



Westpac Funds Management Limited

ABN 28 085 352 405
Level 20, 275 Kent Street
SYDNEY NSW 2000 Australia

26 February 2009

Company Announcements
Australian Securities Exchange
20 Bridge St
SYDNEY NSW 2000

Westpac Office Trust ("WOTCA" or "The Trust")

Half year results for the six months ended 31 December 2008

Westpac Funds Management Limited ("the Trust's Manager"), as responsible entity, today announced the half year result for the Trust for the six months to 31 December 2008.

Key Points

- Net property income increased 16% to \$41.8m.
- 100% of portfolio revalued resulting in a \$60.8m (4.7%) devaluation to \$1,226.7m.
- NTA reduced to \$0.89 per unit or \$0.39 per instalment receipt ("IR").
- 100% occupancy¹ and 9.7 year WALE² evidence continuing strong portfolio metrics
- Distributable income increased 1% to \$16.5m.
- FY09 distribution guidance maintained at 3.325 cents per unit or 1.7 cents per IR,

The statutory result, after including fair value adjustments to property values, interest rate hedges, A-IFRS adjustments and other unrealised adjustments was a net loss of \$151.8m.

Fund Manager Keith Grayson said "The impact of ongoing volatile capital markets and deteriorating property market fundamentals are evident in the unrealised adjustments in this result. However, the defensive nature of the Trust's portfolio is clear in the consistent underlying operating performance and this underpins our confidence that we remain on track to deliver forecast full year earnings."

¹ Including 1.3% covered by rental guarantee on Cannon Hill 2 until August 2010

² Weighted Average Lease Expiry

Net Tangible Assets (NTA)

Unrealised fair value adjustments to the property portfolio and interest rate hedges impacted NTA as follows.

	NTA per Unit	NTA per IR
At 30 June 2008	\$1.24	\$0.74
Property revaluation	\$(0.13)	\$(0.13)
Mark to market of hedges	\$(0.21)	\$(0.21)
Performance fee accrual	<u>\$(0.02)</u>	<u>\$(0.02)</u>
At 31 December 2008	\$0.89	\$0.39

Each item above is rounded to the nearest whole cent. Differences in the summation are due to this rounding.

As interest rates have decreased sharply in the second half of 2008, the fair value of hedges has fallen by \$103m from an asset of \$43m at 30 June 2008 to a liability of \$60m. Assuming all hedges are held to maturity, this hedge liability will revert to zero.

Portfolio Revaluations

All properties in the portfolio were revalued at 31 December 2008 with the majority, constituting 91% by value, determined by independent valuation. Valuations evidenced increased allowances for vacancy risk, lower market rental growth assumptions and increased yield and discount rates.

This has resulted in a reduction in total portfolio value of \$60.8m (4.7%) to \$1,226.7m. The capitalisation rate for the flagship property in the portfolio, Westpac Place, increased 0.60% to 6.35%. The weighted average capitalisation rate for the balance of the portfolio increased 0.68% to 7.68%.

The cumulative impact of these adjustments and the reductions at 30 June 2008 is a total reduction in portfolio value during calendar year 2008 of \$92.1m (6.9%) and an increase in the weighted average capitalisation rate for the total portfolio of 0.97% to 6.85%.

Mr Grayson said "Lack of transactional evidence and reliable pricing signals is adding to the challenge of determining the rate of change to carrying values in a market which has clearly entered the devaluation leg of the cycle. We have continued our recent practice of securing independent valuations for the majority of the portfolio at each reporting date to provide as much clarity as possible on the fair values of our properties."

Capital Management

Debt facilities

The Trust has no re-financing requirement until 2011 with the following debt facilities:

- Term debt facility from Westpac Banking Corporation (Westpac) of \$251m, drawn to \$231m at 31 December 2008. This facility matures in June 2011;
- Working capital facility from Westpac Banking Corporation of \$15m which is presently undrawn. This facility matures in November 2011; and
- Collateralised Mortgage Backed Securities (CMBS) issued of \$505m, maturing in November 2011.

In addition the Trust presently holds \$27.6m in cash.

All operating and planned capital expenditure is funded, leaving the Trust with \$19.1m of discretionary cash reserves.

Covenants

The CMBS notes have no financial covenants.

The Trust maintains adequate cover against the Westpac term debt facility covenants:

	Covenant	31/12/08	30/06/08
Loan to Value Ratio Ratio("LVR") ¹	70%	60% ²	57.6%
Interest Cover Ratio("ICR") ³	1.50x	1.75x	1.83x

Headroom against the LVR covenant is sufficient to tolerate a further 115 bps easing in the weighted average capitalisation rate of the total portfolio to 8.0%, equating to a further 14% fall in the total portfolio value.

Capacity within the ICR covenant is sufficient to accommodate a fall in net property income of \$11.2m, equating to 21% of total net property income. With the portfolio strongly weighted to investment grade tenants it would require the default of rental obligations by either Westpac, Woolworths or IBM for a fall of this magnitude to occur.

Funding rate

The Trust's current all in funding rate including margin and fees is 6.54% and is fully hedged until November 2011.

Performance Fee

Reflecting its defensive character in volatile markets, the Trust outperformed its benchmark index⁴ by 28% for the 12 months to 31 December 2008. As a result the Trust's Manager has earned the entitlement to a performance fee of \$7.8m.

The Trust's Constitution defers the payment of any performance fee when, notwithstanding outperformance, the total return of the Trust is negative as occurred in 2008. The deferment will continue until the end of the first subsequent calendar year of positive total return by the Trust. The earliest that the fee could be paid is therefore January 2010⁵.

When payable, WFML will receive the fee as fully paid units issued at the 31 December 2008 NTA (before performance fee accrual) of 91 cents per unit.

¹ Total Debt to Total Property value.

² Determined using 31 December 2008 valuation reports

³ EBITDA (excluding Unrealised Adjustments) to Net Interest Expense

⁴ The S&P/ASX 300 Property Trust Accumulation Index, adjusted for a 5% maximum weighting per constituent

⁵ If a Trigger Event (as defined by the Trust's Constitution) occurs, the performance fee then payable in cash.

The Trust has recognised the liability for the performance fee as an unrealised adjustment. This has no impact upon current year distributions and reduces NTA per unit and IR by 1.6 cents.

Distributions

Distributions totalling 3.325 cents per unit or 1.7 cents per IR, after deduction of instalment interest, have been declared and paid for the six months to 31 December 2008.

Having regard to the Trust's:

- stable operating outlook for the property portfolio;
- adequate capacity within its debt covenants; and
- prudent distribution policy;

the Trust's Manager reaffirms its distribution guidance for the six months to 30 June 2009 of 3.325 cents per unit or 1.7 cents per IR after deduction of instalment interest, providing no unforeseen adverse circumstances.

These distributions will continue to be 100% tax deferred.

Outlook

Property fundamentals are expected to deteriorate further for the balance of 2009.

As stability and liquidity return to capital markets the prospects for a property market recovery will improve. Transactions will evidence a wider yield range between prime and lower quality properties, determined primarily by the profile of the property cashflows as investors aggressively discount risk.

The impact of the market on the Trust's operating performance will be mitigated by the low risk profile of the property portfolio and the Trust's Manager will continue to focus on maintaining minimal vacancy risk. Some of the smaller assets in the portfolio may offer trading opportunities as private investors return to the market. In the prevailing environment, the proceeds of any sales would be directed in the first instance towards reducing gearing.

For further enquiries, please contact:

Jane Williams
Investor Relations
Tel: 02 8254 6194
Email: jmwilliams@westpac.com.au

Sinnarom Keo
Assistant Company Secretary

Westpac Funds Management Limited ABN 28 085 352 405, Australian Financial Services License No 233718 ("WFML"), carries on a financial services business that includes the operation of a number of managed investment schemes. An investment in any WFML scheme is not a deposit with or any other liability of Westpac Banking Corporation ABN 33 007 457 141 or any other company in the Westpac group of companies. It is subject to investment risk, including delays in repayment or loss of income and principal invested. None of Westpac Banking Corporation or its related entities stands behind or otherwise guarantees the capital value or investment performance of any part of WFML's financial service business, other than as specifically stated in the documentation for a financial product.