REVIEW OF CHAIRMAN AND MANAGING DIRECTOR

Dear Shareholders

Toll Logistics' on-site supervisor Gus Murrone with Toll driver Jenny Riley, who delivers product right to the assembly line at Ford. We manage the complex just-in-time delivery process with dynamic routing to choose the best route and time.

Six years ago we had a vision. Today's reality is that Toll is Australia's largest fully-integrated distribution company.
We ended the financial year in great shape – we grew our sales, profits, earnings and dividends.
Now, we're moving forward to realise the potential for:
- ***our company***
- ***our shareholders***
- ***our customers***
- ***our industry.***

Toll's strategic growth places the company at the forefront of change in the transport industry.

This year, we met our greatest challenge since going public in 1993 – the acquisition and integration of TNT's non-core operations.

It has been a very effective year of consolidation, but now we're looking to tomorrow's opportunities. These include continuing to develop our people, and using their enthusiasm for innovation and adaptability to change, while taking a leading role in rationalising surplus market capacity.

Our continued growth will be planned and disciplined, with actions linked to improved financial returns for our shareholders.

Getting in shape for the future

To realise our full potential we need to deliver the benefits of consolidation, including economies of scale.

We have realigned our industry skills, physical assets, management expertise and information systems into four focused areas: Long Distance, Logistics, Carpentaria and Specialised.

The integration of the businesses acquired from TNT is nearing completion and has seen us more than achieve the $4 million benefit forecast for 1998 in the Information Memorandum of 1 December 1997.

Most of TNT's major contracts have been reassigned to Toll. We have removed duplication of facilities; we have improved our purchasing power; and made other savings in costs, staff and equipment. By 30 June 1998, the consolidation had reduced 230 full-time positions and 33 operating sites.

The staged integration and business restructure has seen Container Express become part of Toll SPD; Carpentaria and Toll Express combine in the Northern Territory; Integrated Logistics merge with Toll Metro; and Toll West with Energy Logistics.

Seafast and Toll Seacargo are now part of Toll Tasmania, Freshmark has aligned its operations with Carpentaria and Toll; and TNT Corporate Services have been centralised.

New national accounts across the board

As well as TNT, we acquired John Nash Transport in September 1997. This contract distribution specialist, with major eastern seaboard operations in Melbourne, Sydney and Brisbane, brought with it national accounts such as:

- Colgate-Palmolive Pty Ltd
- Spicers Paper Ltd and
- Pilkington (Aust) Pty Ltd

Other major new contracts gained include:

- Pasminco Ltd – contract distribution in Tasmania and South Australia
- Orica Australia Pty Ltd – distribution in Western Australia and Queensland
- Lion Nathan Australia Pty Ltd – metropolitan and country distribution in New South Wales
- Amcor Paper Australia – local distribution for the Petrie Mill and interstate distribution by rail
- Coca-Cola Amatil Western Australia – metropolitan and country distribution in Western Australia
- Eastern Basin Distribution Centre – development and management of a new bulk port facility at Newcastle
- MIM Holdings – distribution throughout MIM's northern network
- Ford Motor Company – national distribution of parts and accessories

Our strategy reward is a great result

Toll's net profit after tax before abnormals increased 77.5% to $13.7 million (1997: $7.7 million), and earnings before interest and tax of $21.7 million were slightly above the Information Memorandum forecast.

Net sales increased 82% to $854 million (1997: $470 million), including sales from John Nash Transport (effective 1 September 1997) and TNT (effective 1 December 1997).

Our total assets grew from $150 million to $343 million, and earnings per share (basic after abnormals) increased from 22.5¢ in 1997 to 30.7¢.

The Toll Group's net debt to equity ratio decreased substantially from 57% in 1997 to 36% at 30 June 1998. The settlement of the TNT acquisition since year end marginally increased our gearing ratio.

The company's strong cash flow enabled us to undertake a major capital re-equipment program, with capital expenditure totalling $26.2 million.

Toll's directors are delighted to declare a final ordinary share dividend of 8¢ per share franked to 65%. This represents an increase in the full year ordinary dividend of 2¢ a share to 14¢ (1997: 12¢) and a payout ratio of 48%.

Toll also paid fully franked preference share dividends of $1.705 million, increasing the overall dividend payout ratio to 54%.

Our lower effective tax rate has reduced our capacity to frank future ordinary share dividends. We anticipate that franking of future ordinary share dividends will be reduced.

Trading conditions relatively stable

The year's underlying trading levels and volumes reflected low real growth, but conditions across our major businesses were relatively stable.

We felt little immediate impact from either the Asian economic downturn or the National Maritime Union of Australia (MUA) dispute, which disrupted wharf operations in most major capital cities. In fact, our operations in the Port of Geelong increased during the MUA dispute as ships were diverted from Melbourne to Geelong.

Competition levels were generally high throughout the Group, particularly in our Long Distance and Logistics divisions. There was, however, some improvement in overall margins towards the end of the year.

Corporate services strengthened

We strengthened our corporate services by appointing a chief financial officer and group treasury manager, together with general managers of property and purchasing.

Also, we made, and continue to make, substantial progress with the standardisation and integration of our financial and administrative systems.

Toll's directors are conscious of the company's Year 2000 compliance obligations, and we continue the review and remediation of all critical operational and financial systems.

The focus of our human resources in the first half of the financial year was the cooperative development and implementation of Enterprise Bargaining Agreements (EBA).

Above: *Managing Director Paul Little (left) discussing the progress of integrating businesses acquired from TNT into Toll's core business with Chairman Peter Rowsthorn.*

Think distribution

An active consolidation depot in Melbourne hums with activity as loads from interstate linehaul vehicles are deconsolidated, enabling pickup and delivery vehicles to deliver throughout the city and suburbs.

Using these agreements as the foundation, human resources then negotiated with the various unions to integrate the Toll EBA model into all new activities, as well as sponsoring the quality program throughout our new look organisation.

Developing a powerful culture

Our success in recent years is due to the dedication of our employees, new and old, and we thank them.

Because of the skills and expertise of our employees – and their enthusiasm – we have once again set seemingly ambitious financial targets for the current year. We are confident of their ability to manage the business so that strong profit growth will continue.

Since 30 June 1998, we have traded in line with expectations, strong cash flow continues and the benefits of integrating the TNT transport operations continue.

The new financial year has seen strong cash flow continue and gearing maintained at a satisfactory level. As the acquisition of Ipec/Jetsroad is debt free with no cash outlay, our gearing will be further enhanced.

The total Australian transport and logistics market generates more than $8 billion revenue each year. The markets in which we operate continue to be disadvantaged by surplus capacity, with conditions and rates remaining competitive in most sectors. We believe that by building critical mass, improving systems, maximising equipment utilisation and taking advantage of industry rationalisation to acquire strategic assets at competitive prices, Toll will remain one of the industry's lowest cost operators.

We continue to realise our vision: we have built volume in target markets and industry sectors, as well as gained considerable skills in acquiring and integrating businesses.

There are many large customers seeking a long-term, reliable partner who is prepared to make a considerable investment to handle all their transport and logistic needs. We will continue to meet those needs, exceed their expectations and pursue growth in transport related infrastructure.

Peter Rowsthorn
Chairman

Paul A Little
Managing Director

15 September 1998

...and succeeding in every one of our commitments in 1997