



Toll Holdings Limited
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The Manager
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Dear Sir

Toll Group Profit Announcement – Toll Ready for Growth

Please find attached for immediate release to the market, a Media Release and the Toll Group Profit Announcement for the half year to 31 December 2006.

Yours faithfully
TOLL HOLDINGS LIMITED


Bernard McInerney
Company Secretary

Encl.



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Media Release

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Toll Ready for Growth

The Asian region's leading integrated logistics provider, Toll Holdings, today announced half year earnings of \$215 million to December 2006.

Earnings pre amortisation of charges arising from the acquisition accounting of Patrick and SembCorp Logistics and before restructuring charges, amounted to \$273 million, compared to \$115 million in the previous year.

Toll Managing Director Mr Paul Little said that the company was delighted with the result and the progress made during the last six months.

"The strength of earnings and cashflows together with the progress made with acquisition integrations, is clear evidence that the business is tuned and ready for the next stage of its evolution," said Mr Little.

"Throughout the business, there is enthusiasm to complete the restructure and move to an exciting new phase of growth," commented Mr Little in relation to the proposed formation of the separately listed Infrastructure Co and separation of rail and port assets into the new company.

During the six months, group revenues grew from \$2.1 billion to \$5.1 billion, with organic revenue in the core Australian Transport Group growing over 9%. The company is reporting full six months trading for the first time in relation to the Patrick and SembCorp Logistics businesses, which were acquired in the last quarter of the 2006 financial year.

Trading conditions across the entire business remained robust, with the exception of New Zealand which had a flat economic environment during the course of the six months.

Mr Little said, "The revenue and earnings growth being generated through supporting our customers by providing highly innovative and integrated supply chain solutions was set to continue into the future, as the company positions itself as the pre-eminent integrated logistics provider in the Asian region."

Divisional Trading

Toll Australia Transport

Strong trading was experienced across the network, with organic revenue growing over 9% compared to the previous period.

Margin expansion continued during the period with EBIT, on a like for like basis, increasing over 15%. This result was driven by benefits of increased capacity, new equipment and continued investment in technology.

Toll New Zealand

Earnings were somewhat depressed as a result of continuing flat economic conditions.

Revenue for the six months decreased from \$347 million to \$323 million, whilst EBIT was \$20.8 million compared to \$29.8 million in the prior period.

Toll Asia

Earnings were ahead of plan for the six months with an EBIT including share of associates of \$37 million being reported on revenues of \$232 million.

Integration activities progressed well over the six months and the business is positioned for new business and acquisition growth.

Virgin Blue

A strong result was achieved arising from improved loads and yields together with sound cost controls.

EBIT for the six months was \$187 million, a 79% increase over the previous comparable period.

Ports

Container volumes across the stevedoring network increased by 10% during the six months. In addition, the integrated general and bulk port of Patrick and Toll experienced solid growth.

Revenue for the six months was \$537 million with EBIT of \$125 million, increases of 10% and 19% respectively over the prior period on a like for like basis.

Pacific National

Results improved strongly in the six months as management stability was installed into the business and a number of major outstanding issues were resolved.

Total revenue (before eliminating internal revenue) increased 17% to \$845 million, whilst EBIT, pre restructuring costs, increased 48% compared to the prior period, to \$102 million.

Finance

Operating cashflow for the six months was \$724 million which was ahead of expectations. At the end of December 2006 net debt for the Group was \$5.2 billion with net debt to net debt plus equity gearing being 45%.

Earnings per share fully diluted pre amortisation of acquisition intangibles and restructuring costs was 43.3 cents, a 25% increase over last year. An interim dividend of 16 cents per share fully franked has been announced, compared to 14 cents in the prior period.

Outlook

During the last six months the company has focussed on further improving efficiencies, reducing costs and increasing service levels. At the same time the two major acquisitions of Patrick and SembCorp Logistics have been integrated into the Group.



Apart from the softness in New Zealand trading which is expected to improve in the second half of the financial year, all elements of the business have performed very well and positioned the company for exciting new growth.

Mr Little said, "The planned restructure of the Group will provide shareholders with an opportunity to participate in the accelerated growth of two major listed companies, both leaders in their segments. The outlook for both companies is very positive."

"Trading since December 2006 remains ahead of expectations and given the current conditions, full year trading across the business will remain strong," said Mr Little.

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Toll Group Profit Announcement – December 2006

Toll Holdings today announced after tax earnings for the six months to December 2006 pre amortisation of charges relating to acquisition accounting and non-recurring reorganisation and transaction charges, of \$273 million. Profit after tax, after the above charges, was \$215 million.

Group revenues grew from \$2.1 billion to \$5.1 billion for the six months. Strong organic revenue growth remained a feature for the Group and acquisition based revenues, from the Patrick Corporation Limited ("Patrick") and SembCorp Logistics acquisitions and the full consolidation of Pacific National, were included in the six months to December 2006 results for the first time.

Total EBIT for the Group, pre acquisition accounting and reorganisation charges, was \$631 million which was well ahead of budget expectations, whilst EBITDA was \$843 million. EBIT margins also remained strong across the Group and trading volumes, combined with effective cost control, enabled expectations to be exceeded.

Results across all divisions were strong and generally ahead of plan, with acquisition synergy benefits also being ahead of forecast. Highlights included solid results from Australian Transport, Container Terminals, Pacific National and Virgin Blue.

The Group has over the past six months maintained its focus on business integration, customer service standards and growing its Asian logistics activities, all of which have proceeded according to plan.

Pleasingly, the core Australian transport operations maintained their strong momentum with continuation of capital expenditure to increase capacity and drive efficiency improvements.

Overall in the six months to December 2006, capital expenditure of \$377 million, which included \$169 million in respect of Virgin Blue, was invested to grow capacity, enhance service capability and to improve cost structures.

Trading conditions across the entire business remained robust, with the exception of New Zealand which had a flat economic environment during the course of the six months.

Group operating cashflow was particularly strong during the six months with cash generated from operations of \$724 million.

Net debt, including Reset Preference Shares, was \$5.2 billion at December 2006 which was comparable to June 2006 levels, although during the six months, expenditure of \$232 million was incurred in relation to completion of the Patrick and SembCorp Logistics acquisitions. At the end of December 2006, net debt to net debt plus equity gearing stood at 45%

Earnings per share (fully diluted) pre acquisition accounting and non-recurring reorganisation charges, was 43.3 cents for the period, compared to 34.6 cents in the previous corresponding period.

Directors have resolved to pay an interim dividend of 16 cents per ordinary share fully franked, compared to 14 cents previously.

Group Restructure

On 13 December 2006, Toll announced a decision to restructure the Group, involving the separation of transport infrastructure assets from the network and supply chain business.

The restructure will result in two separate market leading companies:



- **Toll Holdings** which will comprise the current Australian, New Zealand and Asian logistics businesses of Toll (including assets acquired as part of the Patrick Corporation Limited takeover) as well as Toll's 63% stake in Virgin Blue Australia. Toll Holdings will have greater scope for growth in Australia and Asia by freeing up capital currently invested in infrastructure assets.
- **Infrastructure Co** which will comprise the Australian ports and stevedoring assets of Toll and Patrick, stevedoring operations in New Zealand, as well as 100% of Pacific National. Infrastructure Co will have an industry-aligned cost of capital with an appropriate level of gearing, which will allow it to take advantage of its markets where revenue drivers are already growing at a multiple of GDP.

The integration of businesses into each of the asset classes represented by the two companies had largely been completed by 31 December 2006 and accordingly reporting segments have been restructured to align with the proposed separation.

Progress on the documentation in respect of the restructure is in accordance with planned activities and the timetable.

Feedback from customers, employees and shareholders continues to be very positive particularly as greater clarity has emerged around the growth opportunities for both of the companies.

In order to implement the restructure, the Group has sought variations from the Australian Competition and Consumer Commission (ACCC) in respect of undertakings provided by the Group in relation to the Patrick Corporation takeover.

At this stage the Group expects to put the restructure proposal to shareholders in mid-April 2007.

Divisional Results

All references to EBIT for divisions are pre amortisation of charges arising from acquisition accounting of Patrick and SembCorp Logistics.

1. Toll Australia Transport Group

The Toll Australia Transport division represents the consolidation of the previous Toll Networks, Toll North and Toll Logistics divisions. In addition, the former Patrick businesses of International, Defence Logistics, warehousing and distribution and Air Services have been integrated into the division. At the same time Toll Ports, the Group's extensive regional and bulk port operations in Australia and New Zealand have been transferred to the Ports division. Likewise former Toll Asian operations in Thailand, Vietnam and Malaysia have been integrated into the Toll Asia division.

The Toll Australian Transport division had a very strong six months, benefiting from solid organic revenue growth, excellent margin expansion and the development of increased capacity throughout the network.

On a like for like basis, revenue grew 11.0% from \$1.93 billion to \$2.14 billion, whilst EBIT increased by 16.0% to \$156.6 million from \$135.0 million.

All of the businesses across the division performed solidly during the six months. In particular the time sensitive operations of Toll Priority, Toll IPEC and Toll Fast again produced sound underlying revenue growth and margin expansion. The continued benefit of investment in new technology, new facilities and additional fleet enabled these increased results to be achieved.



The Queensland based road forwarder NQX and rail forwarder QRX, both had particularly strong results compared to the previous corresponding period and were impacted favourably by robust economic conditions and good access to the resources sector. QRX has also benefited from improved rail linehaul service levels provided by Pacific National. A number of expanded facilities are planned for Queensland to provide additional capacity to support ongoing revenue growth.

Toll Express, like Toll Resources, also enjoyed solid revenue growth, especially in its Western Australian operations which were impacted positively by strong revenues from the resources sector.

Patrick Defence Logistics continued to perform very well and is positioned to grow further in supporting defence activities within the region.

The division has been very successful in securing new contracts, where customers are seeking integrated supply chain solutions, often accompanied by high levels of technology.

The Group has recently secured a major new contract with Santos to service its onshore and offshore oil and gas operations across Australia. This further enhances the Group's strength within this important high growth global sector.

2. Toll New Zealand

The flat New Zealand economic conditions which have been experienced for the past 12 months continued to impact earnings, in the six months to December 2006.

Total revenue for the period was \$323m compared to \$347 million in the prior year, with limited revenue growth across the business and the impact of the sale of the refrigerated business in December 2005. EBIT for the six months was \$20.8 million compared to \$29.8 million pre gain on sale of the refrigerated business of \$2.9 million last year.

Whilst economic conditions remain patchy, it is expected that results for the balance of the financial year will be improved through a range of initiatives which have been implemented.

Discussions with the New Zealand Crown are ongoing in relation to the establishment of a long term sustainable track access regime. This is necessary to ensure that rail gains a greater share of the freight task which will in turn support long term capital investment horizons.

Negotiations have generally been positive, and steady progress is being made. The Group remains hopeful that the Crown will recognise the inequality of funding support between road and rail. However, without Crown recognition of the value of rail's contribution to the economy, much needed capital expenditure cannot be justified.

3. Toll Asia

Toll Asia six months results are reported for the first time following acquisition of the SembCorp Logistics business in March 2006.

Revenue for the period was \$232 million with EBIT of \$37.4 million (including equity share of associates results of \$8.1 million). This compares to revenue of \$237 million and EBIT of \$26.4 million in the previous corresponding period. The benefits of integration are impacting positively upon the corporate overhead costs compared to the prior period.



Government business performed in line with plan, with revenues slightly ahead of last year. The Singapore Offshore Petroleum Supply (SOPS) business traded solidly with improvement in both revenue and EBIT reflecting the buoyant industry conditions.

Lower revenues were experienced in India as unprofitable transport revenue was exited in a direct strategy to improve the business performance. Performance is ahead of last year and in line with the rationalisation.

The integration of Toll Asia progressed very well during the six months, with the rebranding, corporate restructuring and funding all completed to plan. In addition, the integration of existing Asian operations into the Toll Asia infrastructure has been achieved.

The Group is heavily focused on leveraging the supply chain capabilities and technology of Toll Asia to support our major Australian and multi-national customers with their cross border supply solutions. Sound progress is being made to achieve integration with our Australian operational capability and to present this to customers. It is expected that the necessary information systems and service offering will be available within the next few months.

In addition, a number of exciting growth opportunities are currently being pursued for acquisition based growth within the Asian region. It is expected that these would add scale and capability to our current activities.

4. Virgin Blue

The Group's 63% owned new world airline investment Virgin Blue reported a much improved result for the six months, producing an EBIT of \$186.6 million on operating revenues of \$1.113 billion. This is the first full six months period of reporting for Virgin Blue since taking control in May 2006, however on a like for like basis revenue increased 16% from \$961 million whilst EBIT grew 79% from \$104 million.

Improved load factors and yields drove the higher earnings, with benefits from cost controls also impacting results favourably.

Fuel costs remain a major challenge for the business, however the implementation of a hedging strategy is aimed at mitigating the extent of this risk.

Major initiatives during the period included airport lounge upgrades, commencement of live2air in-flight entertainment and expansion of web and self-check in facilities. In addition, the Group has agreed in principle to proceed with Trans Pacific services subject to resolution of certain issues, including aircraft contractual negotiations.

Work continues in relation to the freight alliance between Virgin Blue and Toll and it is expected that details of this initiative will be released shortly.

5. Ports

This division includes the national container stevedoring operations, Portlink rail, port services and Patrick shipping activities together with general and bulk ports management and stevedoring and the Autocare operations. This division is also reported for the first time following the Patrick acquisition in May 2006.

Total revenue for the six months was \$537 million, with EBIT of \$125.2 million, this represented a 10.0% and 19.0% increase respectively on a like for like basis over the prior period.

Container volumes increased strongly in all ports with overall terminal volumes increasing by 10%. Brisbane and Sydney experienced particularly strong trading during the six months.

In the case of Brisbane the large increase in volumes in November and December impacted service levels, however the introduction of additional Autostrad®, new panamax cranes, and finetuning to automation software is expected to provide additional efficiencies.

Portlink, the Group's specialist rail business, operating in regional areas and providing direct rail access into ports, performed strongly during the six months notwithstanding difficult conditions throughout rural NSW due to drought conditions.

Port services, including container transport storage and handling, benefited from increased container terminal volumes and posted an above budget result.

The newly formed Bulk and General port operations also traded ahead of budget following the integration of the Toll and Patrick general port businesses. This business now operates in 20 Australian ports in addition to the presence in 12 New Zealand ports through the Toll Owens joint venture with the Port of Tauranga.

Autocare performed solidly during the six months with increased revenues and margins compared to the previous corresponding period with gains attributable to strong cost control together with transport and storage activity.

6. Pacific National

Results in Pacific National improved markedly during the six months as the finalisation of the Patrick takeover enabled management stability to be established and a number of major issues were resolved.

EBIT for the six months, pre restructure costs of \$9.5 million, was \$101.6 million which represented a 48% increase on the previous corresponding period. Total revenue increased strongly from \$723 million to \$845 million over the period.

A significant improvement in service levels leading to increased intermodal revenues and cost savings across the business drove the result. In addition, revenues from coal haulage increased as export coal volumes remained strong.

The last six months has seen a number of important initiatives undertaken. The finalisation of track network arrangements with the Tasmanian Government will bring stability and additional investment to the network which should improve service levels for our customers and assist in greater usage of rail in the state.

In addition, arrangements for the buy-back of the track network by the Victorian Government are well progressed and should be completed within the next two months.

Support for the new management's leadership and strategic direction from key stakeholders has been very evident over the past six months with new Enterprise Bargaining Agreements successfully concluded across the workforce and a new long term billion dollar contract being executed for BlueScope Steel.

During the six months good progress was made by the track access provider ARTC in focussing on reducing speed restrictions and track upgrades throughout the interstate and Hunter Valley networks.

Pacific National plans to work closely in cooperation with ARTC to ensure that upgrades are properly prioritised and consistent with the ongoing need to increase customer service levels and reduce transit times.

It is expected that Pacific National will continue to improve results, however the short term outlook for grain shipments remains poor and will negatively impact revenues and earnings. In the meantime the business is positioning itself for strong growth particularly in the Coal and Intermodal segments and moving to increase capacity and efficiency throughout a renewed capital expenditure program.

7. Acquisition Integration and Accounting

The past six months has seen significant integration efforts following the Patrick and SembCorp Logistics acquisitions.

The integrations have successfully eliminated duplication in overheads and operations leading to improving service levels and efficiencies. Importantly cost synergies anticipated from the acquisitions are being achieved ahead of plan and in excess of original expectations.

In terms of acquisition accounting under the requirements of AIFRS, during the first twelve months following the acquisition there is an ongoing assessment of the fair value of assets purchased and the allocation of consideration over tangible and intangible assets acquired.

As a result of the ongoing reassessment of separately identified assets, it is expected that an annual pre-tax non-cash amortisation charge of approximately \$130 million will be incurred. As a consequence the current six months results include a charge of \$69.7 million pre tax and minority interests.

8. Market Environment

The integration of supply chains globally and within the Asian region in particular is continuing to have a profound impact on customers and industry players alike. This is leading to ongoing rationalisation of multi-national and local transport and logistics service providers.

Customers continue to seek service providers with the scale, reach and technology and operational skills to manage complex logistics tasks, which are rapidly involving cross-border movements.

Toll is positioning itself to become the pre-eminent operator in the region and is gaining momentum in expanding service capability and cross-border skill set. The growing activity in the international forwarding operations of the Group is evidence of the impact of international trade flows within the region.

In addition, in country operations within the major Asian economies present outstanding opportunities for ongoing consolidation and growth in scale, both areas of which the Group is actively pursuing.

As a consequence of these industry dynamics, many Australian and New Zealand service providers are struggling to meet customer demands and are losing market share. It is expected that this process will continue, thus providing the Group with further opportunities both organically and through acquisition.

9. Economic Conditions

Stable economic conditions continue to prevail in Australia. Although drought conditions are having a major impact throughout most of rural Australia, buoyant activity remains prevalent in the resource sector particularly in Queensland and Western Australia.

Key segments of the economy, specifically the food, beverage and retail sectors, continued to perform solidly over the six months to December with particularly strong volumes experienced in the customary November and December peak period.

All the major Asian countries in which the Group operates have solid growth economies and trading has generally been consistent with those conditions.

In the case of New Zealand, the economy remained patchy resulting in lower margins through the business and a slowdown in momentum for major new business. Although there have been some signs of an economic improvement over the past six months, this has not led to any significant improvement in trading.

Major elements of the Group's cost structure are labour and fuel. In the case of labour costs, there are no significant unresolved industrial issues, across the Group.

Fuel on the other hand remains a challenge for the industry and the Group. At present the Group has implemented appropriate hedging strategies, together with a fuel surcharging regime in order to minimise the impact of fuel price increases. More recently the Group has undertaken a strategic review of fuel management and is now considering the outcomes of the review

10. Environment

The Group is a member of the Australian Greenhouse Challenge Plus program. This program is looking to manage energy gas emissions in line with the Federal Government's Energy Efficiency Opportunities Program which has just begun.

The outcome of this Program is anticipated to be a reduction in greenhouse gas emissions by better management of our fuels, natural and energy resources. This benefits Toll, the environment and our community.

Toll is also continuing to explore the use of Bio Diesel and is investigating the combination of an LPG and Diesel mix for road transport vehicles.

11. Outlook

During the last six months the Group has focussed on improving efficiencies, reducing costs and increasing service levels. At the same time the two major acquisitions of Patrick and SembCorp Logistics have been integrated into the Group.

Apart from the softness in New Zealand trading which is expected to improve in the second half of the financial year, all elements of the business have performed very well and positioned the Group for exciting new growth.

The planned restructure of the Group will provide shareholders with an opportunity to participate in the accelerated growth of two major listed companies, both leaders in their segments. The outlook for both companies is very positive.

Trading since December 2006 remains ahead of expectations and given the current conditions, full year trading across the business will remain strong.