90	80
Other services:				
– Taxation services	1,175	975	110	110
– Other assurance services	21	51	–	–
	1,196	1,026	110	110
Related practices of the auditor:				
– Due diligence and other services	24	182	–	–
Total	2,824	2,767	200	190

### 24. Contingent Liabilities

The details and estimated maximum amounts of contingent liabilities are set out below.

	CONSOLIDATED		THE COMPANY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
(i) The Group has issued bank guarantees and guaranteed the bank facilities of controlled entities in respect of bank overdraft, payroll and cheque clearing accounts	77,948	84,433	59,303	39,899

(ii) Under the terms of the Deed of Cross Guarantees, described in note 29, the Company has guaranteed any deficiency which might arise if Toll Transport Pty Ltd, Toll Ports Pty Ltd, Toll Properties Pty Ltd, Freshmark Pty Ltd, Refrigerated Roadways Pty Ltd, Toll Logistics Australia Pty Ltd, Toll Energy Logistics Pty Ltd, Toll North Pty Ltd, W & M Meats Transport Pty Ltd, Malleys Transport Pty Ltd, Toll IPEC Pty Ltd, Toll Technologies Pty Ltd, CJ Dean Transport Pty Ltd, Toll (FHL) Pty Limited, Toll (Cowra) Pty Ltd, Toll Equipment (FFM) Pty Ltd, Toll (FGCT) Pty Ltd, Toll Pty Ltd, Performance Leasing Pty Ltd, Toll Relocations Pty Ltd, Toll Technologies Investments Pty Ltd, Strang Stevedoring Australia WDW Pty Ltd, Autotrans Express (Aust) Pty Ltd, International Corporate Relocations Pty Ltd, Movinghome.com.au Pty Ltd, Toll Finance Pty Ltd, Toll Projects Pty Ltd, Toll Rail Holdings Pty Ltd, Toll Stevedoring Pty Ltd, R&H Nominees Pty Ltd, R&H Transport Services Pty Ltd, Artmill Distributors Pty Ltd and Eastern Basin Pty Ltd are wound up.

(iii) The Group has guaranteed various bank facilities, payments and other financial facilities of controlled entities through the normal course of business.

(iv) From time to time the Group is subject to claims and litigation during the normal course of business. The directors have given consideration to such matters, which are or may be subject to litigation at year-end, and subject to specific provisions raised are of the opinion that no material liability exists.

(v) The Group has guaranteed various bank guarantees issued on behalf of an associate.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

## 25. Commitments for Expenditure

### (a) Superannuation Commitments

All employees of the Group are entitled to benefits on retirement, disability or death. The superannuation plans provide benefits based on accumulated funds. Employees may contribute to the plans at various percentages of their wages and salaries. Entities in the Group also contribute to the plans.

### (b) Capital Expenditure Commitments

Total capital expenditure contracted for at balance date but not provided for in the financial statements, payable:

	CONSOLIDATED		THE COMPANY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Not later than one year	104,585	133,406	–	–
Later than one year but not later than five years	164,467	117,099	–	–
	269,052	250,505	–	–

### (c) Non-Cancellable Operating Lease Commitments

Future non-cancellable operating lease rentals of property, plant and equipment, not provided for in the financial statements, payable:

	CONSOLIDATED		THE COMPANY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Not later than one year	130,822	139,116	352	277
Later than one year but not later than five years	352,242	344,664	959	1,040
Later than five years	200,217	174,431	–	–
	683,281	658,211	1,311	1,317
Property	334,806	318,053	1,311	1,317
Plant and Equipment	348,475	340,158	–	–
	683,281	658,211	1,311	1,317

### (d) Finance Lease Commitments

Finance lease rentals are payable as follows:

	CONSOLIDATED		THE COMPANY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Not later than one year	2,890	2,592	–	–
Later than one year but not later than five years	–	2,890	–	–
Later than five years	–	–	–	–
Future lease rentals	2,890	5,482	–	–
Less: Future finance charges	91	305	–	–
Total finance lease commitments in financial statements	2,799	5,177	–	–
Finance lease commitment				
Current (note 15)	2,799	2,389	–	–
Non-current (note 15)	–	2,788	–	–
Total lease liability	2,799	5,177	–	–

## 25. Commitments for Expenditure (continued)

### (e) Hire purchase commitments

Hire purchase payments are payable as follows:

	CONSOLIDATED		THE COMPANY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Not later than one year	558	570	–	–
Later than one year but not later than five years	1,019	1,536	–	–
Later than five years	–	–	–	–
Minimum repayments	1,577	2,106	–	–
Less: Future finance charges	157	254	–	–
Total hire purchase commitments in the financial statements	1,420	1,852	–	–
Hire purchase liability				
Current (note 15)	480	477	–	–
Non-current (note 15)	940	1,375	–	–
Total hire purchase liability	1,420	1,852	–	–

## 26. Related Parties

### Directors

The names of each person holding the position of Director of the Company at any time during the financial year are as follows:

P A Little

M Rowsthorn

J A Moule

N Chatfield

W Farrands

R Dunning

A Lucas

R Horsburgh

Apart from the details disclosed in this note, no director has entered into a material contract with the Company or the Group since the end of the previous financial year and there are no material contracts involving directors' interests existing at year-end.

### Remuneration, Retirement Benefits and Service Arrangements

Details of directors' remuneration, inclusive of superannuation and retirement payments, are set out in the Directors' Report.

### Transactions of Directors and Director Related Entities concerning Shares

An aggregate of 3,708 ordinary shares of the Company were issued to directors in accordance with the Dividend Reinvestment Plan during the year (2004: 3,999).

An aggregate of 16,204 ordinary shares of the Company were acquired by directors or their director related entities during the year (2004: 1,807,143).

An aggregate of nil reset preference shares of the Company were acquired by directors or their director related entities during the year (2004: 5,000).

An aggregate of nil ordinary shares of the Company were issued to directors in accordance with the Employee Share Ownership Plan during the year (2004: nil).

1,081,625 ordinary shares of the Company were disposed of by the directors or their director related entities during the year (2004: 6,700,000).

The aggregate number of ordinary shares of the Company held directly, indirectly or beneficially by directors or their director related entities at balance date was 68,505,521 (2004: 69,486,466).

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

## 26. Related Parties (continued)

### Transactions of Directors and Director Related Entities concerning Shares (continued)

The aggregate number of reset preference shares of the Company held directly, indirectly or beneficially by directors or their director related entities at balance date was 4,000 (2004: 5,000).

At 30 June 2005, directors or their director related entities hold directly, indirectly or beneficially 2,950,000 options over ordinary shares (2004: 2,080,000).

During the year the Company granted options over 6,641,000 unissued shares under the Senior Executive Option Plan and Executive Share Option Scheme (2004: nil). Of these, 1,350,000 options were granted to directors and their director related entities (2004: nil).

During the year, 300,000 options issued to Directors were sold (2004: 1,800,000).

### Other Transactions with the Company or its Controlled Entities

A company within the Group contributed \$75,000 (2004: \$150,000) during the year to Paul Little Racing Pty Ltd for promotional and advertising arrangements. Paul Little Racing Pty Ltd, of which P Little is a director, was involved in motor racing within Australia.

In all matters outlined above, the terms and conditions of the transactions were no more favourable than those available, or which might reasonably be expected to be available on similar transactions to non-director related entities on an arms length basis.

### Wholly Owned Group

The wholly owned group consists of the Company and its wholly owned controlled entities as set out in note 27.

Transactions between the Company and related parties in the wholly owned group during the years 30 June 2005 and 30 June 2004 consisted of:

- (a) loans advanced by the Company;
- (b) loans repaid to the Company;
- (c) the payment of interest on the above loans;
- (d) the payment of dividends to the Company;
- (e) the payment of property rentals to the Company; and
- (f) the payment of head office overheads to the Company.

The above transactions were made on normal commercial terms and conditions and at market rates, except that there are no fixed terms for the repayment of principal on loans advanced by or to the Company.

Aggregate amounts included in the determination of profit from ordinary activities before income tax expense that resulted from transactions with related parties in the wholly owned group were as follows:

	THE COMPANY	
	2005 \$'000	2004 \$'000
Interest revenue	2,745	740
Rental revenue	220	1,012
Dividend revenue	90,000	52,000
Internal recharge	56,148	55,209
Distribution from Trust	5,805	4,572
Aggregate amounts receivable from related parties in the wholly owned group at balance date were as follows:		
Current receivables	63,421	244,189

### Ownership Interests in Related Parties

Interests held in related parties are set out in note 27.

### Superannuation Fund

Details of the Group's employee superannuation funds are set out in Note 25(a).

### Transactions with Associates

The Group has entered into contracts in relation to the supply of transport and logistics services with certain associates including Pacific National Pty Ltd and Tenix Toll Defence Logistics Pty Ltd. The terms and conditions of those transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arms length basis.

## 27. Particulars in Relation to Controlled Entities

NAME OF ENTITY	NOTE	CLASS OF SHARE	EQUITY HOLDING	
			2005 %	2004 %
<b>The Company</b>				
Toll Holdings Limited				
<b>Controlled Entities of Toll Holdings Limited</b>				
Toll Transport Pty Ltd	a,b	Ord	100	100
Toll Ports Pty Ltd	a,b	Ord	100	100
Freshmark Pty Limited	a,b	Ord	100	100
Toll Properties Pty Ltd	a,b	Ord	100	100
Toll North Pty Ltd	a,b	Ord	100	100
Toll North Pty Ltd	e	Pref	100	100
Toll IPEC Pty Ltd	a,b	Ord	100	100
Toll Technologies Pty Ltd	a,b	Ord	100	100
Toll (FHL) Pty Limited	a,b	Ord	100	100
Toll Projects Pty Ltd	a,b	Ord	100	100
Toll Rail Holdings Pty Ltd	a,b	Ord	100	100
Toll Finance Pty Ltd	a,b	Ord	100	100
Toll Stevedoring Pty Ltd	a,b	Ord	100	100
Toll Group (NZ) Limited	d,h	Ord	100	100
Toll Shipping (IOM) Limited	h,l	Ord	100	100
Eastern Basin Pty Ltd	a,b,o	Ord	50	50
Toll Fleet Equipment (Malaysia) Sdn Bhd	h,m	Ord	57	57
Toll Personnel Pty Ltd	b,h	Ord	100	–
Toll Property Fund Holdings Pty Ltd	b,h	Ord	100	–
<b>Controlled Entities of Toll Transport Pty Ltd</b>				
Toll Metro (NZ) Limited	d,h,i	Ord	100	100
Refrigerated Roadways Pty Ltd	a,b	Ord	100	100
Toll Logistics Australia Pty Ltd	a,b	Ord	100	100
Toll Energy Logistics Pty Ltd	a,b	Ord	100	100
GeelongPort Pty Ltd	b,h	Ord	100	100
GeelongPort Pty Ltd	f	Pref	100	100
<b>Controlled Entities of Toll North Pty Ltd</b>				
W&M Meats Transport Pty Ltd	a,b	Ord	100	100
R&H Transport Services Pty Ltd	a,b,g	Ord	100	50
Malleys Transport Pty Ltd	a,b	Ord	100	100
R&H Nominees Pty Ltd	a,b	Ord	100	100
Toll International Pty Ltd (formerly Tranz Link International Pty Ltd)	b,h,r	Ord	100	–
<b>Controlled Entities of Toll Technologies Pty Ltd</b>				
Movinghome.com.au Pty Ltd	a,b	Ord	100	100
Toll Technologies Investments Pty Ltd	a,b	Ord	100	100
Toll Relocations Pty Ltd	a,b	Ord	100	100

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

## 27. Particulars in Relation to Controlled Entities (continued)

NAME OF ENTITY	NOTE	CLASS OF SHARE	EQUITY HOLDING	
			2005 %	2004 %
<b>Controlled Entities of Toll Relocations Pty Ltd</b>				
International Corporate Relocations Pty Ltd	a,b	Ord	100	100
<b>Controlled Entities of Toll Ports Pty Ltd</b>				
Strang Stevedoring Australia WDW Pty Ltd	a,b	Ord	100	100
<b>Controlled Entities of Toll (FHL) Pty Limited</b>				
Toll Pty Ltd	a,b	Ord	100	100
C J Dean Transport Pty Limited	a,b	Ord	100	100
Toll Equipment (FFM) Pty Ltd	a,b	Ord	100	100
Toll (FGCT) Pty Ltd	a,b	Ord	100	100
Toll Holdings (Thailand) Limited	c,h	Ord	100	100
Resarta Pty Limited	b,h	Ord	100	100
Toll (Cowra) Pty Limited	a,b	Ord	100	100
Performance Leasing Pty Ltd	a,b	Ord	100	100
Autotrans Express (Aust) Pty Ltd	a,b	Ord	100	100
<b>Controlled Entities of Toll Holdings (Thailand) Limited</b>				
Toll Services (Thailand) Limited	c,h,k	Ord	51	51
Toll (Thailand) Limited	c,h,j	Ord	51	51
<b>Controlled Entities of Toll Group (NZ) Limited</b>				
Toll Finance (NZ) Limited	d,h	Ord	100	100
Toll Limited	d,h	Ord	100	100
Toll NZ Limited	d,h	Ord	84	84
Toll Ports NZ Limited	d,h	Ord	100	–
<b>Controlled Entities of Toll Limited</b>				
Toll Logistics (NZ) Limited	d,h,p	Ord	–	100
Toll Logistics (CL) Limited	d,h	Ord	100	75
Leonard and Dingley Ltd	d,h,p	Ord	–	100
Toll Networks (NZ) Limited	d,h	Ord	100	–
<b>Controlled Entities of R&amp;H Transport Services Pty Ltd</b>				
Artmill Distributors Pty Ltd	a,b	Ord	100	100
<b>Controlled Entities of Toll Logistics (CL) Limited</b>				
J D Lyons & Co. Limited	d,h	Ord	100	–
<b>Controlled Entities of Leonard and Dingley Ltd</b>				
Cruise Line Services Ltd	d,h,p	Ord	–	100
Allied Personnel Services Ltd	d,h,p	Ord	–	100
<b>Controlled Entities of Toll NZ Limited</b>				
Toll NZ Consolidated Ltd	d,h	Ord	100	100
Toll (TR) Finance Ltd	d,h	Ord	100	100

## 27. Particulars in Relation to Controlled Entities (continued)

NAME OF ENTITY	NOTE	CLASS OF SHARE	EQUITY HOLDING	
			2005 %	2004 %
<b>Controlled Entities of Toll NZ Consolidated Limited</b>				
Tranz National Ltd	d,h	Ord	100	100
Tranz Metro Ltd	d,h	Ord	100	100
Tranz Metro Auckland Ltd	d,h,q	Ord	–	100
Tranz Link Ltd	d,h	Ord	100	100
The National Stadium Ltd	d,h,q	Ord	–	100
Passenger Rail Ltd	d,h,q	Ord	–	100
New Zealand Rail Ltd	d,h,q	Ord	–	100
Coastliner Ltd	d,h,q	Ord	–	100
Clifford Bay Ltd	d,h	Ord	100	100
Tranz Scenic 2001 Ltd	d,h,q	Ord	–	100
Tranz Rail Receivables Ltd	d,h,q	Ord	–	100
On Track Collections Ltd	d,h,q	Ord	–	100
Tranz Rail Pty Ltd	b,h	Ord	100	–
Tranz Rail Holdings Pty Ltd	b,h	Ord	100	–
NZ National Freight BV	n,h	Ord	100	–
<b>Controlled Entities of Passenger Rail Ltd</b>				
Tranz Link Distribution Ltd	d,h,q	Ord	–	100
Tranz Link Refrigerated Ltd	d,h,q	Ord	–	100
Tranz Link International Ltd	d,h,q	Ord	–	100
ATN Australia Ltd	d,h,q	Ord	–	100
Tranz Rail Pty Ltd	b,h	Ord	–	100
Tranz Rail Holdings Pty Ltd	b,h	Ord	–	100
<b>Controlled Entities of Tranz Link International Ltd</b>				
Tranz Link International Pty Ltd	b,h,r	Ord	–	100
<b>Controlled Entities of ATN Australia Ltd</b>				
NZ National Freight BV	n,h	Ord	–	100

(a) Entities have entered into a Deed of Cross Guarantee with Toll Holdings Ltd in respect of relief granted from specific accounting and financial reporting requirements in accordance with a class order executed by the ASIC on 13 August 1998

(b) Incorporated in Australia

(c) Incorporated in Thailand

(d) Incorporated in New Zealand

(e) Non-cumulative redeemable preference shares

(f) Non-cumulative preference shares

(g) Shareholding actually 50.001% and balance held by R&H Nominees Pty Ltd

(h) Not included in Deed of Cross Guarantee

(i) Entity deregistered during the year

(j) Remaining 49% owned by Toll Holdings Limited

(k) Remaining 49% owned by Toll (FHL) Pty Limited

(l) Incorporated in Isle of Man

(m) Incorporated in Malaysia

(n) Incorporated in Netherlands

(o) Remaining 50% owned by R&H Transport Services Pty Ltd

(p) Entity divested during the year

(q) Entity amalgamated into Toll NZ Consolidated Limited during the year

(r) Entity transferred from Tranz Link International Ltd to Toll North Pty Ltd during the year

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

## 28. Investments Accounted for using the Equity Method

Share of net profits accounted for using the equity method included in the statement of financial performance

	CONSOLIDATED		THE COMPANY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
– Pacific National	51,534	41,740	–	–
– Other Associates	2,628	3,368	–	–
Total	54,162	45,108	–	–

### (a) Investments in associates

Details of investments in associates are as follows:

NAME	ORDINARY SHARE OWNERSHIP INTEREST		INVESTMENT CARRYING VALUE			
	CONSOLIDATED & THE COMPANY		CONSOLIDATED		THE COMPANY	
	2005 %	2004 %	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
PrixCar Services Pty Ltd (Pre-dealer motor vehicle preparation)	33 Ord Class	33 Ord Class	6,718	6,441	–	–
Minto Properties Pty Ltd (Property Owner)	100 Ord 'B' Class	100 Ord 'B' Class	11,550	10,664	–	–
SeaHighway Pty Ltd (Property Owner)	100 Ord 'B' Class	100 Ord 'B' Class	3,336	3,717	–	–
Pacific National Pty Ltd (Rail Operator)	50	50	424,452	371,847	–	–
Albany Bulk Handling Pty Ltd (Bulk Handling)	50	50	2,111	1,779	1,890	1,890
Fremantle Link Services Pty Ltd (Land Bridging activities)	50	50	729	391	–	–
Tenix Toll Defence Logistics Pty Ltd (Logistics provider to Defence Dept)	50 Ord Class	50 Ord Class	–	–	–	–
Auckland Stevedoring Co Ltd (Stevedoring activities)	–	50	–	3,643	–	–
Zari Haulage Sdn Bhd (Malaysian Logistics provider)	45	45	–	(108)	86	86
W.A. Grain Stevedores (Stevedoring activities)	50	–	50	–	–	–
Toll Owens Ltd (Stevedoring activities)	50	–	617	–	–	–
Metrobox Auckland Ltd (Container Service and Repair)	50	–	523	–	–	–
			450,086	398,374	1,976	1,976

(i) Balance date for all associated companies is 30 June 2005.

(ii) The Group held 50% of Minto Properties Pty Ltd and SeaHighway Pty Ltd.

Dividends received from associates for the year ended 30 June 2005 by the Group amounted to \$1,780,295. (2004: \$210,000)

## 28. Investments Accounted for using the Equity Method (continued)

	CONSOLIDATED	
	2005	2004
	\$'000	\$'000
<b>Results of associates</b>		
Share of associates' profit from ordinary activities before income tax	75,104	49,018
Share of associates income tax attributable to profit from ordinary activities	(21,942)	(4,910)
Share of associates net profit	53,162	44,108
Adjustments	1,000	1,000
Share of associates net profit accounted for using the equity method	54,162	45,108
<b>Share of Post-acquisition Retained Profits and Reserves Attributable to Associates</b>		
Retained profits		
Share of associates retained profits at beginning of year	81,406	37,508
Share of associates net profits	53,162	44,108
Dividends from associates	(1,780)	(210)
Share of associates retained profits at end of year	132,788	81,406
<b>Movements in Carrying Amount of Investments</b>		
Carrying amount of investments in associates at the beginning of the financial year	398,374	349,733
Investments in associates acquired during the year	682	3,391
Investments in associates disposed of during the year	(3,473)	–
Adjustments to carrying value	2,121	352
Share of associates net profit accounted for using the equity method	54,162	45,108
Dividends received from associates	(1,780)	(210)
Carrying amount of investments in associates at end of year	450,086	398,374
<b>Commitments</b>		
<b>Share of associates operating lease commitments payable:</b>		
Within one year	15,017	11,026
One year or later and no later than five years	29,449	24,493
Later than five years	25,724	19,520
	70,190	55,039
<b>Share of associates maintenance expenditure commitments payable:</b>		
Within one year	33,296	22,415
One year or later and no later than five years	126,719	87,050
Later than five years	51,062	82,237
	211,077	191,702
<b>Share of associates capital expenditure commitments payable</b>		
Within one year	46,487	41,161
One year or later and no later than five years	30,454	29,526
	76,941	70,687

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

## 28. Investments Accounted for using the Equity Method (continued)

	CONSOLIDATED	
	2005 \$'000	2004 \$'000
<b>Contingent Liabilities</b>		
<b>Share of associates contingent liabilities</b>		
(i) Guaranteed bank facilities	98,296	152,273
(ii) An associate, Pacific National, has defined benefit superannuation schemes, which are underfunded. In accordance with the various Trust Deeds, Pacific National has no legal obligation to immediately bring the funds back to a fully funded position. Accordingly, as Pacific National has no legal or constructive obligation in respect of the deficits, the net deficit of \$14.3 million is not reflected in the statement of financial position as at 30 June 2005. Pacific National shall contribute to the funds in line with actuarial recommendations.		
<b>Summary Financial Position of Associates</b>		
The Group's share of aggregate assets and liabilities of associates is as follows:		
Current assets	173,293	111,470
Non-current assets	939,140	657,426
<b>Total assets</b>	<b>1,112,433</b>	<b>768,896</b>
Current liabilities	158,572	91,295
Non-current liabilities	488,110	272,891
<b>Total liabilities</b>	<b>646,682</b>	<b>364,186</b>
Net assets – as reported by associates	465,751	404,710
Adjustments arising from equity accounting	(15,665)	(6,336)
<b>Net assets – equity adjusted</b>	<b>450,086</b>	<b>398,374</b>

### Financial Information of Pacific National

Included in the consolidated financial report is the equity accounted net profit after tax of Pacific National, the Group's 50% owned entity with Patrick Corporation Limited.

As at the date of this report, the Pacific National financial information reflected in the Group's consolidated financial report has not been adopted by the Pacific National Board as a result of a number of matters raised by directors representing Patrick Corporation Limited at the Pacific National audit committee proceedings held on 20 September 2005. Those matters had not been previously raised by the directors representing Patrick Corporation Limited.

A key matter raised by the directors representing Patrick Corporation Limited relates to the carrying value of Pacific National's investment in Freight Australia which was acquired in September 2004. The Group has reviewed the assumptions underlying the acquisition of the investment, which was agreed to by all Pacific National directors, and considers that since acquisition there have been no changes in circumstances that would indicate a diminution in value and accordingly no impairment adjustment is required at this time.

The Group has assessed the other matters raised at the audit committee meeting, including the potential closure of certain operations, to be immaterial to the Group's consolidated financial report.

Given the matters raised are unlikely to be resolved before the Company is required to report to its shareholders, the directors of the Company have made an assessment of the impact that the outstanding items are likely to have on the Group's financial report. Based on an analysis of the matters raised and the Pacific National balances that the Group has equity accounted, the directors have satisfied themselves that the Group financial report is not materially misstated.

## 29. Deed of Cross Guarantee

Pursuant to an ASIC Class Order 98/1418 dated 13 August, 1998, relief was granted to the wholly owned subsidiaries listed below from the Corporations Act 2001 requirements for preparation, audit and lodgement of financial reports and Directors Reports.

It is a condition of the Class Order that the Company and each of these controlled entities enter into a Deed of Cross Guarantee. The effect of the Deed is that the Company guarantees to each creditor payment in full of any debt in the event of winding up of any of the controlled entities under certain provisions of the Corporations Act 2001. If a winding up occurs under the provisions of the Act, the Company will be liable in the event that after six months any creditor has not been paid in full. These controlled entities have also given similar guarantees in the event that the Company is wound up.

The controlled entities subject to the Deed are:

CONTROLLED ENTITY	DATE RELIEF GRANTED
Toll Transport Pty Ltd	11 June 1993
Toll Ports Pty Ltd	11 June 1993
Freshmark Pty Limited	29 June 1994
Toll Properties Pty Ltd	21 December 1994
Refrigerated Roadways Pty Ltd	15 June 1998
Toll Logistics Australia Pty Ltd	15 June 1998
Toll Energy Logistics Pty Ltd	15 June 1998
Toll North Pty Ltd	15 June 1998
W&M Meats Transport Pty Ltd	15 June 1998
Toll IPEC Pty Ltd	26 October 1999
Malleys Transport Pty Ltd	16 February 2000
Toll Technologies Pty Ltd	5 June 2000
C J Dean Transport Pty Ltd	5 June 2001
Toll (FHL) Pty Limited (formerly Finemore Holdings Limited)	5 June 2001
Toll (Cowra) Pty Ltd (formerly Finemores Cowra Pty Limited)	5 June 2001
Toll Equipment (FFM) Pty Ltd (formerly Finemores Fleet Management Pty Limited)	5 June 2001
Toll (FGCT) Pty Ltd (formerly Finemores GCT Pty Limited)	5 June 2001
Toll Pty Ltd (formerly Finemores Pty Ltd)	5 June 2001
Performance Leasing Pty Limited	5 June 2001
Strang Stevedoring Australia WDW Pty Ltd	12 June 2001
Toll Relocations Pty Ltd	12 June 2001
Toll Technologies Investments Pty Ltd	12 June 2001
Autotrans Express (Aust) Pty Ltd	29 October 2001
Movinghome.com.au Pty Ltd	27 November 2001
Toll Rail Holdings Pty Ltd	25 February 2002
International Corporate Relocations Pty Ltd	4 June 2002
Toll Finance Pty Ltd	4 June 2002
Toll Projects Pty Ltd	4 June 2002
Toll Stevedoring Pty Ltd	4 June 2002
R&H Nominees Pty Ltd	28 April 2004
R&H Transport Services Pty Ltd	28 April 2004
Artmill Distributors Pty Ltd	28 April 2004
Eastern Basin Pty Ltd	28 April 2004

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

## 29. Deed of Cross Guarantee (continued)

A consolidated statement of financial performance and consolidated statement of financial position, comprising the Company and subsidiaries which are a party to the Deed, after eliminating all transactions between parties to the Deed of Cross Guarantee, at 30 June 2005 is set out below.

	CONSOLIDATED	
	2005 \$'000	2004 \$'000
<b>Statement of Financial Performance</b>		
Profit from ordinary activities before income tax	191,761	161,944
Income tax expense relating to ordinary activities	31,635	39,472
<b>Profit from ordinary activities after income tax</b>	<b>160,126</b>	<b>122,472</b>
Retained profits at the beginning of the financial year	273,705	210,834
Dividends provided for or paid	89,990	59,601
Retained profits at the end of the financial year	343,841	273,705
<b>Statement of Financial Position</b>		
Cash assets	91,801	78,367
Receivables	346,248	306,480
Inventories	6,615	12,201
Other	19,639	26,697
<b>Total Current Assets</b>	<b>464,303</b>	<b>423,745</b>
Receivables	27,862	13,854
Investments accounted for using the equity method	449,050	394,736
Other financial assets	543,346	300,118
Property, plant and equipment	505,840	474,621
Intangible assets	89,956	99,831
Deferred tax assets	44,670	22,528
Other	4,800	6,000
<b>Total Non-current Assets</b>	<b>1,665,524</b>	<b>1,311,688</b>
<b>Total Assets</b>	<b>2,129,827</b>	<b>1,735,433</b>
Payables	254,438	208,453
Interest bearing liabilities	30,279	2,788
Current tax liabilities	36,483	24,166
Provisions	153,818	152,111
<b>Total Current Liabilities</b>	<b>475,018</b>	<b>387,518</b>
Interest bearing liabilities	425,220	293,548
Deferred tax liabilities	26,067	21,530
Provisions	51,726	37,122
<b>Total Non-current Liabilities</b>	<b>503,013</b>	<b>352,200</b>
<b>Total Liabilities</b>	<b>978,031</b>	<b>739,718</b>
<b>Net Assets</b>	<b>1,151,796</b>	<b>995,715</b>
Contributed equity	807,955	722,010
Reserves	–	–
Retained profits	343,841	273,705
<b>Total Equity</b>	<b>1,151,796</b>	<b>995,715</b>

### 30. Segment Information

The Group comprises the following main business segments, based on the Group's management reporting system.

BUSINESS SEGMENTS	NETWORKS		TOLL NORTH		LOGISTICS		TOLL NZ		ELIMINATIONS		CONSOLIDATED	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>Revenue</b>												
Operating segment revenue	1,365,750	1,246,838	638,777	540,058	1,167,779	1,069,871	626,057	415,162	–	–	3,798,363	3,271,929
Other segment revenue	26,574	24,737	16,279	4,726	34,041	9,230	1,857	375	–	–	78,751	39,068
Inter segment revenue	187,239	120,114	32,905	30,673	8,298	21,669	–	–	(228,442)	(172,456)	–	–
<b>Total Segment Revenue</b>	<b>1,579,563</b>	<b>1,391,689</b>	<b>687,961</b>	<b>575,457</b>	<b>1,210,118</b>	<b>1,100,770</b>	<b>627,914</b>	<b>415,537</b>	<b>(228,442)</b>	<b>(172,456)</b>	<b>3,877,114</b>	<b>3,310,997</b>
Unallocated Interest and Dividend Revenue											6,351	3,001
<b>Total Revenue</b>											<b>3,883,465</b>	<b>3,313,998</b>
<b>Result</b>												
<b>Segment Result</b>	<b>82,113</b>	<b>63,487</b>	<b>28,643</b>	<b>27,598</b>	<b>68,766</b>	<b>60,800</b>	<b>59,609</b>	<b>41,570</b>	<b>–</b>	<b>–</b>	<b>239,131</b>	<b>193,455</b>
Share of net profit of equity accounted investment – Pacific National											51,534	41,740
Unallocated Net Interest Expense											(23,778)	(23,080)
<b>Profit from ordinary activities before income tax expense (pre significant items)</b>											<b>266,887</b>	<b>212,115</b>
Income tax expense (pre significant items)											(44,098)	(38,684)
Individually significant items after tax											673	–
<b>Profit from ordinary activities after income tax expense</b>											<b>223,462</b>	<b>173,431</b>
Depreciation and amortisation	40,209	44,070	14,022	10,058	37,835	30,133	45,068	30,198			137,134	114,459
Non-cash expense other than depreciation and amortisation	5,576	4,443	708	6,357	393	(917)	16,040	11,055			22,717	20,938

Of the total share of equity accounted investments of \$54.2 million (2004: \$45.1 million), \$2.7 million (2004: \$3.4 million) has been reallocated to business segments, leaving \$51.5 million (2004: \$41.7 million) unallocated.

BUSINESS SEGMENTS	NETWORKS		TOLL NORTH		LOGISTICS		TOLL NZ		ELIMINATIONS		CONSOLIDATED	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<b>Assets</b>												
Segment assets	491,990	415,168	167,609	126,617	343,252	334,821	645,342	658,861	–	–	1,648,193	1,535,467
Equity accounted investments											450,086	398,374
Unallocated corporate assets											383,974	241,028
<b>Consolidated Total Assets</b>											<b>2,482,253</b>	<b>2,174,869</b>
<b>Liabilities</b>												
Segment liabilities	214,892	179,201	72,540	54,487	137,349	126,890	365,971	317,290	–	–	790,752	677,868
Unallocated corporate liabilities											379,341	402,621
<b>Consolidated Total Liabilities</b>											<b>1,170,093</b>	<b>1,080,489</b>
Acquisition of non-current assets	62,508	67,709	28,477	13,959	80,774	57,130	62,632	24,726			234,391	163,524

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

## 30. Segment Information (continued)

### Geographical Segments

	AUSTRALIA	NEW ZEALAND	OTHER	CONSOLIDATED
	\$'000	\$'000	\$'000	\$'000
<b>Geographical Segments – 2005</b>				
External revenue by location	3,170,395	686,820	19,899	3,877,114
Segment assets by location of assets	1,752,538	719,262	10,453	2,482,253
Acquisition of non-current assets	170,911	62,858	622	234,391
<b>Geographical Segments – 2004</b>				
External revenue by location	2,828,253	461,940	20,804	3,310,997
Segment assets by location of assets	1,442,514	718,820	13,535	2,174,869
Acquisition of non-current assets	136,333	25,364	1,827	163,524

The consolidated entity operates in the following geographical segments:

- Australia – home country of the parent entity, with operations in all major areas of the transport and logistics sector.
- New Zealand – comprises operations in all major areas of the transport and logistics sector.
- Other – comprises mainly transport and logistics activities in Thailand and Malaysia in the oil, gas and automotive sectors.

#### *Business segments*

The Group comprises the following main business segments, based on management reporting systems:

- Networks – Longhaul forwarding and express services by road, rail, sea and air.
- Toll North – Provider of time-certain distribution between major cities and regional centres of Queensland and Northern Territory.
- Logistics – Provider of industry focussed supply chain solutions.
- Toll NZ – Provider of integrated road, rail and sea services in New Zealand.

Inter-segment pricing is determined on an arms length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

### 31. Notes to the Statement of Cash Flows

#### (a) Reconciliation of cash

For the purposes of the Statements of Cash Flows, cash includes cash on hand and at bank and short term deposits at call, net of outstanding bank overdrafts. Cash as at the end of the financial year as shown in the Statements of Cash Flows:

	CONSOLIDATED		THE COMPANY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Cash at bank and on hand	151,476	102,389	136	507

#### (b) Reconciliation of profit from ordinary activities after income tax to net cash provided by operating activities

	CONSOLIDATED		THE COMPANY	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
Profit from ordinary activities after income tax	223,462	173,431	97,009	54,453
Share of associates' net profit	(54,162)	(45,108)	–	–
Dividends received from associates	1,780	210	–	–
(Profit)/loss on sale – other	(3,243)	2,983	(2,548)	3,761
Add/(Less) non-cash items:				
Depreciation and Amortisation	126,194	102,355	6,130	3,264
Amortisation of goodwill	10,940	12,104	–	–
Amortisation of deferred gain	(5,872)	(5,477)	–	–
Provision for doubtful trade debtors	679	1,063	87	–
Write down of investments	–	1,039	–	110
Unrealised foreign exchange (gain)/loss	489	(944)	–	–
Net cash inflow from operating activities before changes in assets and liabilities	300,267	241,656	100,678	61,588
Changes in assets and liabilities adjusted for effects of purchase and disposal of controlled entities during the financial year:				
(Increase)/decrease in trade debtors	28,829	(34,879)	(7,490)	4,494
(Increase)/decrease in other debtors	(39,731)	(21,083)	4,286	(11,211)
(Increase)/decrease in inventory	(1,847)	(1,381)	33	(33)
(Increase)/decrease in prepayments	12,205	(607)	198	249,577
Increase/(decrease) in trade creditors	(25,958)	18,200	1,963	(23)
Increase/(decrease) in other creditors	26,539	(8,783)	(1,499)	28,721
Increase/(decrease) in provision for employee entitlements	17,594	5,419	670	(1,101)
(Increase)/decrease in loans to controlled entities	–	–	(48,846)	(279,023)
Increase/(decrease) in income taxes payable	17,215	7,863	16,152	20,737
(Increase)/decrease in future income tax benefit	(21,631)	4,144	(8,939)	(32,187)
Increase/(decrease) in provision for deferred income tax	4,642	(1,421)	513	25,733
Net cash inflow/(outflow) from operating activities	318,124	209,128	57,719	67,272

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

## 31. Notes to the Statement of Cash Flows (continued)

### (c) Financing facilities

Note 16 discloses details of financing arrangements.

### (d) Acquisition/disposal of controlled entities

The following controlled entities were acquired or disposed of during the financial year:

#### *Acquisition of entities*

#### 2005

(i) During the financial year the consolidated entity purchased 100% of the share capital of J.D. Lyons & Co. Limited, a company incorporated in New Zealand. Details of the acquisition are as follows:

	\$'000
Consideration	5,042
Cash acquired	(219)
Outflow of cash	4,823
<b>Fair value of net assets of entity acquired:</b>	
Property, plant & equipment	3,344
Trade receivables	2,388
Prepayments	142
Other assets	77
Trade creditors	(1,160)
Provision for employee entitlements	(200)
Other provisions	(584)
	4,007
Goodwill on acquisition	816
Consideration (cash)	4,823

J.D. Lyons & Co. Limited was acquired on 1 March 2005 and the operating results of the entity from that date have been included in consolidated operating profit. The entity provides linehaul and warehousing services within New Zealand.

### 31. Notes to the Statement of Cash Flows (continued)

#### (d) Acquisition/disposal of controlled entities (continued)

2004

(i) During the financial year the consolidated entity purchased 64.2% of Tranz Rail Holdings Limited and its controlled entities, a company incorporated in New Zealand. A 20% shareholding of Tranz Rail Holdings Limited was held at 30 June 2003. Details of the acquisition are as follows:

	\$'000
Consideration	164,505
Cash acquired	(8,762)
Outflow of cash	155,743
<b>Fair value of net assets of entity acquired:</b>	
Property, plant & equipment	476,122
Trade receivables	108,850
Future income tax benefit	374
Inventories	4,302
Prepayments	4,054
Other assets	6,623
Trade creditors	(86,998)
Other creditors	(27,737)
Provision for employee entitlements	(21,034)
Provision for restructuring	(25,995)
Other provisions	(24,210)
Term loans	(227,024)
	187,327
Minority interest in above net assets acquired	(31,584)
Consideration (cash)	155,743

Control of Tranz Rail Holdings Limited was gained on 10 October 2003.

A restructuring provision of \$26 million was established for restructuring the operations of the business, involving the rationalisation of employee numbers. A balance of \$10.2 million remains in the provision at 30 June 2005.

(ii) During the financial year the consolidated entity purchased Leonard & Dingley Ltd and its controlled entities. Details of the acquisition are as follows:

	\$'000
Consideration	6,241
Cash acquired	(721)
Outflow of cash	5,520
<b>Fair value of net assets of entity acquired:</b>	
Trade receivables	786
Property, plant & equipment	762
Future income tax benefit	215
Prepayments	43
Investment	3,306
Trade creditors	(453)
Provision for employee entitlements	(270)
Other provisions	(180)
	4,209
Goodwill on acquisition	1,311
Consideration (cash)	5,520

Leonard & Dingley Ltd and its controlled entities were acquired on 5 January 2004.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

## 31. Notes to the Statement of Cash Flows (continued)

### (d) Acquisition/disposal of controlled entities (continued)

Disposal of entities

#### 2005

(i) During the financial year, the consolidated entity disposed of all of the ordinary shares of Toll Logistics (NZ) Limited, Leonard and Dingley Limited, Allied Personnel Services Limited and Cruise Line Services Limited effective 14 December 2004. The operating results to that date have been included in consolidated operating profit. As consideration for the disposal of the above entities, the consolidated entity received shares in Toll Owens Limited. Toll Owens Limited is an associate entity owned by the Group (50%) and the Port of Tauranga Limited (50%) which operates an integrated stevedoring service throughout New Zealand. Details of the disposals are as follows (in aggregate):

	\$'000
Consideration (cash)	–
Shares in associate entity	9,472
Total consideration	9,472
Carrying amount of assets on disposal	9,472
Profit/(loss) on disposal	–
<b>Net assets of entities disposed of:</b>	
Cash	1,494
Trade receivables	2,716
Property, plant & equipment	2,160
Investment in associate entity	3,473
Deferred tax asset	771
Intangibles	1,263
Other assets	172
Trade Creditors	(152)
Other creditors and accruals	(1,207)
Provision for employee entitlements	(1,007)
Provision for income tax	109
Other provisions	(320)
	9,472

### (e) Non-cash financing and investment activities

(i) 2,147,592 shares (2004: 1,762,884) with an aggregate value of \$25.3 million (2004: \$14.3 million) were issued in accordance with the Dividend Reinvestment Plan in lieu of remitting cash dividends.

(ii) A final prior year dividend of 12.0 cents per share and an interim current year dividend of 11.0 cents per share were utilised to reduce employee loans in accordance with the Employee Share Ownership Plan. Employee loans were reduced as a result by \$262,000 (2004: \$141,000).

The above non-cash activities are not reflected in the Statements of Cash Flows.

### 32. Earnings per Share

#### Classification of securities as potential ordinary shares

The following securities have been classified as potential ordinary shares and included in diluted earnings per share only:

- (a) options outstanding under the Executive Share Option Plan
- (b) Reset Preference Shares

	CONSOLIDATED	
	2005 \$'000	2004 \$'000
<b>Earnings Reconciliation</b>		
Net profit	223,462	173,431
Net profit attributable to outside equity interests	(6,908)	(4,792)
Reset Preference Share Dividend	(15,500)	(7,708)
Basic earnings	201,054	160,931
Reset Preference Share Dividend	N/A	7,708
<b>Diluted earnings</b>	<b>201,054</b>	<b>168,639</b>
<b>Weighted average number of shares used as the denominator</b>		
<b>Number for basic earnings per share</b>	'000	'000
Ordinary shares	325,067	316,684
Effect of executive share options on issue	3,197	3,419
Effect of Reset Preference Shares	N/A	16,591
<b>Number for diluted earnings per share</b>	<b>328,264</b>	<b>336,694</b>

During the course of the year 3,963,800 (2004: 5,720,000) options were converted to ordinary shares. The diluted EPS calculation includes that portion of these options assumed to be issued for nil consideration, weighted with reference to the date of conversion. The weighted average number is 1,159,993 (2004: 1,260,439).

### 33. Events Subsequent to Balance Date

#### Takeover Offer

On 22 August 2005, the Group announced a proposed takeover offer for Patrick Corporation Limited. The Group currently owns approximately 4.3% of Patrick Corporation Limited stock for an investment of approximately \$170 million. The takeover offer comprises 0.4 Toll Holdings Limited ordinary shares plus \$0.75 cash plus an in specie fully franked special dividend from Patrick Corporation Limited of 0.3 Virgin Blue shares for each Patrick Corporation Limited share. On the basis of 100% acceptance of the offer, the Group will issue approximately 305 million new shares and pay approximately \$571 million in cash.

#### Dividends

A final dividend of 15.5 cents per share has been declared by the directors.

#### International Financial Reporting Standards

For reporting periods beginning on or after 1 January 2005 the consolidated entity must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board. The implementation plan and potential impact of adopting AIFRS are detailed in Note 34.

Other than the items noted above there has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Group, the results of these operations, or the state of affairs of the Group, in future financial years.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

## 34. Impacts of adopting Australian equivalents to International Financial Reporting Standards (AIFRS)

For reporting periods beginning on or after 1 January 2005, the consolidated entity must comply with Australian equivalents to International Financial Reporting Standards (AIFRS) as issued by the Australian Accounting Standards Board.

### Transition Management

Toll Holdings Limited has established a formal implementation project, monitored by a steering committee, to assess the impact of transition to AIFRS and to achieve compliance with AIFRS reporting for the financial year commencing 1 July 2005.

The project is achieving its scheduled milestones and the consolidated entity is expected to be in a position to fully comply with the requirements of AIFRS for the year ending 30 June 2006. The assessment and planning and the design phases are completed as at 30 June 2005. The implementation phase is substantially complete as at 30 June 2005.

### Impact of Transition to AIFRS

The impact of transition to AIFRS, including the transitional adjustments disclosed in the reconciliation from current AGAAP to AIFRS, and the selection and application of AIFRS accounting policies, are based on AIFRS standards that management expect to be in place, or where applicable, early adopted, when preparing the first complete AIFRS financial report (being the half-year ending 31 December 2005). Only a complete set of financial statements and notes together with comparative balances can provide a true and fair presentation of the Company's and consolidated entity's financial position, results of operations and cash flows in accordance with AIFRS. This note provides only a summary; therefore, further disclosure and explanations will be required in the first complete AIFRS financial report for a true and fair view to be presented under AIFRS.

There is a significant amount of judgement involved in the preparation of the reconciliation from current AGAAP to AIFRS, consequently the final reconciliations presented in the first financial report prepared in accordance with AIFRS may vary materially from the reconciliations provided in this Note.

Revisions to the selection and application of the AIFRS accounting policies may be required as a result of:

- Changes in financial reporting requirements that are relevant to the Company's and consolidated entity's first complete AIFRS financial report arising from new or revised accounting standards or interpretations issued by the Australian Accounting Standards Board subsequent to the preparation of the financial report for 30 June 2005.
- Additional guidance on the application of AIFRS in a particular industry or to a particular transaction.
- Changes to the Company's and consolidated entity's operations.

Where the application or interpretation of the accounting standard is currently being debated, the accounting policy adopted reflects management's current assessment of the likely outcome of these deliberations. The uncertainty relating to the accounting interpretation is also disclosed.

The rules for first time adoption of AIFRS are set out in AASB 1 First – time adoption of Australian Equivalents to International Financial Reporting Standards. In general, AIFRS accounting policies must be applied retrospectively to determine the opening AIFRS balance sheet as at transition date, being 1 July 2004. The Standard allows a number of exemptions to this general principle to assist in the transition to reporting under AIFRS.

The significant changes in accounting policies expected to be adopted in preparing the AIFRS reconciliations and the elections expected to be made under AASB 1 are set out below.

### (a) Reclassifications

#### (i) Interest bearing liabilities

In order to reduce interest charges, the Group enters into various commercial bill acceptance facilities for periods under 12 months and regularly extends these for short terms at expiry. Under current AGAAP, these are classified as non-current as it is the Group's intention to refinance or reschedule payments.

Under AIFRS, a debt payable is treated as current if it is not contractually payable beyond 12 months from reporting date or if the term is less than 12 months and the entity does not have the absolute discretion to refinance or roll over the debts.

The Group, even though it does not have the absolute discretion, has historically been successful in rolling these debts for additional short terms. For the consolidated entity this is expected to result in \$253.0 million as at 1 July 2004 and \$185.7 million as at 30 June 2005 being reclassified from non-current interest bearing securities to current interest bearing securities. No reclassification is expected for the Company.

#### (ii) Equity/Treasury Shares

In 1999, the Group introduced an employee share ownership plan (ESOP). This plan allows non-recourse, interest free loans to be provided to all employees as the Board may from time to time make offers to employees to acquire shares under the plan.

The shares are acquired in the name of the employee and each employee authorises and appoints the Secretary of the Company to act on their behalf. Any dividends paid on the shares by Toll Holdings Limited are used to repay the loan. If the employee leaves the employment of the Group, the loan balance must be repaid in full or the shares will be sold and the proceeds applied to settle the loan balance. As at 1 July 2004, \$1.3 million being the amount due on these shares is classified within Equity as Treasury Shares, whilst as at 30 June 2005 the balance is \$10.9 million for both the consolidated entity and the Company.

#### (iii) Non-Current Assets held for resale

Non-current assets classified as held for sale will be presented separately from other assets on the balance sheet. A non-current asset (or disposal group) is classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than

through continuing use, the asset (or disposal group) is available for immediate sale in its current condition, and its sale is highly probable.

For the consolidated entity this is expected to result in \$24.5 million being reclassified from property, plant and equipment at 30 June 2005 and \$nil for 1 July 2004. No reclassification is expected for the Company.

**(iv) Borrowing Costs**

Borrowing costs for the year ended 30 June 2005 have been increased by \$4.2 million with a corresponding decrease in expenses from ordinary activities representing the unwinding of the time value of money of discounted provisions. There is no change in the borrowing costs for the Company.

**(b) Property, plant and equipment.**

Property, plant and equipment will be measured at cost under AIFRS.

Software assets will be reclassified from property, plant and equipment to intangible assets on transition to AIFRS. This is expected to result in a reclassification of \$29.4 million in the consolidated entity as at 1 July 2004 and \$35.5 million as at 30 June 2005. No reclassification is expected for the Company.

The Right of Way asset will also be reclassified from property, plant and equipment to intangible assets. This is expected to result in a reclassification of \$54.4 million in the consolidated entity as at 1 July 2004 and \$53.9 million as at 30 June 2005. No reclassification is expected for the Company.

Under AIFRS, the gain or loss on the disposal of property, plant and equipment will be recognised on a net basis as a gain or loss rather than separately recognising the consideration received as revenue. For the consolidated entity and the Company, amounts of \$73.9 million and \$12.2 million respectively are expected to be reclassified from revenue to expenses for the financial year ended 30 June 2005.

**(c) Business combinations**

As permitted by the election available under AASB 1, the classification and treatment of business combinations that occurred prior to transition date have not been restated in preparing the AIFRS balance sheet.

Business combinations that occurred on or after 1 July 2004 will be restated to comply with AIFRS. No adjustments are expected for the Group.

Goodwill represents the difference between the cost of a business combination over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired.

In respect of acquisitions prior to transition date, goodwill is expected to be included on the basis of its deemed cost, which represents the amount recorded under AGAAP, adjusted for reclassification of other intangible assets not meeting the AIFRS recognition criteria. No reclassifications are expected.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill will be allocated to cash generating units and tested annually for impairment.

Negative goodwill arising on acquisition will be recognised directly in profit and loss unless it is deemed to be a transaction with owners. Under current AGAAP, negative goodwill is allocated to the non-monetary assets acquired. As business combinations have not been restated there is no expected impact of this change in treatment on transition.

**(d) Amortisation of Intangibles**

Amortisation will be recognised on a straight-line basis over the estimated useful lives of the intangible assets, unless such lives are indefinite. Goodwill and intangible assets with an indefinite life will not be subject to amortisation but tested for impairment annually. Other intangible assets will be amortised from the date they are available for use. Changes in useful life on transition to AIFRS will be accounted for prospectively.

The estimated useful lives as at 1 July 2004 are expected to be as follows:

	AIFRS	Current AGAAP
Capitalised software	3 – 5 years	3 – 5 years
Goodwill	Indefinite	5 – 20 years
Right of Way	66 years	66 years

The impact on the profit for the year ended 30 June 2005 is expected to be an increase of \$10.9 million from the reversal of the goodwill amortisation for the consolidated entity. There is no impact on the profit for the Company.

**(e) Impairment**

Under current AGAAP the carrying amounts of non-current assets valued on a cost basis are reviewed at reporting date to determine whether they are in excess of their recoverable amount. If the carrying amount of a non-current asset exceeds its recoverable amount the asset is written down to the lower amount, with the write-down recognised in the income statement in the period in which it occurs. In assessing recoverable amounts, the relevant cash flows have not been discounted to their present value.

Under AIFRS, the carrying amount of the consolidated entity's non-current assets, deferred tax assets, goodwill and indefinite life intangible assets will be reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset will be tested for impairment by comparing its recoverable amount to its carrying amount.

Goodwill, which is not amortised under AIFRS, must be tested for impairment annually.

If there is any indication that an asset is impaired, the recoverable amount will be estimated for the individual asset. If it is not possible to estimate the recoverable amount for the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs will be determined.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

## 34. Impacts of adopting Australian equivalents to International Financial Reporting Standards (AIFRS) (continued)

A cash generating unit will be the smallest identifiable group of assets that generate cash inflows largely independent of the cash inflows of other assets or group of assets. Under AIFRS each cash-generating unit must be no larger than a segment.

An impairment loss will be recognised whenever the carrying amount of an asset, or its cash-generating unit exceeds its recoverable amount. Impairment losses will be recognised in the income statement unless they relate to a revalued asset, where the impairment loss will be applied against the revaluation reserve.

Impairment losses recognised in respect of a cash generating unit will be allocated first to reduce the carrying amount of any goodwill allocated to the cash generating unit and then to reduce the carrying amount of the other assets in the unit pro rata based on their carrying amounts.

There are no adjustments expected for impairment on transition to AIFRS.

### (f) Taxation

On transition to AIFRS the balance sheet method of tax effect accounting will be adopted, rather than the income statement liability method applied currently under AGAAP.

Under the balance sheet approach, income tax on the profit and loss for the year comprises current and deferred taxes. Income tax will be recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it will be recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at reporting date, and any adjustments to tax in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences will not be provided for:

- (i) goodwill for which amortisation is not tax deductible
- (ii) the initial recognition of assets and liabilities that affect neither accounting or taxable profit
- (iii) differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided would be based on the expected manner of realisation of the asset or settlement of the liability, using tax rates enacted or substantively enacted at reporting date.

A deferred tax asset will be recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets will be reduced to the extent it is no longer probable that the related tax benefit will be realised.

The expected impact on the consolidated entity at 1 July 2004, of the change in basis and the transition adjustments on the deferred tax balances and the previously reported tax expense is an increase in deferred tax asset of \$14.0 million, an increase in deferred tax liability of \$22.4 million, an increase in capital of \$1.4 million and a decrease in retained earnings of \$9.8 million. The expected impact on the Company at 1 July 2004 is an increase in deferred tax liability of \$0.8 million, an

increase in capital of \$1.4 million and a decrease in retained earnings of \$2.2 million.

The expected impact of the change in basis on the tax expense for the financial year ended 30 June 2005 is an increase in tax expense of \$19.1 million for the consolidated entity. Deferred tax assets and deferred tax liabilities of the consolidated entity are expected to increase by \$1.1 million and \$20.2 million respectively as at 30 June 2005. Capital will decrease by \$0.3 million. For the Company, the expected impact is a decrease in deferred tax liability, capital and tax expense of \$0.2 million, \$0.3 million and \$0.5 million respectively.

Included in the above adjustments to the consolidated entity at 1 July, 2004, is \$7.0 million benefit to tax expense relating to the amendments to reset tax values initially determined on the implementation of tax consolidation. As this benefit to tax expense was accounted for under AGAAP in the year ended 30 June 2005, the adjustment under AIFRS at 1 July 2004 has been reversed in the subsequent period.

### (g) Defined benefit superannuation plans

Under AIFRS, the consolidated entity's net obligation in respect of defined benefit superannuation plans will be calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit will be discounted to determine its present value, and the fair value of any plan assets will be deducted.

Under AGAAP, defined benefit plans are accounted for on a cash basis, with no defined benefit obligation or plan assets recognised in the balance sheet.

The Group has no major defined benefit plans, however an associate, Pacific National, is the sponsor of a defined benefit superannuation fund. The AASB 1 election to recognise in full actuarial gains and losses at transition date through retained earnings is expected to be adopted. At the date of transition an amount of \$34.0 million is expected to be recognised as a liability of Pacific National with a consequential decrease in retained earnings. Toll is expected to equity account 50% of its share of this deficit.

### (h) Share based payments

Under current AGAAP no expense is recognised for options issued to employees.

Under AIFRS the fair value of options granted must be recognised as an employee benefit expense with a corresponding increase in equity. The fair value will be measured at grant date taking into account market performance conditions only, and spread over the vesting period during which the employees become unconditionally entitled to the options. The fair value of options granted will be measured using either the Binomial or Black Scholes method, taking into account the terms and conditions attached to the options. The amount recognised as an expense will be adjusted to reflect the actual number of options that vest except where forfeiture is due to market related conditions.

No adjustment will be made for options granted before 7 November 2002, which have vested before 1 January 2005. Options granted after

7 November 2002 remaining unvested at 1 January 2005 will be recognised in the opening balance sheet through retained earnings resulting in a \$nil impact on transition.

For the financial year ended 30 June 2005, total employees benefits expenses arising from the issue of executive share options are expected to be increased by \$3.7 million in both the consolidated entity and the Company.

An employee share ownership plan (ESOP) exists within the consolidated entity and the Company. During the year ended 30 June 2005, an issue of shares was made to employees. This issue will be treated as an in-substance grant of options because of the limited recourse nature of the loans. The option valuation expense of these shares for the period has been calculated at \$3.9 million. Since there is no vesting period, there is no recurring expense for this item.

#### **(i) Financial statements of foreign operations**

Under current AGAAP, the assets and liabilities of self-sustaining foreign operations are translated at the rates of exchange ruling at reporting date. Equity items and goodwill are translated at historical rates. The statements of financial performance are translated at a weighted average rate for the year. Exchange differences arising on translation are recognised directly in the foreign currency translation reserve until disposal of the operation, when it is transferred directly to retained earnings.

The assets and liabilities of operations that are integrated are translated using the temporal method. Monetary assets and liabilities are translated at rates of exchange at reporting dates, while non-monetary items and revenue and expense items are translated at exchange rates when the transaction occurred. Exchange differences arising on translation are brought to account in the statement of financial performance.

Under AIFRS each entity in the consolidated entity determines its functional currency, the currency of the primary economic environment in which the entity operates reflecting the underlying transactions, events and conditions that are relevant to the entity. The entity maintains its books and records in its functional currency.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated from the entity's functional currency to the consolidated entity's functional currency of Australian dollars at foreign exchange rates ruling at reporting date. The revenue and expenses of foreign operations are translated to Australian dollars at the exchange rates approximating the exchange rates ruling at the date of the transactions. Foreign exchange differences arising on translation are recognised directly in a separate component of equity.

There are no expected changes in functional currency for the consolidated entity.

All foreign operations are translated into Australian dollars using the method described above. The concepts of self-sustaining and integrated operations do not exist in the AIFRS framework.

On disposal of a foreign operation, the amount recognised in the foreign currency translation reserve attributable to the foreign operation is included in the calculation of gain or loss on disposal and recycled through the current year income statement.

#### **(j) Financial Instruments**

##### ***(i) Derivatives and hedging***

For the purposes of AGAAP, derivatives, classified as hedges, other than foreign exchange related derivative contracts, are recorded at cost. Interest receipts and payments are brought to account on an accrual basis with realised gains and losses included in the measurement of the hedged item.

Under AIFRS all derivative contracts, whether used as hedging instruments or otherwise, will be carried at fair value on the Group's balance sheet from 1 July 2005. Derivative contracts are recognised initially at cost. Subsequent to initial recognition, derivative contracts are stated at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

Hedge rules will dictate whether derivatives are accounted for as fair value, cash flow or net investments hedges.

Hedge relationships qualify for special hedge accounting where strict documentation and hedge effectiveness criteria are met. To the extent that hedges are considered ineffective, differences between the fair value of the hedge and cost must be taken to the statement of financial performance.

The Group has interest rate and foreign currency derivatives. The Group will predominantly apply cash flow hedging in respect of its interest rate risk hedges with changes in the fair value of the derivatives, to the extent effective, deferred and included in a hedge reserve forming part of the Group's shareholders' funds until the hedged item occurs. Cash flow hedge accounting will create volatility in equity reserve balances. Some interest rate and foreign currency hedges will be classified as fair value hedges. A fair value hedge requires the instrument to be measured at fair value with any fair value changes recognised in the income statement. The carrying value of the corresponding hedged asset or liability is also adjusted by the fair value of the hedging instrument, with this adjustment being recognised in the income statement to offset the gain or loss on the hedging instrument.

Some derivatives may not meet the hedging criteria and therefore cannot be accounted for as such. The earnings volatility arising from these derivatives is not expected to be significant.

##### ***(ii) Reset Preference Shares***

The Reset Preference Shares (RPS), which are currently treated as equity, will be reclassified to interest bearing liabilities. The liability will be recognised at its fair value upon transition, which equates to the present value of net future cash flows of the RPS. Distributions to the holders of the RPS will be treated as interest and included in the net

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

## 34. Impacts of adopting Australian equivalents to International Financial Reporting Standards (AIFRS) (continued)

profit after tax, whereas currently the payments are treated as dividends and are not included in the net profit after tax.

As permitted by the election available under AASB 1, the transitional provisions relating to financial instruments standards are not applied to the financial information at 1 July 2004 and 30 June 2005. Therefore the impacts of these standards will be adopted from 1 July 2005. The amount of this reclassification as at 1 July 2005 will be \$245 million from equity to interest bearing liabilities, with an additional amount of interest expense of \$15.5 million.

### (k) Investments in Associates

At the date of transition an amount of \$2.7 million is expected to be recognised by the consolidated entity as an increase in investments and an increase in retained earnings of \$2.7 million representing net adjustments on the adoption of IFRS by Pacific National.

Similarly, for 30 June 2005, an amount of \$18.0 million is expected to be recognised by the consolidated entity as a decrease in investments with a decrease in share of net profit of associates of \$7.6 million and a decrease in retained earnings of \$10.4 million.

In respect of all associates, for the year ended 30 June 2005, an amount of \$8.4 million is the expected adjustment to share of net profit of associates and \$10.4 million to adjust retained earnings. The above movements are a result of acquisition accounting, accounting for tax and defined benefit superannuation adjustments. No adjustments are expected for the Company.

### (l) Provisions

At transition date, employee entitlements have been increased by \$1.5 million to recognise the estimated amount payable for unvested sick leave. No adjustments are expected for the Company.

## Summary of transitional adjustments

The following tables set out the expected adjustments to the statements of financial position of the consolidated entity and the Company at transition to AIFRS as at 1 July 2004 and for the AIFRS comparative balance sheet as at 30 June 2005:

### Reconciliation of Equity at 1 July 2004

	CONSOLIDATED AS AT 1 JULY 2004			THE COMPANY AS AT 1 JULY 2004			
	NOTE	AGAAP	TRANSITION IMPACT	AIFRS	AGAAP	TRANSITION IMPACT	AIFRS
<b>Current Assets</b>							
Cash and cash equivalent		102,389	–	102,389	507	–	507
Trade and other receivables		444,994	–	444,994	260,924	–	260,924
Inventories		15,698	–	15,698	33	–	33
Other		31,752	–	31,752	8,198	–	8,198
<b>Total Current Assets</b>		<b>594,833</b>	<b>–</b>	<b>594,833</b>	<b>269,662</b>	<b>–</b>	<b>269,662</b>
<b>Non-Current Assets</b>							
Receivables	a	27,125	(1,251)	25,874	9,315	(1,251)	8,064
Investments	k	398,374	2,709	401,083	–	–	–
Other financial assets		9,950	–	9,950	481,778	–	481,778
Property, plant and equipment	b	1,009,043	(83,772)	925,271	68,079	–	68,079
Goodwill		101,999	–	101,999	–	–	–
Intangible assets	b	–	83,772	83,772	–	–	–
Deferred tax assets	f	23,882	14,002	37,884	36,028	–	36,028
Other		9,663	–	9,663	–	–	–
<b>Total Non-Current Assets</b>		<b>1,580,036</b>	<b>15,460</b>	<b>1,595,496</b>	<b>595,200</b>	<b>(1,251)</b>	<b>593,949</b>
<b>Total Assets</b>		<b>2,174,869</b>	<b>15,460</b>	<b>2,190,329</b>	<b>864,862</b>	<b>(1,251)</b>	<b>863,611</b>

Reconciliation of Equity at 1 July 2004 (continued)

	CONSOLIDATED AS AT 1 JULY 2004			THE COMPANY AS AT 1 JULY 2004			
	NOTE	AGAAP	TRANSITION IMPACT	AIFRS	AGAAP	TRANSITION IMPACT	AIFRS
<b>Current Liabilities</b>							
Trade and other payables		335,703	–	335,703	4,638	–	4,638
Interest bearing liabilities	a	5,956	252,997	258,953	–	–	–
Current tax liabilities		22,588	–	22,588	20,477	–	20,477
Provisions	l	180,470	1,500	181,970	21,975	–	21,975
Deferred gains		7,990	–	7,990	–	–	–
<b>Total Current Liabilities</b>		<b>552,707</b>	<b>254,497</b>	<b>807,204</b>	<b>47,090</b>	<b>–</b>	<b>47,090</b>
<b>Non-Current Liabilities</b>							
Interest bearing liabilities	a	413,258	(252,997)	160,261	50,000	–	50,000
Deferred tax liabilities	f	21,698	22,375	44,073	25,620	840	26,460
Provisions		72,382	–	72,382	17,800	–	17,800
Deferred gains		20,444	–	20,444	–	–	–
<b>Total Non-Current Liabilities</b>		<b>527,782</b>	<b>(230,622)</b>	<b>297,160</b>	<b>93,420</b>	<b>840</b>	<b>94,260</b>
<b>Total Liabilities</b>		<b>1,080,489</b>	<b>23,875</b>	<b>1,104,364</b>	<b>140,510</b>	<b>840</b>	<b>141,350</b>
<b>Net Assets</b>		<b>1,094,380</b>	<b>(8,415)</b>	<b>1,085,965</b>	<b>724,352</b>	<b>(2,091)</b>	<b>722,261</b>
<b>Equity</b>							
Contributed equity	f	722,010	1,406	723,416	722,010	1,406	723,416
Treasury shares	a	–	(1,251)	(1,251)	–	(1,251)	(1,251)
Reserves	k	6,091	–	6,091	–	–	–
Retained profits	f,k	329,415	(8,570)	320,845	2,342	(2,246)	96
<b>Total parent entity interest</b>		<b>1,057,516</b>	<b>(8,415)</b>	<b>1,049,101</b>	<b>724,352</b>	<b>(2,091)</b>	<b>722,261</b>
Outside equity interests		36,864	–	36,864	–	–	–
<b>Total Equity</b>		<b>1,094,380</b>	<b>(8,415)</b>	<b>1,085,965</b>	<b>724,352</b>	<b>(2,091)</b>	<b>722,261</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

## 34. Impacts of adopting Australian equivalents to International Financial Reporting Standards (AIFRS) (continued)

### Reconciliation of Equity at 30 June 2005

	CONSOLIDATED AS AT 30 JUNE 2005			THE COMPANY AS AT 30 JUNE 2005			
	NOTE	AGAAP	TRANSITION IMPACT	AIFRS	AGAAP	TRANSITION IMPACT	AIFRS
<b>Current Assets</b>							
Cash and cash equivalent		151,476	–	151,476	136	–	136
Trade and other receivables		420,283	–	420,283	83,272	–	83,272
Inventories		17,369	–	17,369	–	–	–
Non current assets held for sale	a	–	24,533	24,533	–	–	–
Other		25,110	–	25,110	8,000	–	8,000
<b>Total Current Assets</b>		<b>614,238</b>	<b>24,533</b>	<b>638,771</b>	<b>91,408</b>	<b>–</b>	<b>91,408</b>
<b>Non-Current Assets</b>							
Receivables	a	56,982	(10,864)	46,118	27,049	(10,864)	16,185
Investments	k	450,086	(16,082)	434,004	–	–	–
Other financial assets		158,410	–	158,410	725,225	–	725,225
Property, plant and equipment	a,b	1,060,167	(113,981)	946,186	45,343	–	45,343
Goodwill	d	92,319	10,940	103,259	–	–	–
Intangible assets	b	–	89,448	89,448	–	–	–
Deferred tax assets	f	44,855	15,124	59,979	44,968	–	44,968
Other		5,196	–	5,196	–	–	–
<b>Total Non-Current Assets</b>		<b>1,868,015</b>	<b>(25,415)</b>	<b>1,842,600</b>	<b>842,585</b>	<b>(10,864)</b>	<b>831,721</b>
<b>Total Assets</b>		<b>2,482,253</b>	<b>(882)</b>	<b>2,481,371</b>	<b>933,993</b>	<b>(10,864)</b>	<b>923,129</b>
<b>Current Liabilities</b>							
Trade and other payables		362,763	–	362,763	16,783	–	16,783
Interest bearing liabilities	a	30,279	185,702	215,981	–	–	–
Current tax liabilities		39,332	–	39,332	36,630	–	36,630
Provisions	l	181,174	1,500	182,674	19,205	–	19,205
Deferred gains		5,592	–	5,592	–	–	–
<b>Total Current Liabilities</b>		<b>619,140</b>	<b>187,202</b>	<b>806,342</b>	<b>72,618</b>	<b>–</b>	<b>72,618</b>

Reconciliation of equity at 30 June 2005 (continued)

	CONSOLIDATED AS AT 30 JUNE 2005			THE COMPANY AS AT 30 JUNE 2005			
	NOTE	AGAAP	TRANSITION IMPACT	AIFRS	AGAAP	TRANSITION IMPACT	AIFRS
<b>Non-Current Liabilities</b>							
Interest bearing liabilities	a	432,028	(185,702)	246,326	–	–	–
Deferred tax liabilities	f	26,340	42,929	69,269	26,133	639	26,772
Provisions		75,615	–	75,615	17,926	–	17,926
Deferred gains		16,970	–	16,970	–	–	–
<b>Total Non-Current Liabilities</b>		<b>550,953</b>	<b>(142,773)</b>	<b>403,180</b>	<b>44,059</b>	<b>639</b>	<b>44,698</b>
<b>Total Liabilities</b>		<b>1,170,093</b>	<b>44,429</b>	<b>1,214,522</b>	<b>116,677</b>	<b>639</b>	<b>117,316</b>
<b>Net Assets</b>		<b>1,312,160</b>	<b>(45,311)</b>	<b>1,266,849</b>	<b>817,316</b>	<b>(11,503)</b>	<b>805,813</b>
<b>Equity</b>							
Contributed equity	f	807,955	1,083	809,038	807,955	1,083	809,038
Treasury shares	a	–	(10,864)	(10,864)	–	(10,864)	(10,864)
Reserves	k,h	5,370	7,603	12,973	–	7,603	7,603
Retained profits		455,979	(43,133)	412,846	9,361	(9,325)	36
<b>Total parent entity interest</b>		<b>1,269,304</b>	<b>(45,311)</b>	<b>1,223,993</b>	<b>817,316</b>	<b>(11,503)</b>	<b>805,813</b>
Outside equity interests		42,856	–	42,856	–	–	–
<b>Total Equity</b>		<b>1,312,160</b>	<b>(45,311)</b>	<b>1,266,849</b>	<b>817,316</b>	<b>(11,503)</b>	<b>805,813</b>

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2005

## 34. Impacts of adopting Australian equivalents to International Financial Reporting Standards (AIFRS) (continued)

### Reconciliation of Profit for the Financial Year Ended 30 June 2005

The following table sets out the expected adjustments to the statements of financial performance of the consolidated entity and the Company for the year ended 30 June 2005

	NOTE	CONSOLIDATED FOR THE YEAR ENDED 30 JUNE 2005			THE COMPANY FOR THE YEAR ENDED 30 JUNE 2005		
		AGAAP	TRANSITION IMPACT	AIFRS	AGAAP	TRANSITION IMPACT	AIFRS
Revenue from ordinary activities	b	3,883,465	(73,900)	3,809,565	173,675	(12,250)	161,425
Expenses from ordinary activities before borrowing costs, depreciation and amortisation and income tax expense	a,b,h	(3,513,718)	70,528	(3,443,190)	(45,726)	4,647	(41,079)
Depreciation and amortisation	d	(137,134)	10,940	(126,194)	(6,130)	–	(6,130)
Borrowing costs	a	(28,882)	(4,231)	(33,113)	(25,918)	–	(25,918)
Share of net profits of associates and joint ventures accounted for using the equity method	k	54,162	(8,391)	45,771	–	–	–
<b>Profit from ordinary activities before income tax expense</b>		257,893	(5,054)	252,839	95,901	(7,603)	88,298
Income tax expense relating to ordinary activities	f	(34,431)	(19,109)	(53,540)	1,108	524	1,632
<b>Profit from ordinary activities after income tax expense</b>		223,462	(24,163)	199,299	97,009	(7,079)	89,930
Net profit attributable to outside equity interests		(6,908)	–	(6,908)	–	–	–
<b>Net profit attributable to members of the parent entity</b>		216,554	(24,163)	192,391	97,009	(7,079)	89,930
<b>Non-owner transaction changes in equity</b>							
Net exchange difference on translation of financial statements of self sustaining foreign operations		(721)	–	(721)	–	–	–
<b>Total changes in equity from non-owner related transactions attributable to the members of the parent entity</b>		215,833	(24,163)	191,670	97,009	(7,079)	89,930

### Summary of Impact of Transition to AIFRS on Retained Earnings

The impact of the transition to AIFRS on retained earnings as at 1 July 2004 is summarised below:

	CONSOLIDATED	THE COMPANY
	\$'000	\$'000
Retained earnings as at 1 July 2004 under AGAAP	329,415	2,342
AIFRS reconciliation:		
– impact of AIFRS adjustments in associates	2,709	–
– impact of taxation	(9,779)	(2,246)
– impact of employee benefits	(1,500)	–
Retained earnings as at 1 July 2004 under AIFRS	320,845	96

# DIRECTORS' DECLARATION

## Directors' Declaration

1. In the opinion of the directors of the Company:

(a) the financial statements and notes set out on pages 43 to 98, and the remuneration disclosures that are contained in the Remuneration Report on pages 29 to 34 of the Directors' Report, are in accordance with the Corporations Act 2001 including:

(i) giving a true and fair view of the financial position of the Company and Group as at 30 June 2005 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

(ii) complying with Accounting Standards in Australia, including AASB 1046 Director and Executive Disclosures by Disclosing Entities, and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

2. There are reasonable grounds to believe that the Company and the subsidiaries identified in Note 27 will be able to meet any obligations or liabilities to which they are or may become subject by virtue of the Deed of Cross Guarantee between the Company and those subsidiaries pursuant to ASIC Class Order 98/1418.

3. The directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and the chief financial officer for the year ended 30 June 2005.

Signed in accordance with a resolution of the Directors:



J A Moule  
Director



P A Little  
Director

Dated at Melbourne this 21st day of September 2005.

# INDEPENDENT AUDIT REPORT

## Independent audit report to members of Toll Holdings Limited

### Scope

#### The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, the disclosures made by the Company in accordance with the Corporations Regulations 2001, including the disclosures as required by Australian Accounting Standard AASB 1046 Director and Executive Disclosures by Disclosing Entities, in the "Remuneration report" on pages 29 to 34 of the Directors' report ("remuneration disclosures") and the Directors' declaration for both Toll Holdings Limited (the "Company") and the "Consolidated Entity", for the year ended 30 June 2005. The Consolidated Entity comprises both the Company and the entities it controlled during that year.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report and the Remuneration report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

#### Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with Accounting Standard AASB 1046 and the Corporations Regulations 2001. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's and the Consolidated Entity's financial position, and of their performance as represented by the results of its operations and cash flows and whether the remuneration disclosures comply with Accounting Standard AASB 1046 and the Corporations Regulations 2001.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

#### Audit opinion

In our opinion, the financial report including the remuneration disclosures that are contained in the Remuneration report on pages 29 to 34 of the Directors' report of Toll Holdings Limited are in accordance with:

- a) the Corporations Act 2001, including:
  - i. giving a true and fair view of the Company's and Consolidated Entity's financial position as at 30 June 2005 and of its performance for the financial year ended on that date; and
  - ii. complying with Accounting Standards in Australia, including AASB 1046 Director and Executive Disclosures by Disclosing Entities, and the Corporations Regulations 2001; and
- b) other mandatory financial reporting requirements in Australia.

**KPMG**

KPMG

*Adrian V. King*

Adrian V King  
Partner

Melbourne  
26 September 2005

## SHAREHOLDER INFORMATION

Additional information required by the Australian Stock Exchange Listing Rules not elsewhere disclosed in this report. The shareholder information set out below was applicable as at 12 August 2005.

### A. Distribution of Shareholders

Analysis of numbers of shareholders by size of share holdings for ordinary securities.

	NUMBER	UNITS	%
1 – 1,000	18,873	8,883,637	2.69
1,001 – 5,000	13,626	30,032,317	9.10
5,001 – 10,000	1,938	14,014,548	4.24
10,001 – 100,000	1,332	31,326,017	9.49
100,001 – and over	112	245,923,368	74.48
	35,881	330,179,887	100.00

There were eight hundred and thirty-nine holders with less than a marketable parcel of ordinary shares.

Each ordinary share is entitled to one vote per share.

### B. Twenty Largest Shareholders

The names of the twenty largest shareholders are listed below:

NAME	NUMBER OF ORDINARY SHARES HELD	PERCENTAGE OF ISSUED SHARES
1 Paul Alexander Little	36,026,444	10.91
2 JP Morgan Nominees Australia Limited	31,792,961	9.63
3 National Nominees Limited	30,086,392	9.11
4 Mostia Dion Nominees Pty Ltd	29,604,824	8.97
5 Westpac Custodian Nominees Limited	20,832,080	6.31
6 PGA (Investments) Pty Ltd	15,000,000	4.54
7 Australian Foundation Investment Company Limited (Investment Portfolio A/C)	8,000,000	2.42
8 Citicorp Nominees Pty Limited	7,116,249	2.16
9 ANZ Nominees Limited (Cash Income A/C)	6,928,167	2.10
10 ANZ Nominees Limited	6,907,425	2.09
11 Cogent Nominees Pty Limited	6,177,298	1.87
12 Queensland Investment Corporation	5,106,595	1.55
13 ANZ Nominees Limited (Income Reinvest Plan A/C)	3,120,438	0.95
14 Citicorp Nominees Pty Limited (CFS WSLE Imputation Fund A/C)	3,058,188	0.93
15 Camrock (Australia) Pty Ltd	2,659,520	0.81
16 Citicorp Nominees Pty Limited (CFS Imputation Fund A/C)	2,037,983	0.62
17 Citicorp Nominees Pty Limited (CFS WSLE Industrial Share A/C)	1,934,630	0.59
18 Citicorp Nominees Pty Limited (CFS WSLE Aust Share Fund A/C)	1,571,094	0.48
19 Richard John & Rosemary Joan Raw	1,409,968	0.43
20 Perpetual Trustee Company Limited	1,191,706	0.36
Total	220,561,962	66.83%

### C. Substantial Shareholders

The following are substantial shareholders of the Company.

NAME	NUMBER OF ORDINARY SHARES HELD	PERCENTAGE OF ISSUED SHARES
(a) Paul Alexander Little and related bodies corporate	36,931,300	11.19
(b) Mark Rowsthorn and related bodies corporate	30,194,383	9.14
(c) Capital Group Companies Inc	20,634,348	6.25

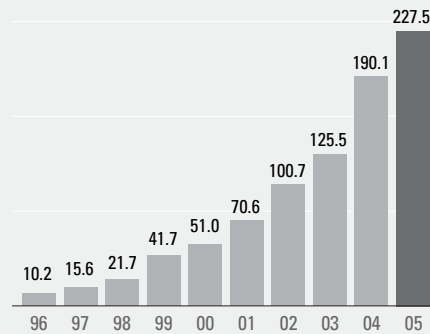
# TEN YEAR SUMMARY

	JUNE 1996	JUNE 1997	JUNE 1998	JUNE 1999	JUNE 2000	JUNE 2001
<b>Operating Results (\$'000)</b>						
<b>Group Sales</b>	234,297	469,998	854,440	1,295,855	1,360,098	1,602,798
Profit before Depreciation, Amortisation, Tax and Interest (EBITDA)	16,805	27,290	43,411	63,315	72,474	100,009
Depreciation and Amortisation	6,586	11,728	21,723	21,661	21,452	29,793
<b>EBIT</b>	10,219	15,562	21,688	41,654	51,022	70,216
Share of Associates profit	0	0	0	0	0	414
Net Interest	2,631	3,605	3,593	3,303	3,070	4,614
<b>Profit before Tax</b>	7,588	11,957	18,095	38,351	47,952	66,016
Income Tax Expense	2,214	2,857	3,157	7,841	7,285	16,415
Operating Profit after Tax	5,374	9,100	14,938	30,510	40,667	49,601
Outside Equity Interests	0	0	193	370	263	363
<b>Profit Attributable to Members</b>	5,374	9,100	14,745	30,140	40,404	49,238
Profit Attributable to Members before Abnormal Items	3,285	7,743	13,742	29,210	40,404	49,238
CPS Dividend/RPS	0	637	1,705	3,240	0	0
Ordinary Dividends	3,141	4,772	6,241	11,631	16,909	20,241
Ordinary Payout Ratio (%)	58.45	56.39	47.86	43.24	41.85	41.11
Overall Dividend Payout Ratio (%)	58.45	59.44	53.89	49.34	41.85	41.11
<b>Financial Position (\$'000)</b>						
Cash	5,718	6,683	20,323	22,919	26,691	46,896
Other Current Assets	37,747	58,206	132,201	144,264	190,179	244,471
Other Non-Current Assets	80,836	70,332	177,085	170,172	181,595	349,142
Future Income Tax Benefits	5,144	6,806	8,470	9,044	4,808	12,485
Intangible Assets (Goodwill & Other)	7,613	7,584	4,606	0	0	45,748
<b>Total Assets</b>	137,058	149,611	342,685	346,399	403,273	698,742
Other Liabilities	45,850	46,111	173,092	169,714	199,463	313,456
Borrowings	52,877	41,751	59,661	50,314	45,159	187,593
<b>Total Liabilities</b>	98,727	87,862	232,753	220,028	244,622	501,049
<b>Net Assets</b>	38,331	61,749	109,932	126,371	158,651	197,693
Outside Equity Interests	0	0	1,846	64	326	550
Reserves and Retained Profits	32,033	53,087	96,473	36,074	59,569	88,518
Paid Up Capital	6,298	8,662	11,613	90,233	98,756	108,625
<b>Total Shareholders Equity</b>	38,331	61,749	109,932	126,371	158,651	197,693
<b>Per Ordinary Share (\$)</b>						
<b>Basic Earnings per ordinary share before abnormal items</b>						
Based on weighted average number of shares issued during the year	0.026	0.047	0.071	0.143	0.169	0.201
Based on number of shares issued at the end of the period	0.026	0.044	0.067	0.110	0.167	0.201
<b>Basic Earnings per ordinary share after abnormal items</b>						
Based on weighted average number of shares issued during the year	0.043	0.056	0.077	0.148	0.169	0.201
Based on number of shares issued at the end of the period	0.043	0.053	0.073	0.114	0.167	0.200
<b>Diluted Earnings per share</b>	0.043	0.056	0.067	0.129	0.166	0.194
Dividend Paid or Declared per share	0.02	0.03	0.04	0.06	0.07	0.08
Franking (%) Interim	100	100	75	35	20	60
Final	100	100	65	50	50	70
Net Tangible Asset Backing	0.20	0.234	0.317	0.535	0.655	0.619
<b>Analytical Information</b>						
EBITDA to Sales (%)	7.17	5.81	5.08	4.89	5.33	6.24
EBIT to Sales (%)	4.36	3.31	2.54	3.21	3.75	4.38
Group Profit after Tax to Sales (%)	2.29	1.94	1.73	2.33	2.97	3.07
EBIT to Total Assets (%)	7.46	10.40	6.33	12.02	12.65	10.05
Return on Shareholders Equity (%)	14.02	14.74	13.64	23.86	25.52	24.98
Current Assets to Current Liabilities (X)	0.85	1.05	0.97	1.10	1.17	1.03
EBIT Interest cover (X)	3.88	4.32	6.04	12.61	16.62	15.22
Effective Tax Rate (%)	29.18	23.89	17.45	20.45	15.19	25.02
<b>Gearing</b>						
Net borrowings to Equity (%)	123.03	56.79	35.78	21.68	11.64	71.17
<b>Other</b>						
<b>Ordinary Shares</b>						
Weighted average number of shares on issue during the year	124,971,736	150,525,316	170,139,864	181,880,484	238,838,888	244,687,632
Shares on issue at year end	125,955,908	159,899,044	178,918,708	235,997,956	242,089,936	245,550,368
<b>Preference Shares</b>						
Cumulative Shares on issue at year end	0	13,333,336	0	0	0	0
Non Cumulative Shares on issue at year end	0	0	13,333,334	0	0	0
Number of shareholders at year end	945	1,310	3,517	4,889	6,992	7,913
Number of employees at year end Est	1,800	1,700	4,500	5,635	5,874	8,984

	JUNE 2002	JUNE 2003	JUNE 2004	JUNE 2005
	2,037,996	2,569,798	3,271,929	3,798,363
	153,374	202,423	304,546	364,643
	52,605	76,955	114,459	137,134
	100,769	125,468	190,087	227,509
	9,330	31,236	45,108	54,162
	12,280	19,272	23,080	23,778
	97,819	137,432	212,115	257,893
	23,138	30,274	38,684	34,431
	74,681	107,158	173,431	223,462
	525	1,091	4,792	6,908
	74,156	106,067	168,639	216,554
	74,156	106,067	168,639	215,881
	0	0	7,708	15,500
	27,457	44,409	65,607	87,088
	37.03	41.87	38.90	40.22
	37.03	41.87	43.47	47.37
	47,550	88,299	102,389	151,476
	293,472	351,046	492,444	462,762
	726,762	862,960	1,454,155	1,730,841
	14,458	27,437	23,882	44,855
	67,515	107,459	101,999	92,319
	1,149,757	1,437,201	2,174,869	2,482,253
	370,680	455,221	661,275	707,786
	376,323	351,206	419,214	462,307
	747,003	806,427	1,080,489	1,170,093
	402,754	630,774	1,094,380	1,312,160
	1,512	2,603	36,864	42,856
	135,752	219,825	335,506	461,349
	265,490	408,346	722,010	807,955
	402,754	630,774	1,094,380	1,312,160
	0.279	0.359	0.508	0.616
	0.269	0.343	0.501	0.607
	0.279	0.359	0.508	0.619
	0.269	0.343	0.501	0.609
	0.264	0.346	0.501	0.613
	0.10	0.14	0.205	0.265
	100	100	100	100
	100	100	100	100
	1.217	1.695	3.089	3.695
	7.53	7.88	9.31	9.60
	4.94	4.88	5.81	5.99
	3.64	4.13	5.15	5.70
	8.76	8.73	8.74	9.17
	18.48	16.89	15.41	16.50
	1.00	1.05	1.08	0.99
	8.21	6.51	8.24	9.57
	26.15	28.51	23.16	16.90
	81.63	41.68	28.95	23.69
	265,943,792	295,676,489	316,684,355	325,066,623
	275,381,324	308,813,811	321,296,695	330,171,887
	0	0	2,500,000	2,500,000
	0	0	0	0
	9,473	16,877	25,355	35,881
	9,764	12,466	17,375	17,545

### Profit before interest and tax (EBIT)

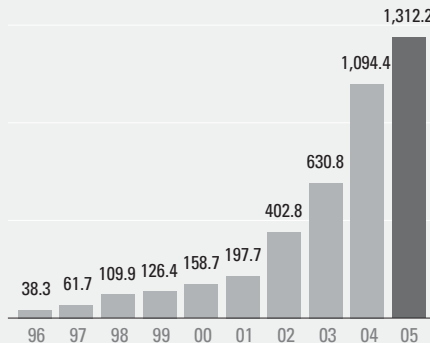
(\$m)



↑ 20%  
to \$227.5m

### Total shareholders' equity

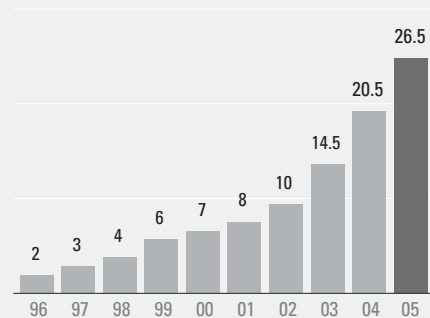
(\$m)



↑ 19.9%  
to \$1,312.2m

### Dividend paid or declared per ordinary share

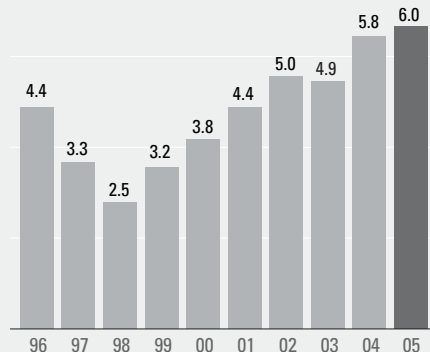
(Cents)



↑ 29%  
to 26.5 cents

### EBIT to sales

(Percent)



↑ 3%  
to 6.0 percent

# COMPANY DIRECTORY

## **Directors**

### **Chairman**

John Moule AM

### **Managing Director**

Paul Little

### **Executive Directors**

Mark Rowsthorn

Neil Chatfield

### **Non-Executive Directors**

Alastair Lucas

Ray Horsburgh

### **Divisional Directors**

John Ludeke Toll Networks

Don Telford Toll Logistics

Terry Mallon Toll North

Stephen Stanley Strategy

Hugh Cushing Group Business  
Development

Graham Lyon Commercial  
Director

### **Secretary**

Bernard McInerney

## **Principal Registered Office in Australia**

Level 8, 380 St Kilda Road

Melbourne Vic 3004

Telephone: +61 3 9694 2888

Facsimile: +61 3 9694 2880

## **Divisional Offices**

### **Networks & Logistics**

Level 1, 32 Walker Street

North Sydney NSW 2060

Telephone: +61 2 8923 2333

Facsimile: +61 2 8904 0219

### **Toll North**

146 Kerry Road

Archerfield Qld 4108

Telephone: +61 7 3275 0400

Facsimile: +61 7 3275 0444

## **Share Register**

### **Computershare Investor Services**

Yarra Falls

452 Johnston Street

Abbotsford Vic 3067

Telephone:

– Australia 1300 850 505

– Overseas +61 3 9415 4000

Facsimile: +61 3 9473 2500

Website: [www.computershare.com](http://www.computershare.com)

### **Stock Exchange Listing**

Toll Holdings Limited shares are listed  
on the Australian Stock Exchange

The home exchange is in Melbourne

## **Auditors**

### **KPMG**

Level 5, 161 Collins Street

Melbourne Vic 3000

## **Bankers**

### **National Australia Bank**

271 Collins Street

Melbourne Vic 3000

## **Solicitors**

### **Clayton Utz**

### **Solicitors & Attorneys**

Level 18, 333 Collins Street

Melbourne Vic 3000





We set the standard for excellence of integrated logistics and distribution through total commitment to quality people and services, with superior financial results.