

## **7. CHAIRMAN'S ADDRESS**

I would now like to present my report to shareholders.

### **2004 PERFORMANCE**

Pleasingly, for the year to 30 June 2004 the company produced another record performance.

At the same time as producing record earnings, the company, through acquisition and further development of innovative solutions, has established an excellent platform for future growth.

The company reported a 59% improvement in after tax profit to \$168.6 million.

Earnings per share, fully diluted, increased 45% to 50.1 cents per share, another record for the company.

Since 30 June, the company has paid a final dividend of 12 cents per share, an increase of 50% over the previous year. The total dividend paid to ordinary shareholders was 20.5 cents per share, some 41% higher than the previous year total.

The total payout to ordinary shareholders in respect of the 2004 financial year was \$65.6m. To put this into perspective, in the year 2000 we paid out just \$16.9m.

In addition, the company paid \$7.7m in dividends to our Reset Preference Shareholders. These shares were issued in November 2003 and we are very pleased with the support they have received.

We completed the year in an excellent financial position, with a range of profitable growth opportunities ahead of us. Mr Little will expand on these outstanding prospects in his report.

On behalf of your Board and all shareholders, I want to publicly acknowledge the efforts of all of our employees in producing another outstanding result for the year.

## **CORPORATE GOVERNANCE**

Corporate Governance has continued to attract much attention from the investment community, governments and the media. At Toll the principles of sound corporate governance have always been key elements in the way we conduct our business, and we will continue to adopt this philosophy.

During the course of the last year we have extensively reviewed and enhanced our policies to ensure that where appropriate they conform with the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations (ASX Guidelines).

Our annual report provides the basis of our approach to Corporate Governance and these are fully detailed on the Toll website [www.toll.com.au](http://www.toll.com.au).

## **SAFETY**

The Company's efforts throughout all operations to ensure a safe working environment for all employees, continues to have a positive impact. In the year to June 2004, the lost time injury frequency rate reduced a further 30%, following strong improvements over the last 3 years.

We are continuing to strive to grow employee awareness, reconfigure premises and equipment, focus efforts on identifying the causes of accidents and minimise the number of injuries across our diverse operating base.

The Company's Risk Management Committee is providing sound leadership and commitment to our overall Occupational Health and Safety regime.

## **INTERNATIONAL FINANCIAL REPORTING STANDARDS**

The Group has in place an International Financial Reporting Standards (IFRS) project team, which includes senior management representation together with an established system of reporting to the Audit and Financial Risk Committee and Board.

The first reporting period in which Toll will issue a financial report which complies with the Australian equivalent of IFRS will be its half year ending 31 December 2005 and in respect of a full year, the year ending 30 June 2006.

The company expects to achieve full compliance in accordance with these reporting dates.

The Group is currently in the process of planning its transition to the Australian equivalent of IFRS and is therefore currently unable to quantify those standards that will have the greatest impact on the financial results, however our 30 June 2004 financial report contains a description of the key differences in accounting policies that are expected to arise from the Group adopting the Australian equivalent of IFRS. Our work in this area to-date has not identified any matters which may adversely affect our results to any material level.

As required by ASSB 1047 Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards, our 30 June 2005 financial report will disclose any known or reliably estimable information about the impacts on the financial report had it been prepared using Australian equivalents to IFRS.

## **EMPLOYEE EQUITY PARTICIPATION**

Over the past few years Toll has successfully used employee shares and executive options to ensure that the company can attract and retain the very best people in the industry.

Over this period the company has been an outstanding performer, and it is our position of an employer of choice in the industry which has been a major contributor to our performance.

The Board has recently approved a new issue of shares to eligible employees under the broad based Employee Share Ownership Plan and has made an issue of options to executives under the Senior Executive Option Plan. At today's meeting we will be asking shareholders to support the resolutions for the granting of options to Executive Directors, Messrs Little, Rowsthorn and Chatfield.

As has been the case in the past, executive options are issued under a well-documented and controlled option plan, which was previously approved by shareholders. The most recent offer to executives incorporates a clearly defined performance hurdle which requires that Total Shareholder Return relative to the companies comprising the ASX top 100 companies excluding banks and resources companies as a minimum equals that of the 50<sup>th</sup> percentile. This comparator group of companies represents an elite group of 79 companies within the ASX 100. In determining the appropriate hurdle mechanism the Board sought external advice to ensure the company continued to secure retention of senior executives throughout the group. The TSR hurdle requires the company's performance to be equal to the performance of the top half of the comparator group before any options vest. The options then vest progressively from that point and are fully vested if the TSR at least equals or exceeds, the 75<sup>th</sup> percentile of the compactor group of companies.

Toll has maintained its detailed disclosure in relation to share and option plans and will continue to do so. In addition, Toll will adopt the relevant Accounting Standard in relation to expensing the value of the options over their term. This approach is expected to result in the value of executive options being amortised in the Statement of Financial Performance from the year ending 30 June 2006; such amortisation, which has no cash impact will not be material to the overall Group result.

## **BOARD COMPOSITION**

Toll constantly reviews its requirements in relation to Board composition, having regard to the strategic direction of the Group and the skills input best suited to deliver our strategies.

Mr Bill Farrands whose present term of office concludes today, has decided that because he will shortly attain the self imposed NED retirement age of 72 he should not stand for a further three year term.

Bill, you have served Toll most diligently during the past 7 years and all Board members and I'm sure shareholders and employees, thank you for your sound advice and wise counsel, and wish you well in your retirement.

Unexpectedly Mr Ross Dunning, who was to have submitted himself for re-election today, has withdrawn his nomination in order to fully focus on personal issues. Your Board is most disappointed at this outcome and thanks Ross for his sound advice and his many contributions to Toll especially as Chairman of the Audit and Financial Risk Committee. Accordingly, agenda Item 3 is withdrawn from today's schedule of business.

We are also delighted to announce the appointment of Mr Ray Horsburgh CEO of Smorgan Steel Limited as a Non Executive Director effective 24<sup>th</sup> November 2004. Mr Horsburgh brings considerable senior business experience, especially in the international arena.

The Board will continue to review its composition to ensure that we have people of the calibre necessary to drive the growth strategy which has to date delivered outstanding shareholder returns and to return to a majority of Non Executive Directors on the Board.

## **OUTLOOK**

The momentum currently established in the company provides us with a strong confidence in our ability to drive further earnings and cash flow growth and to capitalise on additional profitable growth opportunities.

## **8. MANAGING DIRECTOR'S ADDRESS**

Ladies and Gentlemen, fellow shareholders, I am delighted to welcome you here today, to report on results for the year ended June 2004, and the many opportunities in front of our company.

The last twelve months have seen the company build further on its premier position as Australia's leading provider of integrated transport and logistics services.

Our strategic direction has generated a strong position in New Zealand, a growing presence in Thailand and Malaysia, significant growth and future opportunities in Pacific National and a focus on organic growth across our existing customer base.

The 2004 financial year reflected the execution of our strategy of growth and further development of our unique and unparalleled business model.

[At the completion of our Financial Report, we will play a short video detailing the operational diversity throughout the group.]

## **EARNINGS**

Earnings before interest and tax for the 2004 year, our equity accounted contribution for Pacific National, were \$193.4 million, a 51% increase on the previous year.

The EBIT result was driven by a number of factors.

The inclusion, for the first time, of Toll NZ operations, following the successful takeover of Tranz Rail in October 2003, and the continued improvement in Pacific National operations.

Additionally the integration benefits of past acquisitions, including Toll Priority and Toll Shipping and the benefits of our capital expenditure program, technology innovation and strong growth in new business, all made significant contributions.

EBIT margins also showed further improvement, with an increase including the impact of the Toll NZ acquisition, from 5% to 5.91%. Excluding Toll NZ, the EBIT margin rose from 5% to 5.32% for the year. In particular, margins benefited from investment in new depot and warehousing facilities, fleet upgrades and technology development.

Revenue for the year was \$3.27 billion, an increase of \$702 million and 27% up on 2003. Organic revenue growth represented \$197 million or 7.7% of this increase, whilst acquisition based growth, including Toll NZ, produced \$505 million.

Organic revenue growth, included an excellent blend of newly outsourced contracts, increased business from existing customers and market share gains in key sectors.

For the 2004 year, group profit after tax of \$168.6m was a 59% increase on the previous year and follows increases of 51% and 42% during the previous two years.

Pacific National contributed after tax earnings of \$41.8m for the year, an increase of 47.8% over last year, whilst Toll NZ provided an after tax contribution of \$23.4 million, in the period since acquisition.

Both of these activities have solid platforms from which to grow and it's expected that returns will continue to show significant improvement over time.

## **BALANCE SHEET**

The Group's balance sheet remains strong, with adequate capacity to aggressively execute further growth.

At June 2004, net debt was \$317 million, with gearing measured as (net debt to book equity) at 30%. This level of gearing maintains our flexibility to pursue growth opportunities and continue our selective capital expenditure programme.

Group operating cashflows continue to be a key driver for the business, with operating cashflow increasing 44% to \$210 million.

Net interest cover for the year was in excess of 10 times, reflecting the strength of the company's earnings and balance sheet. Including the Reset Preference Share servicing, net interest and Reset Preference Shares dividend cover was 7.6 times.

During 2004 we spent some \$164 million on capital expenditure as well as \$146 million funding acquisitions, the major component of which was the Toll NZ purchase.

Also during the year the company increased its equity base with the issue, in November 2003, of \$250 million of Rest Preference Shares.

This issue which was approved at our last Annual General Meeting, was well supported by our shareholders and introduced a number of new investors onto our register.

## **SHAREHOLDER**

Investor interest in Toll continues to grow and we currently have over 15% of ordinary shares held by overseas shareholders.

Fully diluted earnings per share grew 45% from 34.6 cents to 50.1 cents during the 2004 financial year. Over the last five years earnings per share has grown at an average compound growth rate in excess of 30%.

For the year, total ordinary dividends grew 41% to 20.5 cents per share, which reflects an average compound growth rate of 28% over the past 5 years.

The dividend payout ratio was again 40% in relation to the 2004 year. This enabled the company to continue to use retained earnings as an important source of capital to support further growth.

Pleasingly the Reset Preference Shares have traded well since listing almost a year ago.

We would now like to play a short video depicting Toll's operational strength.

## **OPERATIONS**

During 2004 the major industry sectors for the company continued to perform well, with each of our various service products, increasing the use of technology, as a point of difference in the market.

In the case of the Food, Beverage and Retail sectors, activity was strong as consumer demand remained solid and major retailers focussed on initiatives across their supply chains.

Major retail groups are continually looking to partner logistics providers who possess broad operational expertise, including multi-modal capabilities, scale and technology capability, in order to provide sustainable cost advantages together with greater supply chain efficiency.

Today, Toll leads the industry in supply chain capabilities, and will continue to benefit from retail industry initiatives, such as factory gate pricing and other re-engineering activities.

During the last 12 months, the company was successful in securing a number of major contracts including CUB, Coles Myer, Woolworths, Nestle and Coca-Cola Amatil. These new contracts are evidence of the company's ability to meet the rapidly changing and diverse requirements of the Food and Beverage sectors.

The Automotive sector traded very strongly throughout 2004, with record volumes challenging our company and the industry generally. We are continuing to invest heavily in new fleet, with a growing emphasis on rail, and technology aimed at providing customers with lower costs and supply chain efficiencies.

The Industrial sector remained extremely competitive, with overall volumes stable. The company has restructured various activities to better support our customer base as well as improving returns through selective fleet upgrades and higher levels of technology.

Our Ports and Resources sector performed very strongly, as global demand for customers commodities continued to increase. Port operations have been significantly strengthened by the acquisition of Leonard and Dingley and the recently approved joint venture with Port of Tauranga, both in New Zealand. Also, the recent acquisition of Western Stevedoring has further enhanced our presence in the growing Western Australian export market.

The Relocations sector slowed during the year, as defence force relocations were lower than previous levels and negatively impacted earnings. Notwithstanding this, the company has been successful in securing new contracts, including the Queensland Government and the ANZ Bank.

Our joint venture with Tenix, for the 10 year Federal Government DIDS contract, is well progressed towards transitioning 23 sites scheduled for completion by December this year.

Customers across all sectors are seeking greater levels of technology integration to support supply chain visibility. Our Managed Transport Services model (Toll-MTS) is being strongly supported, together with Toll Online, our web based customer service suite of products.

Whilst each of the company's operating divisions performed well during the year, results from Toll Priority and Toll IPEC were very pleasing.

Results in Toll North's QRX rail forwarding were disappointing, as significant price increases and poor service from Queensland's monopoly rail operator, Queensland Rail were encountered.

The expansion of Pacific National into Queensland during the first half of calendar year 2005, is being received positively and will present the company with a significant growth opportunity. In the meantime, QRX's results and service levels remain under significant pressure.

## **NEW ZEALAND**

Operations throughout New Zealand have developed rapidly over the past three years, with Toll now providing service at 10 ports in the North and South Islands. Port activities are generally performing well and have grown in importance. The Port of Tauranga joint venture approved by the Commerce Commission in September, will significantly reduce supply chain costs for port users.

Warehousing and distribution operations are also performing well and benefiting from relationships with the Australian customer base, as evidenced by the recent Nike New Zealand contract.

Toll Priority is presently developing its business base in New Zealand, with volumes continuing to grow within its network. The development of this service offering, is an important element in establishing our fully integrated supply chain capability within New Zealand and internationally between Australia and New Zealand.

Following our acquisition of an 84.2% interest in Tranz Rail in October 2003, we have begun the restructure of the business, with a view to improve customer focus and stabilise and improve the poor financial performance of the business.

The business has since been re-branded and restructured around land based road and rail activities and shipping operations.

In relation to rail, Toll Rail has been established as a bulk and linehaul rail operator, with Toll TranzLink our multi-modal freight forwarder.

The Interisland shipping operation is reviewing the configuration of all vessels operating across Cook Strait. The Arahura has recently been returned to service after undergoing refurbishment in Tasmania.

The expected tight financial position of Tranz Rail at the time of takeover and ongoing debt and capital commitments have required the Toll parent

company, to provide a long term debt facility of NZ\$300 million. This facility, provided on commercial arms length basis, is now in place and will provide much needed stability and simplicity in the capital structure of Toll NZ.

On 30 June 2004, the company executed final agreements with the New Zealand Government, for the sale of the track and related infrastructure back to the Crown. Both Toll and the Crown have committed to new capital expenditure, designed over time to improve rail's efficiency and to encourage a shift from road to rail for freight movements. The arrangements with the Government are proceeding satisfactorily.

Trading results in the period to 30 June 2004 were generally in line with expectations, although impacted by severe flooding, which occurred in the lower half of the North Island during February 2004.

## **PACIFIC NATIONAL**

Earnings for Pacific National during 2004 were positively impacted by higher volumes in both Coal and Intermodal, although grain shipments were affected by drought conditions.

Pacific National contributed an after tax equity accounted profit of \$41.8 million for the year, an increase of 47.8% over the previous year, on total revenues of \$1.083 billion.

Our 50% owned rail venture, made several significant advances during the year;

Completion of a company wide employee Enterprise Agreement, was an important evolution for the business, in order to provide much needed consistency and labour flexibility.

The Federal Government's announcement of additional rail infrastructure spending, through the Auslink project, and the transfer of the NSW interstate network to the ARTC, are important initiatives improving rail's share of the interstate freight task.

The acquisitions of ATN, the Tasmanian rail operator, in March 2004, together with the Freight Australia acquisition completed in August 2004, have broadened the company's network in Victoria and Tasmania and provided opportunities to improve service levels and further grow rail's market share of the Australian freight markets.

## **ASIA**

Investments in Asia continue to be selective and aimed at growing customer relationships.

Operations in Thailand are performing well and are growing at a strong rate. We are continuing to focus on the Oil and Gas and Automotive sectors and working with our large multi-national customers.

In Malaysia, our operations are growing with the recently announced Bluescope contract, adding to our activity in that region.

Our presence in Asia is also benefiting from the growth in our international freight forwarding operations, with many of our customers seeking opportunities to improve the import and export components of their supply chains.

## **ECONOMIC CONDITIONS**

Economic growth in both Australia and New Zealand remained solid during the 2004 year, buoyed by growth in the Asian region and the continued strength of consumer demand. Notwithstanding an increase in interest rates and record oil prices, these economies have not demonstrated any major slowdown in growth or evidence of material inflationary pressures.

Trading conditions into the 2005 financial year have generally continued the trend shown in the previous year, and based on these conditions, we are confident that the positive economic environment will continue to provide the company with growth opportunities.

High oil prices remain an issue likely, over time, to impact the economic growth in the Asian region should current price levels remain over a prolonged period. At the present time however, economic growth remains strong and this will continue to benefit customers across the company, particularly in the resource and auto sector.

The company has in place well established processes to minimise the impact of rising fuel prices, including a well developed customer surcharging regime. As fuel is an important element of the company's and the industry's cost structure, recovery of fuel costs is essential in maintaining viable service levels and supporting ongoing investment.

## OUTLOOK

Since 30 June 2004 our trading has been in line with targets and volumes have remained solid. Based on the current outlook the company expects to post another record result for the 2005 financial year.

Through continued refinement of our business model, increased technology application and strategic acquisitions, Toll has significantly broadened its avenues to growth in earnings and cashflows.

Pacific National has grown significantly since its acquisition in 2002 and is poised to deliver further growth.

In New Zealand, our operations are developing rapidly, and although the turnaround in the rail business will take time, the future will present us with many opportunities.

Organic growth and new customer contracts in Australia and New Zealand, and now developing into a number of Asian countries, is an exciting and meaningful platform for growth.

In addition, the company is operationally and financially well positioned to pursue the successful acquisition strategy employed to date, continuing to strengthen our operational base.