

# Westpac Office Trust

ARSN 103 853 523

and Controlled Entities

Half-year Report

31 December 2006

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2006 and any public announcements made by Westpac Office Trust during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

## Directors' report

The directors of Westpac Funds Management Limited ("WFML"), the responsible entity ("RE") of Westpac Office Trust (the "Trust"), present their report together with the financial report for the half-year ended 31 December 2006, on the Consolidated Entity consisting of the Trust (the "Parent Entity") and the entities it controlled at the end of, or during, the half-year ended 31 December 2006.

### Directors

The following persons held office as directors of WFML during the half-year and up to the date of this report unless otherwise stated:

Alan Cameron

Liam Forde

Sean McElduff

Jim Tate (resigned 14 December 2006)

David Westaway (appointed 14 December 2006)

John McGee (appointed 14 December 2006)

### Principal activities

The principal activity of the Trust is to invest in securely leased commercial properties in Australia and New Zealand. This investment criterion is disclosed in the Product Disclosure Statement dated 26 August 2005 ("PDS") and is in accordance with the Trust's revised Constitution dated 23 June 2005.

### Review of operations

#### **Commencement of leases to Westpac Banking Corporation ("Westpac")**

On 1 November 2006, the leases to Westpac of the office space, tenant parking and some retail space at 275 Kent Street, Sydney ("Westpac Place") commenced. The term of the lease is an effective twelve years extendable under three six-year options. The leases for retail areas not occupied by Westpac, including the food court, also commenced on 1 November 2006.

#### **Rent variation agreement**

The Rent Variation Agreement commenced on 1 November 2006. This allows the Trust to receive additional rental income from Westpac in the early years of the lease in order to improve cash flow from the first distribution date following commencement of the Westpac leases.

#### **Pre-completion guarantee**

The Pre-Completion Guarantee provided by Westpac guaranteed certain payments to investors during the period of construction of Westpac Place. The pre-completion guarantee has now expired.

#### **Debt funding**

On 1 November 2006, \$108 million of the \$613 million construction finance debt facility was repaid, with the remaining \$505 million extended on short-term basis. This facility was refinanced on 15 November 2006 by a six month bridge facility from Westpac, secured over the Trust's interests in both the Westpac Place and Woolworths National Support Office properties.

On 18 December 2006, the Trust refinanced the bridge facility through a \$505 million issue of Commercial Mortgage Backed Securities ("CMBS"), with a scheduled maturity date of 16 November 2011 and a weighted average equivalent margin of 0.276% over BBSY.

Two new wholly-owned companies, WOT CMBS Pty Limited ("WOT CMBS") and WOT Loan Note Pty Limited ("WOT LN") were established and registered on 25 September 2006 to facilitate the CMBS issue. The results of WOT CMBS and WOT LN are consolidated into the accounts of the Trust for the half-year ended 31 December 2006.

## Matters subsequent to the end of the financial period

On 15 December 2006, The Trust paid a deposit of \$2.05 million for a third property, 221-227 Anzac Parade, Kensington NSW, and accrued \$0.02 million in valuation fees payable. As settlement of the transaction had not occurred prior to 31 December 2006, these amounts are disclosed under other assets rather than investment property in the balance sheet of the financial statements.

An additional wholly-owned sub-trust, Uni No. 1 Office Trust ("UOT") was established on 15 December 2006 to facilitate the above acquisition. UOT is wholly owned by WOT Holding Trust.

On 12 January 2007, the Trust settled its acquisition of the property in a sale and leaseback transaction for \$41 million from the University of NSW ("UNSW"). The building comprises 10,685 square metres of office and educational facilities.

The Trust acquired a 99 year ground lease interest and UNSW has leased back the entire building for an initial term of 25 years with options for two further 10 year terms. The lease provides for fixed 3% p.a. rental adjustments and is 'triple net' with UNSW responsible for all capital and operating expenses.

The acquisition and related costs will be debt funded through a separate \$45.1 million 12 month bank loan facility from Westpac.

The financial effects of the above transaction other than that regarding the deposit paid and valuation fee payable were not brought to account as at 31 December 2006.

## Results

The performance of the Consolidated Entity, as represented by the results of its operations, was as follows:

	Half-year	
	2006	2005
	\$'000	\$'000
Net operating profit before finance costs attributable to unitholders	32,901	4,436
<b>Cash distribution to unitholders</b>		
30 September cash distribution paid	7,952	6,388
31 December cash distribution payable	7,952	7,881
<b>Total cash distribution to unitholders</b>	15,904	14,269

The net operating profit before finance costs attributable to unitholders for each half-year ended 31 December is disclosed above. On the implementation of the Australian equivalents to International Financial Reporting Standards ("A-IFRS"), unitholder interests are required to be accounted for as liabilities (net assets attributable to unitholders). Amounts accruing to unitholders are accounted for as finance costs or movements in net assets attributable to unitholders.

## Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

## Auditor's independence declaration

A copy of the auditor's independence declaration in accordance with section 307C of the *Corporations Act 2001* is set out on page 6.

## Rounding of amounts to the nearest thousand dollars

The Trust is a registered scheme of a kind referred to in Class Order 98/0100 issued by the Australian Securities & Investments Commission relating to the "rounding off" of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

## Business development agreement

The ASX has granted a waiver from ASX Listing Rule 10.1 to permit the Trust to acquire interests in property investments from Westpac or one of its subsidiaries from time to time in accordance with the terms of a Business Development Agreement ("BDA") governing these transactions, without obtaining investor approval for each transaction, for a defined period following investor approval of the BDA. The initial term of the BDA was one year. This has been extended for another four years. Refer to Annexure A for further information.

## Additional information

The financial report for the half-year includes additional information to give a true and fair view of the Trust's financial position and performance. This additional information can be found in Notes 1 to 12.

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



Alan Cameron, Director



David Westaway, Director

Date: 21 February 2007



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## Auditor's Independence Declaration

As lead auditor for the review of Westpac Office Trust for the half year ended 31 December 2006, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Westpac Office Trust and the entities it controlled during the period.

A handwritten signature in black ink that reads 'J A Dunning'.

J A Dunning  
Partner  
PricewaterhouseCoopers

Sydney  
21 February 2007

## Income statement

For the half-year ended 31 December 2006

	Note	Consolidated Half-year	
		2006 \$'000	2005 \$'000
<b>Income</b>			
Rental and other property income	2	20,662	3,423
Interest income		2,356	4,371
Change in fair value of investment properties	5(c)	24,307	(611)
Other income	2(a)	9,383	3
<b>Total income</b>		<b>56,708</b>	<b>7,186</b>
<b>Expenses</b>			
Rates, taxes and other property outgoings		1,491	-
Auditor's remuneration		25	30
Responsible entity's fees		1,651	450
Finance costs – other	3	20,304	1,997
Other expenses		336	273
<b>Total operating expenses</b>		<b>23,807</b>	<b>2,750</b>
<b>Net operating profit before finance costs attributable to unitholders</b>		<b>32,901</b>	<b>4,436</b>
<b>Finance costs – attributable to unitholders</b>			
Distribution to unitholders		7,952	14,269
Movement in net assets attributable to unitholders		24,949	(9,833)
<b>Total finance costs – attributable to unitholders</b>	3	<b>32,901</b>	<b>4,436</b>
<b>Profit attributable to unitholders</b>		<b>-</b>	<b>-</b>

*The above income statement should be read in conjunction with the accompanying notes.*

	CPU	CPU
Basic earnings per unit (CPU)	0.00	0.00

Earnings per issued unit for the half-year ended 31 December is \$nil as profit attributable to unitholders includes distributions and movement in net assets attributable to unitholders as a finance cost. Refer to Note 12 for detail on the alternative earnings per unit.

## Balance sheet

As at 31 December 2006

	Note	Consolidated	
		31 December 2006 \$'000	30 June 2006 \$'000
<b>Current assets</b>			
Cash and cash equivalents		12,422	11,334
Loans and receivables – deposit account		-	128,369
Loans and receivables – other		499	1,529
Other assets	4	507	324
Financial instruments held at fair value through profit and loss		11,999	1,733
<b>Total current assets</b>		<b>25,427</b>	<b>143,289</b>
<b>Non-current assets</b>			
Other assets	4	2,070	-
Investment properties	5	1,028,000	1,000,917
<b>Total non-current assets</b>		<b>1,030,070</b>	<b>1,000,917</b>
<b>Total assets</b>		<b>1,055,497</b>	<b>1,144,206</b>
<b>Current liabilities</b>			
Deferred income		5,835	1,406
Payables		3,464	35,204
Interest payable		1,303	992
Interest bearing liabilities	7	-	581,316
<b>Total current liabilities</b>		<b>10,602</b>	<b>618,918</b>
<b>Non-current liabilities</b>			
Interest bearing liabilities	7	502,539	-
<b>Total non-current liabilities</b>		<b>502,539</b>	<b>-</b>
<b>Total liabilities (excluding net assets attributable to unitholders)</b>		<b>513,141</b>	<b>618,918</b>
Net assets attributable to unitholders	8	542,356	525,288
<b>Net assets</b>		<b>-</b>	<b>-</b>

*The above balance sheet should be read in conjunction with the accompanying notes.*

## Statement of changes in equity

For the half-year ended 31 December 2006

	Consolidated Half-year	
	2006 \$'000	2005 \$'000
Total equity at the beginning of the half-year	-	323,015
Adjustment on adoption of AASB 132 and AASB 139:		
Contributed equity	-	(323,015)
Restated total equity at the beginning of the half-year	-	-
Net income recognised directly in equity	-	-
Profit for the half-year	-	-
Total recognised income and expense for the half-year	-	-
Transactions with unitholders in their capacity as equity holders	-	-
<b>Total equity at the end of the half-year</b>	<b>-</b>	<b>-</b>

Under Australian equivalents to International Financial Reporting Standards ("A-IFRS"), net assets attributable to unitholders are classified as a liability rather than equity, resulting in nil equity at the beginning of the period.

*The above statement of changes in equity should be read in conjunction with the accompanying notes.*

## Cash flow statement

For the half-year ended 31 December 2006

	Consolidated Half-year	
	2006 \$'000	2005 \$'000
<b>Cash flows from operating activities</b>		
Rental income received (inclusive of goods and services tax)	24,531	4,689
Interest income received	3,106	5,427
Other income received	370	3
Finance costs paid – other	(21,305)	(826)
Other expenses paid (inclusive of goods and services tax)	(5,221)	(978)
Goods and services tax remitted to the Australian Taxation Office	(609)	(268)
<b>Net cash inflow from operating activities</b>	<b>872</b>	<b>8,047</b>
<b>Cash flows from investing activities</b>		
Option fee to secure benefit of offer to lease investment property and create sub-lease and development deed	–	(250,916)
Payments for property under construction	–	(118,854)
Payments for investment property	(33,934)	–
Deposit for property paid	(2,070)	–
<b>Net cash outflow from investing activities</b>	<b>(36,004)</b>	<b>(369,770)</b>
<b>Cash flows from financing activities</b>		
Drawings from term deposit	128,369	183,302
Proceeds from borrowings	(76,316)	71,358
Proceeds from issue of units	–	81,111
Issue costs paid	–	(3,761)
Finance costs paid – distribution to unitholders	(15,833)	(12,775)
<b>Net cash inflow from financing activities</b>	<b>36,220</b>	<b>319,235</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>1,088</b>	<b>(42,488)</b>
Cash and cash equivalents at the beginning of the half-year	11,334	49,968
<b>Cash and cash equivalents at the end of the half-year</b>	<b>12,422</b>	<b>7,480</b>

*The above cash flow statements should be read in conjunction with the accompanying notes.*

## Notes to the financial statements

### Note 1 – Summary of significant accounting policies

Westpac Office Trust (the “Trust”) was constituted and registered as a managed investment scheme on 4 March 2003 with the Australian Securities & Investments Commission (“ASIC”).

Westpac Funds Management Limited (“WFML”) is the responsible entity (“RE”) of the Trust. The RE's registered office is Level 20, 275 Kent Street, Sydney, New South Wales 2000.

#### (a) Basis of preparation

This general purpose financial report for the interim half-year reporting period ended 31 December 2006 has been prepared in accordance with the requirements of the Trust Constitution, Australian equivalents to International Financial Reporting Standards (“A-IFRS”), other mandatory professional reporting requirements including Urgent Issues Group (“UIG”) Consensus Views, other authoritative pronouncements of the Australian Accounting Standards Board, AASB 134 *Interim Financial Reporting*, and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2006 and any public announcements made by the Trust during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

The financial statements were authorised for issue by the directors on 21 February 2007.

#### (b) Principles of consolidation

The consolidated financial report incorporates the assets and liabilities of all subsidiaries of Westpac Office Trust (the “Trust” or “Parent Entity”) as at 31 December 2006 and the results of all subsidiaries for the half-year ended 31 December 2006. Westpac Office Trust and its subsidiaries together are referred to in this financial report as the Consolidated Entity.

Subsidiaries are all those entities (including special purpose entities) over which the Consolidated Entity has the power to govern the financial and operating policies, generally accompanying a shareholding or unitholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Consolidated Entity controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Consolidated Entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between the Consolidated Entity trusts are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

#### (c) Income

Rental income is recognised on a straight-line basis over the term of the lease. An asset is recognised to represent the portion of operating lease revenue in a reporting period relating to fixed increases in operating lease rentals in future periods. These assets are recognised as a component of investment properties.

Interest income is recognised using an effective interest rate method.

Other income represents the fair value movements on interest rate swaps (refer also to Note 1(o)) and other revenue items that are brought to account on an accruals basis.

## Note 1 – Summary of significant accounting policies *(continued)*

### **(d) Expenses**

Property expenditure, including state taxes, rates, insurance and other costs associated with the up-keep of a building are recognised on an accruals basis. Other amounts, which improve the condition of the investment property, are capitalised only when it is probable that future economic benefits associated with the items will flow to the Trust and the cost of the item can be measured reliably.

Leasing costs incurred to secure lease agreements with tenants, including leasing commissions paid to agents, rental inducements offered to tenants and other lease execution costs, are deferred and amortised over the lease term on a straight-line basis, as a reduction in rental income.

Other expense items are brought to account on an accruals basis.

### **(e) Debt establishment costs**

Costs incurred for establishing and arranging borrowing facilities are offset against the carrying amount of the financial liability, and amortised over the period of the facility on an effective yield basis.

### **(f) Finance costs**

Consistent with unitholders' funds being classified as financial liabilities under A-IFRS, distribution to unitholders is recognised in the income statement as a finance cost.

*Finance costs – other include:*

- Interest costs incurred on overdrafts, short-term and long-term debt that relate to the entity's main activity, property investment, which are expensed during the period to which they relate.
- Fair value movements and interest accruals on interest rate swaps (refer also to Note 1(o)).

### **(g) Income tax**

Under current legislation the Trust is not liable for income tax, provided its taxable income is distributed in full to unitholders.

### **(h) Cash and cash equivalents**

For cash flow statement purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and bank overdrafts. Bank overdrafts are shown within interest bearing liabilities in current liabilities on the balance sheet.

### **(i) Loans and receivables**

Loans and receivables include the deposit account and other receivables.

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment losses. Collectibility of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for impaired receivables is established when there is objective evidence that the Trust will not be able to collect the amounts due according to the original terms of the receivables.

### **(j) Investment properties**

The properties represent freehold and leasehold interests in land and buildings, including integral plant and equipment, held for the purpose of producing rental income.

The properties are initially brought to account at cost. At each subsequent reporting date, the properties are re-assessed and carried at fair value. The properties are independently revalued at least every three years.

The valuation basis of the properties is at fair value, being the amounts for which assets could be exchanged between willing parties in an arm's length transaction.

All changes in the fair value of the investment properties are recorded in the income statement.

## Note 1 – Summary of significant accounting policies *(continued)*

### **(j) Investment properties** *(continued)*

#### **Westpac Place, 275 Kent Street, Sydney**

The property is a new Sydney CBD building used as the head office for Westpac Banking Corporation (“Westpac”) and is held for the purpose of producing rental income through leases to Westpac and other retail tenants. Refer to Note 5(a) for further detail on the Trust’s investment.

#### **Woolworths National Support Office, 1 Woolworths Way, Norwest Business Park**

The Consolidated Entity invested in the National Support Office for Woolworths Limited at Norwest Business Park in Sydney by entering into an Agreement for Lease providing for a 99 year ground lease interest in the property. Under the lease, substantially all the risk and rewards of ownership are transferred, and together with a call option to purchase the property, results in the property being recognised as an investment property.

The property is held for the purpose of producing rental income through a sub-lease to Woolworths Limited. Refer to Note 5(b) for further detail on the Trust’s investment.

### **(k) Other deferred assets**

All costs incurred in obtaining the lease agreements are capitalised to investment properties and amortised over the period of the lease.

Legal costs incurred in relation to the property under construction were capitalised to other deferred assets and, upon recognition of the investment property, are incorporated into the fair value of the investment property.

### **(l) Payables and financial liabilities**

#### *(i) Payables*

Payables represent liabilities for amounts owing by the Trust at period end which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Payables are measured at amortised cost.

#### *(ii) Interest bearing liabilities*

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost using the effective interest rate method.

#### *(iii) Net assets attributable to unitholders*

The Trust has a limited life and also a contractual obligation to distribute cash profits in accordance with its Constitution. Therefore, in accordance with AASB 132, unitholders’ funds are classified as a financial liability rather than equity. Unitholders’ funds are disclosed as net assets attributable to unitholders within liabilities.

### **(m) Deferred income**

This amount represents rental income received in advance by the Trust, which is capitalised to a deferred income account and released in the income statement in later periods when the services are rendered.

### **(n) Goods and services tax (“GST”)**

Income, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation 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.

## Note 1 – Summary of significant accounting policies *(continued)*

### **(o) Financial instruments held at fair value through profit and loss**

Interest rate swaps are initially recognised at fair value on the date a swap contract is entered into and are subsequently remeasured to their fair value. Changes in the fair value of interest rate swaps that do not qualify for hedge accounting are recognised immediately in the income statement.

The fair value of interest rate swaps are determined using valuation techniques, which include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar instrument, discounted cash flow techniques or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on the counterparty's best estimates and the discount rate used in a market rate at the balance sheet date applicable for an instrument with similar terms and conditions.

### **(p) Return on net assets attributable to unitholders**

In accordance with the Trust Constitution the Trust fully distributes its distributable income to unitholders. In addition to the distributable income, the Trust may also distribute a portion of capital. This represents a reduction of net assets attributable to unitholders under A-IFRS.

### **(q) Issue costs**

All costs directly incurred in relation to the raising of equity for the Trust are offset against net assets attributable to unitholders as a reduction of proceeds from the issue of the units.

### **(r) Earnings per unit**

Basic earnings per unit is determined by dividing the profit attributable to unitholders of the Trust by the weighted average number of units outstanding during the reporting period.

The alternative earnings per unit is determined by dividing the net operating profit of the Trust by the weighted average number of units outstanding during the reporting period.

### **(s) Rounding of amounts to the nearest thousand dollars**

The Trust is a registered scheme of a kind referred to in Class Order 98/0100 issued by ASIC relating to the "rounding off" of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

### **(t) Provisions**

A provision is recognised in the balance sheet when the Trust has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount has been reliably estimated. If the effect is material, provisions are determined by discounting expected future cash flows at a market rate.

### **(u) Impairment of assets**

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

## Note 1 – Summary of significant accounting policies *(continued)*

### **(v) Use of estimates**

The Trust makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### *Investment properties*

Fair values of investment properties are determined using valuation techniques, including capitalisation, discounted cash flow and direct comparison methods, by reference to market evidence, to the extent practicable. These techniques also require the estimation of various inputs including appropriate market yields, discount rates, future annual cash flows, expected rental growth rates, ongoing capital expenditure and acquisition and disposal costs.

Changes in assumptions about these factors could affect the reported fair value of investment properties.

### **(w) New accounting standards and UIG interpretations**

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 31 December 2006 reporting periods. The Trust's assessment of the impact of these new standards and interpretations is set out below.

*AASB 7 Financial Instruments: Disclosures* and *AASB 2005-10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 139 & AASB 1]*

AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. The Trust has not adopted these standards early. These standards will not affect the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the financial instruments.

## Note 2 – Rental and other property income

Rental income of \$16.429 million for the half-year ended 31 December 2006 has been grossed up by \$2.835 million representing the effect of straight-lining rental income. This effect of straight-lining is classified as a change in fair value of investment properties in the income statement (refer also to Note 5(c)). Other property income for the half-year ended 31 December 2006 was \$1.398 million.

### **Westpac Place, 275 Kent Street, Sydney**

#### *Leases to Westpac and retail leases*

On 1 November 2006, the leases to Westpac of the office space, tenant parking and some retail space at 275 Kent Street, Sydney ("Westpac Place") commenced. The term of the lease is an effective twelve years extendable under three six-year options. The leases for retail areas not occupied by Westpac, including the food court, also commenced on 1 November 2006.

Prior to 1 November 2006, the Trust was not entitled to any rental income from the 275 Kent Street premises. Westpac was entitled to occupy the premises by way of a licence granted by the Trust to Leighton Properties Pty Limited (the "Developer") under the terms of the Development Agreement between the Trust, the Developer and others, and by the Developer to Westpac under the Agreement for Lease. The licence was on terms substantially similar to the terms of the Westpac Lease, and expired at midnight on the day before 1 November 2006.

Under the terms of the licence, Westpac and the retail tenants paid the Developer licence fees calculated by reference to the amount of rent which would have been payable under their respective leases. These payments continued until expiry of the licence period.

From 1 November 2006, rental income due from Westpac is recognised in the Trust's income statement.

**Note 2 – Rental and other property income** *(continued)**Rent variation agreement*

The Rent Variation Agreement with Westpac commenced on 1 November 2006.

Under the agreement, the total rent received by the Trust will start higher than rent under the lease and will escalate at a rate of 2.0% p.a., compared to 4.0% p.a. for rent in the lease. The arrangement is for ten years and has zero net impact on the discounted cash flows, however it may be terminated early in certain circumstances. Income received from Westpac under the rent variation agreement is recognised in the Trust's income statement.

If the rent variation agreement is terminated, the Trust will be required to pay Westpac liquidated damages, including funding costs to the date of termination and break costs in respect of the fixed rate funding for the remaining term of the agreement.

**Woolworths National Support Office, 1 Woolworths Way, Norwest Business Park**

Rental income from Woolworths Limited is received monthly in advance, and recognised on a straight-line basis over the initial lease term of 15 years, with fixed increases of 2.75% p.a. on each anniversary of the commencing date, 1 November.

Refer to Note 1(c) for an explanation of the treatment of rental income under A-IFRS.

**Note 2(a) – Other income**

	<b>Consolidated Half-year</b>	
	<b>2006</b>	<b>2005</b>
	<b>\$'000</b>	<b>\$'000</b>
Net gain on fair value of interest rate swaps	9,179	–
Supervision fee income	204	–
Incentive payment for early commencement of swap	–	3
	<b>9,383</b>	<b>3</b>

### Note 3 – Finance costs

	Consolidated Half-year	
	2006 \$'000	2005 \$'000
<b>Finance costs – other</b>		
Interest expense on interest bearing liabilities	18,069	1,300
Less: finance costs capitalised	-	(305)
Interest expense and fees on bank accounts and term deposit	2,235	-
Net loss on fair value of interest rate swaps	-	1,002
<b>Total finance costs – other</b>	<b>20,304</b>	<b>1,997</b>
<b>Finance costs – attributable to unitholders</b>		
30 September 2005 distribution paid	-	6,388
31 December 2005 distribution paid	-	7,881
30 September 2006 distribution paid	7,952	-
Movement in net assets attributable to unitholders	24,949	(9,833)
<b>Total finance costs – attributable to unitholders</b>	<b>32,901</b>	<b>4,436</b>
<b>Total finance costs</b>	<b>53,205</b>	<b>6,433</b>

### Note 4 – Other assets

	Consolidated	
	31 December 2006 \$'000	30 June 2006 \$'000
<b>Current</b>		
Other deferred assets	164	293
Prepayments	343	31
	<b>507</b>	<b>324</b>
<b>Non-current</b>		
Deposit paid for property	2,050	-
Valuation fee	20	-
	<b>2,070</b>	<b>-</b>

On 15 December 2006, The Trust paid a deposit of \$2.05 million for the property at 221-227 Anzac Parade, Kensington NSW. As at the half-year end, the Trust owed \$0.02 million in valuation fees in relation to the property. As settlement of the transaction had not occurred prior to 31 December 2006, this deposit and valuation fee is disclosed under other assets rather than investment property in accordance with Accounting Standards. Refer to Note 11 Events occurring after reporting date for further detail.

## Note 5 – Investment properties

	Note	Consolidated	
		31 December 2006 \$'000	30 June 2006 \$'000
Freehold – Westpac Place	5(a)	773,000	750,000
Leasehold – Woolworths National Support Office	5(b)	255,000	250,917
		1,028,000	1,000,917

### (a) Westpac Place, 275 Kent Street, Sydney

#### Property description

Westpac Place, 275 Kent Street, Sydney NSW 2000

	Consolidated	
	31 December 2006 \$'000	30 June 2006 \$'000
Acquisition and construction cost	550,953	551,453
Capitalised interest	67,056	67,056
Lease incentives	707	269
Capitalised expenditure	3	–
Cost	618,719	618,778
Revaluation	154,281	131,222
Fair value	773,000	750,000

#### Date of Completion – 5 June 2006

The property is a commercial freehold property.

The property was independently revalued by CB Richard Ellis as at 31 December 2006.

The fair value of the investment property at 31 December 2006 includes the unamortised cost of lease incentives, unamortised leasing costs and the impact of straight-lining rental income in accordance with A-IFRS.

## Note 5 – Investment properties *(continued)*

### (b) Woolworths National Support Office, 1 Woolworths Way, Norwest Business Park

#### Property description

Woolworths National Support Office

1 Woolworths Way, Norwest Business Park, Baulkham Hills NSW 2153

	Consolidated	
	31 December 2006 \$'000	30 June 2006 \$'000
Option fee	241,670	241,670
Capitalised costs	9,247	9,247
Cost	250,917	250,917
Revaluation	4,083	-
Fair value	255,000	250,917

WOW Office Trust holds a ground lease for the property for a term of 99 years commencing 31 October 2005, and granted a sub-lease of the property to Woolworths for an initial term of 15 years commencing 1 November 2005.

The property was independently revalued by CB Richard Ellis as at 1 October 2006. The directors have determined there to be no material change to the property or the market to indicate any change in value in the period between the date of valuation and 31 December 2006. As such the property is currently carried at the fair value determined on the date of valuation.

The fair value of the investment property at 31 December 2006 includes the unamortised cost of lease incentives, unamortised leasing costs and the impact of straight-lining rental income in accordance with A-IFRS.

### (c) Change in fair value of investment properties

	Consolidated Half-year	
	2006 \$'000	2005 \$'000
Revaluation of investment properties	27,142	-
Impact of straight-lining rental income	(2,835)	(611)
	24,307	(611)

## Note 6 – Other financial assets

Two new companies, WOT CMBS Pty Limited (“WOT CMBS”) and WOT Loan Note Pty Limited (“WOT LN”) were established and registered on 25 September 2006 to facilitate the \$505 million Commercial Mortgage Backed Securities (“CMBS”) issue. The companies are wholly owned by the Trust, and their results are consolidated into the accounts of the Trust for the half-year ended 31 December 2006.

An additional wholly-owned sub-trust, Uni No. 1 Office Trust (“UOT”) was established on 15 December 2006 to facilitate the acquisition of the property at Anzac Parade, Kensington. UOT is wholly owned by WOT Holding Trust. Through its investment in WOT Holding Trust, the Parent Entity therefore owns 100% of the issued units of UOT.

## Note 7 – Interest bearing liabilities

	Consolidated	
	31 December 2006 \$'000	30 June 2006 \$'000
<b>Current</b>		
Bank loan – secured	–	581,316
<b>Non-current</b>		
Commercial mortgage backed securities	502,596	–
Corporate bank facility	(57)	–
	502,539	–

The CMBS balance above as at 31 December 2006 is shown net of unamortised debt establishment costs. Debt establishment costs of \$60,000 paid for the currently undrawn corporate bank facility are deferred and amortised on a straight-line basis over the term of the facility. The unamortised balance of \$57,000 is shown above.

### Financing arrangements

Access was available at balance date to the following lines of credit:

	Consolidated	
	31 December 2006 \$'000	30 June 2006 \$'000
<b>Bank loan facilities</b>		
Overdraft	–	2,000
Construction finance debt facility	–	613,000
Corporate bank facility	15,000	–
Commercial mortgage backed securities	505,000	–
Used at balance date	(505,000)	(581,316)
Unused at balance date	15,000	33,684

The bank loan facilities above are shown excluding unamortised debt establishment costs.

On 1 November 2006, \$108 million of the \$613 million construction finance debt facility was repaid, with the remaining \$505 million extended on short-term basis. This facility was refinanced on 15 November 2006 by a six month bridge facility from Westpac, secured over the Trust's interests in both the Westpac Place and Woolworths National Support Office properties.

On 18 December 2006, the Trust refinanced the bridge facility through a \$505 million issue of CMBS, with a scheduled maturity date of 16 November 2011 and a weighted average equivalent margin of 0.276% over BBSY.

The underlying floating interest rate for the CMBS is fully hedged at a weighted average rate of 5.92% p.a. to November 2011.

The Trust also has available a \$15 million facility from Westpac for general corporate and other purposes, which is currently undrawn.

The \$2 million overdraft facility has been cancelled.

## Note 8 – Net assets attributable to unitholders

	Consolidated	
	31 December	30 June
	2006 \$'000	2006 \$'000
<b>a) Movements in net assets attributable to unitholders during the period were as follows:</b>		
Balance at the beginning of the period	525,288	323,015
Issue of units	-	81,111
Issue costs	-	(3,761)
Total finance costs – attributable to unitholders	20,903	147,073
30 September 2005 distribution paid	-	(6,388)
31 December 2005 distribution paid	-	(7,881)
31 March 2006 distribution paid	-	(7,881)
30 June 2006 distribution paid	(7,881)	-
30 September 2006 distribution paid	(7,952)	-
Retained profit attributable to unitholders	11,998	-
<b>Balance at the end of the period</b>	<b>542,356</b>	<b>525,288</b>

In accordance with AASB 132, net assets attributable to unitholders are disclosed as liabilities.

	Consolidated	
	31 December	30 June
	2006 No. '000	2006 No. '000
<b>b) Movements in the number of units during the period were as follows:</b>		
Units on issue:		
Opening balance	446,111	365,000
Issue of units	-	81,111
Closing balance	446,111	446,111

All 446.1 million units issued under the Deferred Payment Arrangements are held by the security trustee, Westpac Custodian Nominees Limited.

## Note 9 – Segment information

### Business segment

The Trust operates solely in the property investment industry.

### Geographical segment

The Trust operates and holds property solely in Australia.

## Note 10 – Contingent liabilities and commitments

The Trust does not have any contingent liabilities or commitments.

## Note 11 – Events occurring after reporting date

On 12 January 2007, the Trust settled its acquisition of a third property, 221-227 Anzac Parade, Kensington, NSW, in a sale and leaseback transaction for \$41 million from the University of NSW (“UNSW”). The building comprises 10,685 square metres of office and educational facilities.

The Trust acquired a 99 year ground lease interest and UNSW has leased back the entire building for an initial term of 25 years with options for two further 10 year terms. The lease provides for fixed 3% p.a. rental adjustments and is ‘triple net’ with UNSW responsible for all capital and operating expenses.

The acquisition and related costs will be debt funded through a separate \$45.1 million 12 month bank loan facility from Westpac.

The financial effects of the above transaction other than that regarding the deposit paid and valuation fee payable (refer to Note 4) have not been brought to account as at 31 December 2006.

The directors are not aware of any other significant events since the reporting date.

## Note 12 – Earnings per unit

	<b>31 December</b>	<b>31 December</b>
	<b>2006</b>	<b>2005</b>
	<b>CPU</b>	<b>CPU</b>
Alternative earnings per unit (CPU)	7.38	1.09

The alternative earnings per unit is determined by dividing the net operating profit before finance costs attributable to unitholders by the weighted average number of units issued during the reporting period.

## Directors' declaration

In the directors' opinion:

- (a) the financial statements and notes set out on pages 7 to 22 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the Trust's and Consolidated Entity's financial positions as at 31 December 2006 and of their performance, as represented by the results of their operations and their cash flows, for the half-year ended on that date; and
- (b) there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

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



Alan Cameron, Director



David Westaway, Director

Date: 21 February 2007



**INDEPENDENT AUDITOR'S REVIEW REPORT**  
**to the members of Westpac Office Trust**

**PricewaterhouseCoopers**  
**ABN 52 780 433 757**

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**Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of Westpac Office Trust, which comprises the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration for the Westpac Office Trust Group (the consolidated entity). The consolidated entity comprises both Westpac Office Trust (the registered scheme) and the entities it controlled during that half year.

*Directors' Responsibility for the Half-Year Financial Report*

The directors of the Westpac Funds Management Limited (the responsible entity) are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Westpac Office Trust, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. It also includes reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

For further explanation of a review, visit our website <http://www.pwc.com/au/financialstatementaudit>.

Liability limited by a scheme approved under Professional Standards Legislation



While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

Our review did not involve an analysis of the prudence of business decisions made by directors or management.

*Matters relating to the electronic presentation of the reviewed financial report*

This review report relates to the financial report of Westpac Office Trust (the registered scheme) for the half-year ended 31 December 2006 included on the Westpac web site. The registered scheme's directors are responsible for the integrity of the Westpac web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the financial report identified above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the reviewed financial report to confirm the information included in the reviewed financial report presented on this web site.

*Independence*

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Westpac Office Trust is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

A handwritten signature in black ink that reads "PricewaterhouseCoopers" in a cursive style.

PricewaterhouseCoopers

A handwritten signature in black ink that reads "J A Dunning" in a cursive style.

J A Dunning  
Partner

Sydney  
21 February 2007

## Annexure A – Business development agreement

### (1) ASX waiver

The Australian Stock Exchange Limited (“ASX”) has granted the Trust a waiver from compliance with ASX Listing Rule 10.1, which allows the Trust to acquire interests in properties from Westpac Banking Corporation (“Westpac”) or one of its subsidiaries under a Business Development Agreement (“BDA”) with Westpac without having to obtain unitholder approval for each transaction.

A condition attached to the waiver is that the Trust must include the following in each annual report following entry into a BDA with Westpac:

- a summary of the terms and conditions of the BDA; and
- full disclosure of all acquisitions from Westpac in accordance with the terms of the BDA in the relevant financial year.

On 20 July 2005 unitholders approved the entry by the Trust into a BDA with Westpac, and on the same date, the Trust executed the BDA. The Trust has elected to meet the reporting condition in this annual report.

### (2) Summary of the terms and conditions of the BDA

#### (i) *Business development services*

Under the agreement, Westpac has agreed to assist the Trust by identifying and notifying the Trust of investment opportunities which meet the criteria contained in the Trust Constitution (the “investment criteria”) and, as necessary, assisting the Trust with each acquisition.

#### (ii) *Investment selection and acquisition*

Westpac must identify investments which meet the investment criteria. For each investment identified, Westpac must prepare a scoping paper for the Trust. If the Trust so elects, Westpac must then conduct appropriate due diligence and provide the Trust with an investment proposal containing certain information to assist the Trust in determining whether to proceed with the acquisition of the investment, including independent certification that the investment meets the investment criteria.

If the Trust decides to bid for an investment, Westpac must assist the Trust to make a bid, and, if the bid is successful, assist the Trust to make the acquisition.

The Trust may request Westpac to hold the investment on the Trust’s behalf if the Trust is unable to complete the acquisition within the required timeframe. If Westpac in its sole discretion elects to hold the investment, then it must transfer the investment to the Trust on request and the Trust must pay to Westpac the amount initially paid by Westpac to acquire the investment, the applicable fees, and the reasonable costs and expenses incurred by Westpac in connection with the arrangement.

#### (iii) *Term, termination and amendment*

The agreement has an initial term of one year, which was extended by mutual agreement until 20 July 2010. Either party may terminate the agreement for any reason by giving 90 days written notice. Each party may also terminate earlier if certain defined events occur. Approval by unitholders must be sought to amend any material terms of the BDA.

#### (iv) *Cost and fees*

Westpac must bear any costs associated with bidding for new properties if the Trust elects not to proceed to acquire an investment or if it does but the bid is unsuccessful. If a bid is successful, the Trust will pay Westpac’s reasonable costs and expenses, and if the Trust actually acquires the investment, it must also pay Westpac an arranging and advisory fee to be agreed by the parties for each investment. Any fee paid by the Trust to Westpac must be on commercially competitive terms.

### (3) Acquisitions from Westpac Banking Corporation in the relevant period

For the half-year to 31 December 2006, the Trust did not acquire any investments from Westpac or its subsidiaries.

## Directory

### Responsible Entity

Westpac Funds  
Management Limited  
ABN 28 085 352 405

### Registered office

Level 20,  
275 Kent Street  
Sydney NSW 2000

### Company secretary

Sean Ward  
Tel: +61 2 8253 3767

Katherine Fleming  
Tel: +61 2 8254 5698

### Auditors

For the Responsible Entity and the  
Trust:  
PricewaterhouseCoopers  
201 Sussex Street  
Sydney NSW 2000

### Westpac Office Trust registry

Link Market Services Limited  
Level 12, 680 George Street  
Sydney NSW 2000  
Tel: 1300 766 855 or +61 2 8280 7072

### Stock exchange listing

ASX Company announcements – WOT  
Price – WOTCA

For all enquiries please contact:

**Link Market Services Limited**

**Level 12, 680 George Street**

**Sydney NSW 2000**

**Telephone: 1300 766 855**