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Results announcement

Westpac Office Trust (WOT)

Total pages: 32

19 February 2010

Appendix 4D – Report for the half year ended 31 December 2009

Please find enclosed the following documents:

A. Results for announcement to the market
B. Commentary on the results
C. Financial report for the half year ended 31 December 2009
D. Independent auditor's review report

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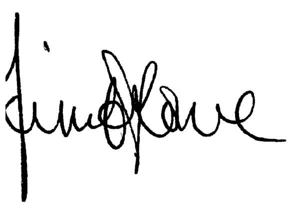

Kim Rowe
Company Secretary
Westpac Funds Management Limited

A. Results for announcement to the market

Financial Results summary

	Change from previous corresponding period	Half year to 31 December 2009 ($'000)	Half year to 31 December 2008 ($'000)
Rental and other income	Up 3%	54,581	53,212
Interest income	Down 69%	404	1,312
Net gain (loss) on interest rate swaps (1)	Up 113%	13,262	(103,590)
Net gain (loss) on North Ryde Office Trust(1)	Up 490%	5,263	(1,350)
Net gain (loss) on investment properties	Up 65%	(21,129)	(60,696)
Revenue from ordinary activities	**Up 147%**	**52,381**	**(111,112)**
Responsible Entity fees and expenses	Down 73%	(2,881)	(10,510)
Property expenses and outgoings	Up 35%	(7,253)	(5,356)
Finance costs	Down 4%	(25,083)	(26,133)
Total operating expenses	**Down 16%**	**(35,217)**	**(41,999)**
Profit (loss) from ordinary activities after tax attributable to unitholders	**Up 111%**	**17,164**	**(153,111)**
Net profit (loss) for the period attributable to unitholders	**Up 111%**	**17,164**	**(153,111)**

(1) The sum of net gain (loss) on interest rate swaps and North Ryde Office Trust equates to the net gain (loss) on securities as per the Condensed Consolidated Statement of Comprehensive Income.

Refer to Section B for commentary on the results.

Distributions

	Half year to 31 December 2009 Cents per unit	Half year to 31 December 2008 Cents per unit
September quarter distribution		
Tax deferred amount (1)	1.6625	1.6625
Record date	30 September 2009	30 September 2008
Payment date	16 November 2009	17 November 2008
December quarter distribution		
Tax deferred amount (1)	1.6625	1.6625
Record date	31 December 2009	31 December 2008
Payment date	16 February 2010	16 February 2009

(1) Tax deferred amounts for distributions are estimates only. The Annual Distribution Statement issued to unitholders for year ending 30 June 2010 will confirm the tax components of all distributions.

Performance Indicators

	Change from previous corresponding period	31 December 2009	31 December 2008
Net tangible assets (1)	Down 5.6%	$0.84	$0.89
Unit price (2)	Down 7.3%	$0.76	$0.82

(1) The value of the Trust's assets is derived using the basis set out in Note 1 to the financial statements.

(2) Estimated unit price at 31 December 2008 based on instalment receipt price ($0.32) and outstanding instalment debt ($0.50)

Distribution reinvestment plans

The Trust does not have a distribution reinvestment plan.

B. Commentary on the results

Key Points

- Statutory net operating profit increases to $17.2 million (up 111%)
- Rental income increases to $54.6 million (up 3%)
- Reduced near term vacancy risk with minimal lease expiry prior to November 2014
- 100% of portfolio independently valued resulting in an increase of $0.6 million to $1,137.1 million
- NTA of $0.84 per unit
- Full year DPU guidance of 6.65 cents re-affirmed

Overview

WOT today announced half year results to 31 December 2009. The Trust's high quality assets, secure cashflows from investment grade tenants and minimal lease expiry risk continue to underpin the resilient performance evidenced in this result.

Revenue from ordinary activities was $52.4 million, up 147% from a loss of $111.1 million in the prior corresponding period (pcp). This result reflects increasing rental income, unrealised gains from interest rate swaps, and revaluation adjustments to the carrying value of investment properties.

The statutory result for the Trust was a net profit of $17.2 million for the six months to 31 December 2009. This is an increase of 111% from the loss of $153.1 million in the pcp.

Distributable income was $16.3 million, a decrease of 1.2% over the pcp. Distributions paid by the Trust for the six month period to 31 December 2009 totalled $16.0 million, the same amount as the pcp.

The entire portfolio was independently valued at 31 December 2009. The portfolio's carrying value at 31 December 2009 was $1,137.1 million, an increase in value of $0.6 million[1] over the period.

The valuations resulted in the weighted average capitalisation rate for the portfolio increasing by 0.08% from 7.31%[1] at 30 June 2009, to 7.39% at 31 December 2009. The capitalisation rate for the Trust's flagship asset, Westpac Place, 275 Kent Street, Sydney, at 31 December 2009 was 7.00%, an increase of 0.12% from the 30 June 2009 capitalisation rate of 6.88%.

Total gross assets at 31 December 2009 were $1,147 million, a decrease of $46.6 million from 30 June 2009, due to the sale of 223 Anzac Parade, Kensington, NSW for $35.5 million and capital expenditure on the portfolio. Net tangible assets (NTA) at 31 December 2009 were $0.84 per unit.

Recognition of the fair value of the Rental Variation Agreement between the Trust and Westpac Banking Corporation with respect to the rent received at 275 Kent Street Sydney is a change from the previous accounting treatment for this agreement[2]. On this basis the Trust's 30 June 2009 NTA is restated from $0.86 per unit to $0.84 per unit.

The Trust's total return for calendar year 2009 was negative 4.5%. As this is below the performance fee benchmark index, the Trust's Manager is not entitled to a performance fee for the year.

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[1] Excludes 223 Anzac Parade, Kensington, NSW property which was sold during the period.
[2] See Note 11(b) in the Financial Statements

Commenced trading in ordinary units

On 10 September 2009 investors voted in favour of proposals to:

- Cease trading instalment receipts and commence trading units in the Trust on the ASX;
- Extend the term and payment arrangements of the instalment receipts with $0.25 payable on 1 November 2011 and the remaining $0.25 payable on 1 November 2013; and
- Amend the terms and extend until 2014, the Business Development Agreement between the Responsible Entity of the Trust and Westpac Banking Corporation (Westpac).

Instalment receipts ceased trading on the ASX on 11 September 2009 with trading in units in the Trust commencing on 14 September 2009.

As at 31 December 2009 32.8 million instalment receipts had been converted to units and 448.3 million instalment receipts remained on issue.

Sale of 223 Anzac Parade, Kensington, NSW

On 22 December 2009, the Trust settled the sale of 223 Anzac Parade, Kensington, NSW. The sale price of $35.5 million, equating to an initial yield of 7.6%, a 1.4% discount to the 30 June 2009 carrying value of $36.0 million. Net proceeds from the sale were used to retire debt.

Leasing Activity

At their Cumberland Forest campus located at Pennant Hills, NSW, IBM Australia committed to a further four year term over 9,000 sqm extending the lease term over the whole campus until August 2015. The 31 December 2009 valuation of this property increased to $96.3 million from $93.0 million at 30 June 2009.

At 50 Talavera Road, North Ryde, NSW terms have been agreed with Westpac Banking Corporation for the surrender of the current lease, due to expire in November 2014, and the grant of a new 15 year triple net lease over the entire 11,323 sqm facility. The valuation of the whole property increased from $35.0m at 30 June 2009 to $44.5 million at 31 December 2009. WOT owns 50% of this property with the balance held by the Westpac Diversified Property Fund.

As a result of these lease extensions, the near term lease expiry risk of the Trust's portfolio has reduced significantly. Only 4% of existing leases by value are now due to expire during the period to November 2014.

Capital Management

The Trust held total debt facilities at 31 December 2009 of $736 million compared to $771 million at 30 June 2009. Total drawn debt at 31 December 2009 was $712 million.

The facility limit on the Westpac term debt facility was reduced from $251 million to $216 million after repaying debt from the sale proceeds of 223 Anzac Parade, Kensington NSW. The Trust has no facilities maturing until July 2011 and continues to maintain adequate headroom within the covenants of its facilities. Borrowings remain fully hedged and the weighted average cost of borrowings, inclusive of margins, is 6.53%.

Market Outlook

Signs of recovery are becoming clearer in both the commercial property and capital markets.

Evidence of improvement in tenant demand and rental growth for offices will lag recovering business sentiment but forecast peak vacancy rates in office markets are being revised down reflecting the improving outlook. The Trust is in the strong position of having minimal exposure to vacancy risk until 2014 insulating it from the need for significant tenancy incentives and the weak outlook for net rental growth in the near term.

Transaction activity evidences a broader range of purchasers returning to the market. However, vendors are withdrawing stock from sale as they also take a more positive view or their motivations for sale change.

The asset devaluation cycle seems to be largely complete, particularly for prime assets with secure cashflows such as the Trust's portfolio. If purchaser interest continues to strengthen, capital growth may be evident later in 2010 which would be earlier than has previously been forecast.

Trust Outlook

The commencement of trading the Trust's units on 14 September 2009 has improved the appeal of the Trust to a wider range of investors.

The leasing activity reported for the period has further strengthened the performance prospects for the portfolio in the near term and the Manager is of the view that there is little likelihood of further downward pressure on asset values in the Trust's portfolio in 2010. The Manager is not pursuing further sales of the Trust's smaller assets.

The Trust's current debt facilities expire in July and November 2011. The Manager considers that within the tenor of the current facilities, it is probable that market rates for debt for the Trust will remain higher than the terms of the current facilities. However, the range of options available to the Trust to refinance its debt facilities and further de-leverage the balance sheet is increasing as capital markets continue to recover. The Manager continues to evaluate the most appropriate strategy to strengthen and improve the Trust's capital structure with the intention to implement the necessary changes during CY10.

Previously expressed expectations that the listed property sector may experience a period of rationalisation in 2010 are being borne out and the Manager continues to be receptive to strategically consistent opportunities that maximise value for investors.

The Trust continues to perform in line with expectations. Assuming no material change to the economic environment or the operating arrangements of the Trust, the Manager reaffirms guidance that the Trust expects to pay distributions of 6.65 cents per unit, or a net distribution of 3.4 cents per instalment receipt after payment of instalment debt interest, for the full year to 30 June 2010. The distribution is again expected to be 100% tax deferred.

C. Financial report for the half year ended 31 December 2009

Westpac Office Trust

ARSN 103 853 523

Condensed Consolidated Interim Financial Statements for the half year ended 31 December 2009

Directors' Report

The directors of Westpac Funds Management Limited (WFML) as the Responsible Entity for Westpac Office Trust (the Scheme) present their report together with the condensed consolidated interim financial statements for Westpac Office Trust and its controlled entities (collectively the Group) for the half year ended 31 December 2009.

Directors

The names of the directors of the Responsible Entity in office during the half year and until the date of this report are:

Alan Cameron	Chairman
Steve Boulton	
Jim Evans	Appointed on 6 October 2009
Liam Forde	
Stephen Gibbs	
Mike Hutchinson	Retired on 31December 2009
Jim McDonald	
Sean McElduff	Retired on 6 October 2009
Les Vance	Appointed on 6 October 2009

All directors were in office from the beginning of the half year until the date of this report unless otherwise stated.

Company secretaries

The Company Secretaries of the Responsible Entity in office during the half year and until the date of this report are Claire Filson (resigned 31 December 2009) and Kim Rowe.

Principal activities

The Scheme's principal activity during the period is to invest in securely leased commercial properties in Australia, as set out in the Product Disclosure Statement dated 26 August 2005 and are in accordance with the provisions of the Scheme's Constitution.

Results and review of operations

Instalment receipt restructure

At a meeting held on 10 September 2009 unitholders voted in favour of the following changes to the instalment receipt structure:

- Trading of instalment receipts (ASX code WOTCA) ceased on 11 September 2009 and trading in fully paid units (ASX code WOT) commenced on 14 September 2009.
- The term of the instalment receipts was extended from 1 November 2011 to 1 November 2013 with the amount of the instalment debt payable on 1 November 2011 reduced to $0.25 per instalment receipt with the remaining amount of $0.25 payable on 1 November 2013.

As a consequence Investors holding instalment receipts have the following options available to them:

- Continue to hold instalment receipts; or
- Sell all or part of their investment through brokers who will sell the underlying units; or
- Convert part of all of their instalment receipt holding to fully paid units, through early repayment of the instalment debt.

Sale of property – 221-227 Anzac Parade, Kensington, New South Wales

On 24 November 2009, the Scheme announced that it had exchanged contracts to sell one of its investment properties, 221-227 Anzac Parade, Kensington, New South Wales.

The property was sold at a sale price of $35.5 million, equating to an initial yield of 7.6%. The sale price was at a 1.4% discount to the 30 June 2009 valuation of $36.0 million.

Results

The operating profit after income tax of the Group for the half year ended 31 December 2009 was $17,164,000 (2008 – $153,111,000 loss).

Distributions

During the half year ended 31 December 2009, two distributions were declared by the Scheme as follows:

- a distribution of 1.6625 cents per unit was declared for the quarter ended 30 September 2009 (2008 – 1.6625 cents) and paid on 16 November 2009; and
- a distribution of 1.6625 cents per unit was declared for the quarter ended 31 December 2009 (2008 – 1.6625 cents) and paid on 16 February 2010.

Business development agreement

The ASX has granted a waiver from ASX Listing Rule 10.1 to permit the Scheme to acquire interest in property investments from Westpac Banking Corporation 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.

At a meeting held on 10 September 2009, unitholders voted in favour to amend the terms and extend the BDA, which was initially due to expire in July 2010, for another four years to July 2014.

Other than the unitholders vote to amend the terms and extend the agreement for a further four years, no transactions were entered into under the BDA this financial year. Refer to Annexure A for further information.

Rounding of amounts to the nearest thousand dollars

The Scheme is an entity of a kind referred to in ASIC Class Order 98/0100, and in accordance with that Class Order, amounts in the condensed consolidated interim financial report have been rounded off to the nearest thousand dollars, unless otherwise stated.

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 3.

Signed in accordance with a resolution of the directors of Westpac Funds Management Limited as Responsible Entity for Westpac Office Trust.

Alan Cameron
Chairman

19 February 2010

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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 2009, 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.

JW Bennett
Partner
PricewaterhouseCoopers

Sydney
19 February 2010

Condensed Consolidated Statement of Comprehensive Income

	Note	Consolidated	
		31 December 2009	31 December 2008
		$'000	$'000
Income			
Rental and other property income	3	**53,200**	52,234
Interest income	4	**404**	1,312
Distribution income		**392**	890
Net gain/(loss) - securities	5	**18,525**	(104,940)
Net gain/(loss) - investment properties	6	**(21,129)**	(60,696)
Other income		**989**	88
Total income		**52,381**	(111,112)
Expenses			
Responsible Entity fees	7	**2,066**	10,110
Audit fees		**37**	98
Property expenses and outgoings		**7,253**	5,356
Finance costs	8	**25,083**	26,133
Other expenses		**778**	302
Total expenses		**35,217**	41,999
Net profit/(loss) for the half year		**17,164**	(153,111)
Other comprehensive income		**0**	0
Total comprehensive income/(loss) for the half year		**17,164**	(153,111)

	31 December 2009	31 December 2008
	Cents	Cents
Basic earnings per unit (cents per unit)	3.56	(31.76)
Diluted earnings per unit (cents per unit)	3.56	(31.76)

The above Condensed Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Condensed Consolidated Statement of Financial Position

		Consolidated	
		31 December 2009	30 June 2009
	Note	**$'000**	$'000
Current Assets			
Cash and cash equivalents		**16,429**	27,803
Receivables		**2,093**	469
Other assets		**214**	1,093
Total current assets		**18,736**	29,365
Non current assets			
Securities (assets)	10	**22,698**	17,435
Investment properties	11(a)	**1,105,922**	1,147,185
Total non current assets		**1,128,620**	1,164,620
Total assets		**1,147,356**	1,193,985
Current liabilities			
Payables	12	**12,214**	10,785
Securities (liabilities)	13	**1,834**	29,584
Borrowings	14	**4,533**	3,886
Other liabilities		**152**	4,691
Total current liabilities		**18,733**	48,946
Non current liabilities			
Securities (liabilities)	13	**13,767**	0
Borrowings	14	**710,190**	739,187
Total non current liabilities		**723,957**	739,187
Total liabilities		**742,690**	788,133
Net assets		**404,666**	405,852
Equity			
Contributed equity	16	**461,071**	463,390
Reserves	17	**7,845**	7,845
Accumulated losses	18	**(64,251)**	(65,383)
Total equity		**404,666**	405,852

The above Condensed Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Condensed Consolidated Statement of Changes in Equity

		Consolidated			
	Note	Contributed Equity $'000	Reserves $'000	Retained Earnings $'000	Total $'000
Balance at 1 July 2008		463,390	0	133,988	597,378
Effect of change due to Rent Variation Agreement	11(b)	0	0	(5,325)	(5,325)
		463,390	0	128,663	592,053
Net profit/(loss) for the half year		0	0	(153,111)	(153,111)
Other comprehensive income		0	0	0	0
Total comprehensive income/(loss) for the half year		0	0	(153,111)	(153,111)
Transaction with owners in their capacity as owners:					
Ordinary units issued during the period:					
Distributions paid and payable to unitholders	9	0	0	(16,032)	(16,032)
Balance at 31 December 2008		463,390	0	(40,480)	422,910
Balance at 1 July 2009	14	**463,390**	**7,845**	**(57,568)**	**413,667**
Effect of change due to Rent Variation Agreement	11(b)	**0**	**0**	**(7,815)**	**(7,815)**
		463,390	**7,845**	**(65,383)**	**405,852**
Net profit/(loss) for the half year		**0**	**0**	**17,164**	**17,164**
Other comprehensive income		**0**	**0**	**0**	**0**
Total comprehensive income/(loss) for the half year		**0**	**0**	**17,164**	**17,164**
Transaction with owners in their capacity as owners:					
Ordinary units issued during the period:					
Issued units - restructure costs		**(2,319)**	**0**	**0**	**(2,319)**
Distributions paid and payable to unitholders	9	**0**	**0**	**(16,032)**	**(16,032)**
Balance at 31 December 2009		**461,071**	**7,845**	**(64,251)**	**404,666**

The above Condensed Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Condensed Consolidated Statement of Cash Flows

	Consolidated	
	31 December 2009	31 December 2008
	$'000	$'000
Cash flows from operating activities		
Rental and other property income received	**45,585**	52,179
Interest income received	**421**	1,314
Distributions income received	**843**	877
Other income received	**1,141**	7,132
Finance costs paid	**(24,487)**	(32,823)
Responsible Entity's fees and other operating expenses paid	**(9,345)**	(8,453)
Goods and services tax paid to the Australian Taxation Office	**(4,226)**	(3,545)
Net cash inflow/(outflow) from operating activities	**9,932**	16,681
Cash flows from investing activities		
Capital expenditure paid	**(10,086)**	(5,291)
Proceeds from sale of investment property	**36,559**	0
Payments for investment property under construction	**0**	(7,349)
Net cash inflow/(outflow) from investing activities	**26,473**	(12,640)
Cash flows from financing activities		
Repayment of borrowings	**(35,450)**	(17,500)
Proceeds of borrowings	**6,000**	12,000
Unit restructure costs paid	**(2,296)**	0
Distributions paid	**(16,033)**	(16,755)
Net cash inflow/(outflow) from financing activities	**(47,779)**	(22,255)
Net increase/(decrease) in cash and cash equivalents	**(11,374)**	(18,214)
Cash and cash equivalents at the beginning of the half year	**27,803**	45,831
Cash and cash equivalents at the end of the half year	**16,429**	27,617

The above Condensed Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

1 General information

Westpac Office Trust (the Scheme) was established in Australia under a Constitution dated 4 March 2003 with Westpac Funds Management Limited (WFML) as the Responsible Entity. The Scheme was listed on the Australian Securities Exchange (ASX) on 7 August 2003.

The registered office of the Responsible Entity is located at Level 16, 90 Collins Street, Melbourne, Victoria, 3000.

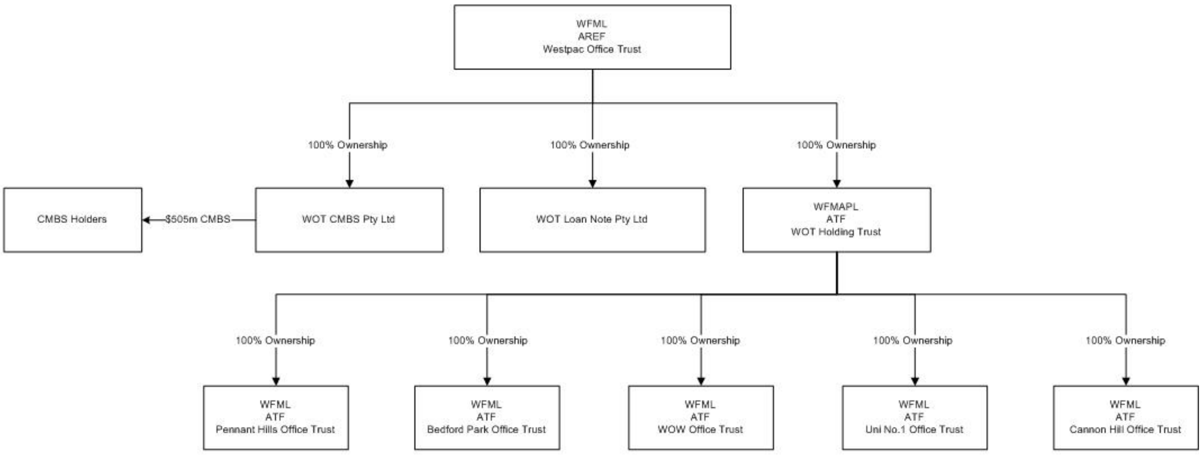
As at 31 December 2009, the Scheme had nil employees (31 December 2008 – nil employees).

The condensed consolidated interim financial statement incorporates assets and liabilities Scheme and its controlled entities, and their results for the half year ended 31 December 2009. These entities are referred to in the condensed consolidated interim financial statement as the Group.

The controlled entities of the Scheme comprise:

- WOT Holding Trust which was established in Australia under a Trust Deed dated 3 August 2005.
- WOW Office Trust which was established in Australia under a Trust Deed dated 3 August 2005.
- Uni No.1 Office Trust which was established in Australia under a Trust Deed dated 15 December 2006.
- Cannon Hills Office Trust which was established in Australia under a Trust Deed dated 30 January 2007.
- WOT CMBS Pty Limited which was established in Australia under a Constitution dated 25 September 2006.
- WOT Loan Note Pty Limited which was established in Australia under a Constitution dated 25 September 2006.
- Bedford Park Office Trust which was established in Australia under a Trust Deed dated 29 March 2007.
- Pennant Hills Office Trust which was established in Australia under a Trust Deed dated 27 September 2007.

The group structure of Westpac Office Trust is detailed below:



KEY:
WFML = Westpac Funds Management Limited
WFMAPL = Westpac Funds Management Administration Pty Ltd

2 Summary of accounting policies

(a) Basis of preparation

The condensed interim financial statements are general purpose financial statements and have been prepared in accordance with the Scheme's Constitution, the requirements of the Australian Accounting Standard AASB 134 *Interim Financial Reporting*, and the *Corporations Act 2001*.

The condensed consolidated interim financial statements for the half year ended 31 December 2009 do not include all notes of the type normally included in the annual financial statements. Accordingly, the condensed consolidated interim financial statements should be read in conjunction with the annual financial statements of the Scheme for the year ended 30 June 2009 and any announcements made by the Scheme and WFML during the year ended 31 December 2009 in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The condensed consolidated interim financial statements have been prepared in accordance with the historical cost convention, except for securities and investment properties which are measured at fair value.

Compliance with AASB 134 *Interim Financial Reporting* ensures compliance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

For the purpose of preparing the condensed consolidated interim financial statements, the half year has been treated as a discrete reporting period.

The functional and presentation currency of the Scheme is Australian dollars.

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

The condensed consolidated interim financial statements of the Scheme for the half year ended 31 December 2009 was authorised for issue in accordance with a resolution of the directors of the Responsible Entity.

(b) Changes in accounting policy

The Group has changed its segment reporting accounting policy as the result of the new accounting standard AASB 8 *Operating Segments* which became operative for the annual reporting period commencing on 1 January 2009. The Group has applied AASB 8 *Operating Segments* from 1 July 2009.

AASB 8 requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes.

Operating segments are now reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the Board of WFML, which makes all strategic decisions for the Group.

(c) Basis of consolidation

The condensed consolidated interim financial statements incorporate the assets and liabilities of the entities controlled by the Scheme and its controlled entities as at 31 December 2009. These entities are referred to in these condensed consolidated interim financial statements as the Group.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding 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 Group controls another entity.

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

All transactions (including gains and losses) and balances between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for in the condensed consolidated interim financial statements at cost.

(d) Securities

Securities are recorded at fair value through the Comprehensive Income Statements upon initial recognition. Costs incidental to the acquisition of securities are recognised as expenses in the Condensed Consolidated Statements of Comprehensive Income when incurred.

2 Summary of accounting policies (continued)

(d) Securities (continued)

After initial recognition, securities are measured at fair value as they are managed and performance evaluated on a fair value basis in accordance with the Scheme's investment strategy.

Unrealised gains or losses arising from changes in the fair value of securities are calculated as the difference between the fair value at year end and the fair value at the previous valuation point.

Realised gains or losses are recognised upon sale or restructure of securities and are calculated as the difference between the settlement and the fair value at the previous valuation point.

Purchases and sales of securities that require delivery within the time frame generally established by regulation or convention in the market place are recognised on the trade date, i.e. the date that the Group commits to purchase or sell the securities.

Listed securities

For listed securities that are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date, unless the Manager determines there is no market in respect of the relevant investment or the market value does not represent the fair value of the relevant investment.

Where the Manager so determines, the Manager must at the same time determine a method of valuation other than market value for the relevant investment.

Unlisted securities

Unlisted securities comprise units in an unregistered unit trust.

The fair values of unlisted securities comprising units in an unregistered unit trust are determined by reference to bid unit price at the close of business on balance sheet date as established and advised by the unregistered unit trust's Trustee.

Derivative securities

The Scheme uses derivative financial instruments, specifically interest rate swaps to hedge its exposure to fluctuations in interest rates arising from floating interest rate borrowings.

The fair value of derivative financial instruments is determined by reference to the fair value of the derivative instrument as advised by the counterparty to the derivative contract on balance sheet date. In assessing fair value, the projected future cash flows under the derivative contract are discounted to their present value using a pre tax discount rate that reflects a market determined risk adjusted discount rate.

(e) Investment properties

The Group has invested in a portfolio of securely leased commercial properties in Australia. The properties represent investment interests in land and buildings, including integral plant and equipment, held for the purpose of producing rental income.

The basis of valuation of the properties is at fair value, which is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices in less active markets or discounted cash flow projections.

The fair value of the investment properties includes the unamortised cost of lease incentives, unamortised leasing costs and the impact of straight-lining rental income in accordance with Accounting Standards.

The fair value of the investment properties is re-assessed at each reporting date, and is independently revalued at least every three years.

All changes in the fair value of the investment properties are recorded in the Comprehensive Income Statements.

(f) Rounding

The Scheme is an entity of a kind referred to in ASIC Class Order 98/100, and in accordance with that Class Order, amounts in the condensed consolidated interim financial statements have been rounded off to the nearest thousand dollars, unless otherwise stated.

(g) Comparatives

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosures.

3 Rental and other property income

	Consolidated	
	31 December 2009 $'000	31 December 2008 $'000
Rental income	**42,580**	41,478
Adjustment for straight-lining rental income	**4,487**	5,097
Recovery of outgoings	**6,133**	5,659
Total rental and other property income	**53,200**	52,234

4 Interest income

	Consolidated	
	31 December 2009 $'000	31 December 2008 $'000
Cash and cash equivalents	**404**	1,312
Total interest income	**404**	1,312

5 Net gain/(loss) - securities

	Consolidated	
	31 December 2009 $'000	31 December 2008 $'000
Unlisted securities		
Net gain/(loss) - unrealised	**5,263**	(1,350)
Net gain/(loss) - unlisted securities	**5,263**	(1,350)
Derivative securities		
Net gain/(loss) - unrealised	**13,262**	(103,590)
Net gain/(loss) - derivative securities	**13,262**	(103,590)
Total net gain/(loss) - securities	**18,525**	(104,940)

6 Net gain/(loss) – investment properties

	Consolidated	
	31 December 2009 $'000	31 December 2008 $'000
Net gain/(loss) - unrealised	**(21,129)**	(60,696)
Total net gain/(loss) - investment properties	**(21,129)**	(60,696)
Net gain/(loss) - unrealised comprises:		
Revaluation of investment properties	**(15,579)**	(54,251)
Adjustment for straight-lining rental income	**(4,487)**	(5,097)
Rent Variation Agreement adjustment	**(1,063)**	(1,348)
	(21,129)	(60,696)

7 Responsible Entity fees

	Consolidated	
	31 December 2009 $'000	31 December 2008 $'000
Responsible Entity management fee	**2,066**	2,265
Responsible Entity performance fee	**0**	7,845
Total Responsible Entity fees	**2,066**	10,110

Management fees

In accordance with the Scheme's Constitution, the Responsible Entity is entitled to receive an annual management fee based on 0.35% p.a. of the consolidated gross asset value of the Scheme.

Performance fees

The Responsible Entity is also entitled to charge an annual Performance Fee in the form of units in the Scheme, in the event that the Scheme's Return outperforms the Total Benchmark Return Index.

As defined in the Scheme's Constitution, if the Scheme's Return, exceeds the Benchmark Return, multiplied by the prior year's Market Capitalisation Rate, the Responsible Entity is entitled to 5% of the outperformance.

The Scheme's Return is calculated by dividing the weighted average in Scheme Index for the year, by the Scheme Index at the commencement of that period, converted to a percentage. The Scheme Index means the accumulation index for the Scheme as calculated by the ASX, or other suitable body as determined by the Responsible Entity from time to time.

The Benchmark Return is calculated by dividing the weighted average in Benchmark Index for the year, by the Benchmark Index at the commencement of that period, converted to a percentage. The Benchmark Index means the accumulation index created from the ASX listed entities that have a focus on the commercial property sector as calculated by a suitable body selected by the Responsible Entity from time to time,

When Performance Fees are paid as Performance Units, these Performance Units are determined by dividing the Performance Fee by the price of the Scheme's units.

The fee will be settled in the form of fully paid performance units provided certain conditions are met. Performance against the Total Benchmark Return Index is measured on a cumulative basis. The performance units will not be issued to the Responsible Entity until the Scheme makes a positive total return for the next or any subsequent calendar year following the period in which the provision is made. Until such time as the performance fees are payable, the provision for performance units is classified as an equity-settled share-based reserve.

The Scheme has not recognised a performance fee for the period ended 31 December 2009 as the Scheme has not met the requirements under the Constitution.

8 Finance costs

	Consolidated	
	31 December 2009 $'000	31 December 2008 $'000
Interest - bank loans	**5,528**	9,800
Interest - derivative securities	**9,535**	(2,972)
Interest - Commercial Mortgage-Backed Securities	**9,530**	18,031
Other borrowing costs	**490**	1,274
Total finance costs	**25,083**	26,133

9 Distributions paid and payable to unitholders

	Consolidated	
	31 December 2009 $'000	31 December 2008 $'000
Distribution paid - 30 September	**8,016**	8,016
Distribution declared - 31 December	**8,016**	8,016
Total distributions paid and payable to unitholders	**16,032**	16,032

During the half year ended 31 December 2009, two distributions were declared by the Scheme as follows:

- a distribution of 1.6625 cents per unit was declared for the quarter ended 30 September 2009 (2008 – 1.6625 cents) and paid on 16 November 2009; and
- a distribution of 1.6625 cents per unit was declared for the quarter ended 31 December 2009 (2008 – 1.6625 cents) and paid on 16 February 2010.

10 Securities (assets)

	Consolidated	
	31 December 2009 $'000	30 June 2009 $'000
Non current		
Unlisted securities	**22,698**	17,435
	22,698	17,435

Secuities (assets) comprise the following holdings:

Unlisted securities		
North Ryde Office Trust	**22,698**	17,435
Total unlisted securities	**22,698**	17,435

North Ryde Office Trust

The Group holds a 50% interest comprising 22,700,936 units in North Ryde Office Trust (NROT), which owns the Westpac Data Centre on the corner of Talavera and Khartoum Roads at Macquarie Park, NSW. The Group jointly owns this investment with Westpac Diversified Property Fund, a scheme for which Westpac Funds Management Limited also acts as the Responsible Entity.

NROT is valued at $0.9999 per unit at 31 December 2009 which reflects the 31 December 2009 unit price for NROT (30 June 2009 - $0.7692 per unit).

11 Investment properties

(a) Fair value

	Acquisition date	Independent Valuer	Opening carrying amount 01-Jul-09 $'000	Disposals during the period $'000	Lease incentive amortisation $'000	Capitalised expenditure $'000	Revaluation $'000	Rent Variation Agreement Adjustment $'000	Closing carrying amount 31-Dec-09 $'000
Freehold investment properties									
275 Kent Street, Sydney, NSW	05-Jun-06	Savills	730,000	0	(187)	768	(10,581)	0	**720,000**
33 Corporate Drive, Cannon Hill, QLD	14-Mar-07	Knight Frank	18,250	0	0	0	(500)	0	**17,750**
Cumberland Forest IBM Head Office, 55 Coonara Avenue, West Pennant Hills, NSW	15-Nov-07	Jones Lang Lasalle	93,000	0	1,587	9,222	(7,559)	0	**96,250**
19 Corporate Drive, Cannon Hill, QLD	30-Nov-07	Knight Frank	25,750	0	(16)	0	(2,734)	0	**23,000**
1 Hugh Cairns Avenue, Bedford Park, SA	02-Oct-07	Savills	18,000	0	0	5	(205)	0	**17,800**
Leasehold investment properties									
Woolworths National Support Office, Norwest Business Park, Baulkham Hills, NSW	04-Aug-05	CB Richard Ellis	234,000	0	0	0	6,000	0	**240,000**
221-227 Anzac Parade, Kensington, NSW	12-Jan-07	N/A	36,000	(36,000)	0	0	0	0	**0**
Sub-total - investment properties			1,155,000	(36,000)	1,384	9,995	(15,579)	0	**1,114,800**
Rent Variation Agreement (RVA)		N/A	(7,815)	0	0	0	0	(1,063)	**(8,878)**
Total			1,147,185	(36,000)	1,384	9,995	(15,579)	(1,063)	1,105,922

All investment properties were independently valued at 31 December 2009 and 30 June 2009.

11 Investment properties (continued)

(b) Rent Variation Agreement (RVA)

In 2003, the Scheme and Westpac Banking Corporation (WBC) entered into a Rent Variation Agreement (RVA). The RVA is a separate agreement to the 275 Kent Street, Sydney base lease agreement with Westpac (BLA).

The impact of the RVA is that the total rent received by the Scheme will start higher than rent under the BLA, escalating at a rate of 2.0% p.a., compared to 4.0% p.a. for rent under the BLA. The lower escalation rate will result in the total rent received by the Scheme being lower than under the BLA from 1 November 2011 until the RVA expiry date on 1 October 2016.

If the RVA is terminated, the Scheme 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 RVA.

The RVA adjustment is the adjustment required to recognise the fair value of future cashflows discounted at the implied interest rate of 9.0% p.a. over the remaining term of the RVA. If held until maturity, the RVA will have a zero net impact on the discounted cash flows of the Scheme.

The fair value of the RVA was not previously recognised by the Scheme. As a consequence of this:

- as at 30 June 2009:
  - the investment property portfolio carrying value was overstated by $7.815 million; and
  - accumulated losses were understated by $7.815 million.

- as at 31 December 2008:
  - the investment property portfolio carrying value was overstated by $6.673 million; and
  - accumulated losses were understated by $6.673 million.

Prior period adjustments have been made to restate the affected financial statement line items. The impact of the correction to the NTA of WOT at 30 June 2009 was a reduction by 2 cents per unit to $0.84 per unit.

The fair value of the RVA is disclosed separately within the investment properties note rather than reflected in the fair value of the 275 Kent Street, Sydney investment property as the RVA is a separate agreement between the Scheme and Westpac.

12 Payables

	Consolidated	
	31 December 2009	30 June 2009
	$'000	$'000
Current		
Distribution payable	**8,016**	8,016
Payable - Responsible Entity	**1,019**	1,051
Net GST payable	**276**	352
Other payables	**2,903**	1,366
	12,214	10,785

13 Securities (liabilities)

	Consolidated	
	31 December 2009 $'000	30 June 2009 $'000
Current		
Derivative securities	**1,834**	29,584
	1,834	29,584
Non current		
Derivative securities	**13,767**	0
	13,767	0
Securities (liabilities) comprise the following holdings:		
Derivative securities		
Interest rate swaps	**15,601**	29,584
Total derivative securities	**15,601**	29,584

Interest rate swaps were put in place to fix the interest payable on borrowings thus removing the volatility in interest expense and protecting WOT from the effect of rising interest rates.

Net interest payable on interest rate swaps of $1,834,000 (30 June 2009 - $2,555,000) is included as part of the current balance for derivative securities.

The net liability position of interest rate swaps has resulted from market interest rates falling below the fixed rate established by the interest rate swap. The liability position represents an unrealised loss and, if the swaps are held until expiry, as is currently intended, this position will revert to zero at expiry.

The basis of classifying derivative securities as current and/or non-current has changed from the comparative year ended 30 June 2009.

In its 2008 improvements project, the International Accounting Standards Board (IASB) confirmed that the classification of financial instruments as held for trading under the IAS 39 does not mean that they must necessarily be presented as current in the balance sheet. Financial instruments deemed primarily held for trading purposes should be presented as current, regardless of the contract's settlement date. However, if a financial instrument is not held for trading purposes, it should be presented as current or non-current on the basis of its settlement date.

Correspondingly, derivative securities such as interest rate swaps that are held to fix the interest rate exposure and are not held for trading, have been reclassed as either current or non-current based on the individual derivative contract's settlement date.

14 Borrowings

	Consolidated	
	31 December 2009 $'000	30 June 2009 $'000
Current		
Bank loans - secured [(1)]	**1,777**	0
Commercial Mortgage-Backed Securities [(1)]	**2,756**	3,886
	4,533	3,886
Non-current		
Bank loans - secured [(2)]	**206,136**	235,387
Commercial Mortgage-Backed Securities [(2)]	**504,054**	503,800
	710,190	739,187

[(1)] Represents interest payable

[(2)] Includes unamortised establishment costs

14 Borrowings (continued)

(a) Bank loans

Term facility
The Scheme entered into a 3 year $251 million term facility with Westpac on 9 July 2008. The term facility limit was reduced by $35.4 million on 22 December 2009 to $215.6 million.

The term loan is secured against all of the Scheme's investment properties and assets but ranks behind the Series 1 Commercial Mortgage-Backed Securities against the 275 Kent Street and Woolworths National Support Office properties.

Interest is charged under the term loan at the BBSY plus a margin of 0.65% p.a. on drawn amounts , plus a line fee on the total facility of 0.45%. Should the Loan to Value Ratio ("LVR") exceed 65%, the margin will increase to 0.90% p.a. The LVR is the ratio of drawn debt, including the CMBS, to the realisable value of all properties, including 275 Kent Street and Woolworths National Support Office.

The term facility is due to expire on 1 July 2011.

Working capital facility
The Scheme, entered into a 5 year $15 million working capital facility with Westpac on 13 December 2006.

The working capital facility is secured against the 275 Kent Street and Woolworths National Support Office properties (ranking equally with the $215.6 million term loan, behind the Commercial Mortgage-Backed Securities).

Interest is charged under the working capital facility at BBSY plus a margin of 0.35% p.a. on drawn amounts, plus a line fee on the total facility limit of 0.20% p.a.

The working capital facility is due to expire on 13 December 2011.

Liquidity facility
WOT CMBS Pty Limited, a subsidiary of the Scheme, entered into a $23.8 million liquidity facility with Westpac on 10 November 2006 to finance its liquidity requirements arising from the issue of the Series 1 Commercial Mortgage-Backed Securities (CMBS). Refer to Note 14 (b) for details on the CMBS.

Interest is charged under the liquidity facility at BBSY plus a margin of 0.70% p.a. on drawn amounts, plus an undrawn fee of 0.30% p.a. on undrawn amounts.

The liquidity facility expires on the maturity date of the Series 1 Commercial Mortgage-Backed Securities.

(b) Commercial Mortgage-Backed Securities (CMBS)

On 18 December 2006, WOT CMBS Pty Limited, a subsidiary of the Scheme, issued $505 million rated Series 1 Commercial Mortgage-Backed Securities (CMBS).

The Class A tranche of CMBS, totalling $320 million, was listed on the Australian Securities Exchange ("ASX") on 21 December 2007. The remaining tranches of CMBS, totaling $185 million, remain unlisted.

CMBS pay interest at 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 CMBS have a scheduled maturity date of 16 November 2011, but may continue to the final maturity date of 16 May 2013. Should the CMBS continue after 16 November 2011, WOT CMBS Pty Limited will have to pay Step-Up Margins as well as make other undertakings.

The CMBS are secured limited recourse instruments. The obligations of WOT CMBS Pty Limited under the CMBS are secured by the Series 1 CMBS Issuer Deed of Charge dated 10 November 2006. WOT CMBS Pty Limited is only liable to pay interest and repay principal on the CMBS to the extent of collections it receives in respect of assets of WOT CMBS Pty Limited that relate to the CMBS. The CMBS holders have no recourse to any assets other than assets the subject to the WOT CMBS Pty Limited fixed charge.

14 Borrowings (continued)

(c) Facilities available

	Consolidated	
	31 December 2009 $'000	30 June 2009 $'000
Total facilities available		
Bank loans		
Term facility	**215,550**	251,000
Working capital facility	**15,000**	15,000
Liquidity facility	**23,800**	23,800
Commercial Mortgage-Backed Securities	**505,000**	505,000
	759,350	794,800
Total facilities drawn		
Bank loans		
Term facility	**(195,750)**	(231,200)
Working capital facility	**(11,000)**	(5,000)
Liquidity facility	**0**	0
Commercial Mortgage-Backed Securities	**(505,000)**	(505,000)
	(711,750)	(741,200)
Total facilities undrawn		
Bank loans		
Term facility	**19,800**	19,800
Working capital facility	**4,000**	10,000
Liquidity facility	**23,800**	23,800
Commercial Mortgage-Backed Securities	**0**	0
	47,600	53,600

15 Contractual maturities of financial liabilities on an undiscounted basis

31 December 2009	**Less than 1 year $'000**	**Between 1 and 2 years $'000**	**Between 2 and 5 years $'000**	**Over 5 years $'000**	**Total $'000**
Bank loans					
Term debt facility	0	195,750	0	0	195,750
Working capital facility	0	11,000	0	0	11,000
Liquidity facility	0	0	0	0	0
Commercial mortgage-backed securities	0	505,000	0	0	505,000
Derivative securities					
Interest rate swaps - notional principal payable	0	21,500	0	134,600	156,100
Interest rate swaps - notional principal receivable	0	(21,500)	0	(134,600)	(156,100)
	0	711,750	0	0	711,750

16 Contributed equity

Movements in contributed equity during the period were as follows:

	Consolidated		**Consolidated**	
	31 December 2009	30 June 2009	**31 December 2009**	30 June 2009
	No.'000	No.'000	**$'000**	$'000
Ordinary units				
Opening balance	**482,154**	482,154	**463,390**	463,390
Units issued	**0**	0	**0**	0
Restructure costs [(1)]	**0**	0	**(2,319)**	0
Closing balance	**482,154**	482,154	**461,071**	463,390

(1) Represent costs associated with the Instalment Receipts capital restructure involving:

- the extension of the terms of the Instalment Receipts from 1 November 2011 to 1 November 2013 with the amount of Instalment debt payable on 1 November 2011 reduced from $0.50 to $0.25 per Instalment Receipt with the remaining amount of $0.25 per Instalment Receipt payable on 1 November 2013; and
- the cessation of Instalment Receipts (ASX Code WOTCA) trading on the ASX on 11 September 2009 and the commencement of ordinary units (ASX Code WOT) trading on the ASX on 14 September 2009.

Of the 482.154 million units on issue, 481.111 million units are issued under the Deferred Payment Arrangements and held by the Security Trustee, Westpac Custodian Nominees Limited.

17 Reserves

Movements in reserves during the period were as follows:

	Consolidated	
	31 December 2009	30 June 2009
	$'000	$'000
Equity settled share based reserve		
Opening balance	**7,845**	0
Performance fee expense [(1)]	**0**	7,845
Closing balance	**7,845**	7,845

(1) Refer to Note 7 for further details.

18 Accumulated losses

Movements in accumulated losses during the period were as follows:

	Consolidated	
	31 December 2009	30 June 2009
	$'000	$'000
Opening balance	**(57,568)**	133,988
Rent Variation Agreement adjustment [(1)]	**(7,815)**	(5,325)
Adjusted opening balance	**(65,383)**	128,663
Net profit/(loss) for the period	**17,164**	(161,982)
Distributions paid and payable to unitholders	**(16,032)**	(32,064)
Closing balance	**(64,251)**	(65,383)

(1) Refer to Note 11(b) for further details.

19 Segment information

Operating segments are based on the reports reviewed by the Board of WFML (acting in its capacity as the Responsible Entity of the Scheme) that are, in conjunction with the input and guidance of the fund manager of the Scheme and the Group, used to make strategic decisions for the Group. The operating segments are aligned with the investment objectives and guidelines set out in the Scheme's PDS and in accordance with the provisions of the Scheme's Constitution.

The Group has one reportable operating segment being the investment in securely leased commercial properties.

The Board of WFML takes a broad portfolio construction approach to its investment and divestment activities of its investment properties and to the management of the Group. Accordingly, all operating decisions are based upon analysis of the Group as one operating segment.

The segment information reported to the Board is consistent with the Accounting Standards and therefore consistent with the information included within the financial statements.

20 Economic dependency

The Group is dependant on Westpac and Woolworths Limited, as its main tenants, for a significant volume of its rental income.

21 Contingent assets and liabilities and commitment

The Group has committed to spend $31,200,000 in capital improvements on the Cumberland Forest IBM Head Office at West Pennant Hills and must hold the committed amount less expenditure in a cash account. The unspent amount of this commitment is adjusted for on the lease anniversary date by the changes in the Building Price Index (NSW) ("BPI").

As at 31 December 2009 $17,721,000 has been spent and the remaining commitment was $13,465,000 (30 June 2009 - $22,700,000).

Other than the requirement to pay liquidated damages under the RVA in certain circumstances as disclosed in Note 11(b), the Group does not have any other outstanding contingent assets, contingent liabilities or commitments at the end of the financial period.

22 Events occurring after the end of the reporting period

No significant events have occurred since the end of reporting period which would impact on the financial position of the Group disclosed in the Condensed Statement of Financial Position as at 31 December 2009 or on the results and cash flows of the Group for the period ended on that date.

Directors' Declaration

In the opinion of the directors of Westpac Funds Management Limited as Responsible Entity for Westpac Office Trust (the Scheme):

(a) the financial statements and notes set out on pages 4 to 20 are in accordance with the *Corporations Act 2001*, including:

  (i) complying with the Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

  (ii) giving a true and fair view of the Group's financial position as at 31 December 2009 and of its performance for the half year ended on that date; and

(b) there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable.

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

Alan Cameron
Chairman

19 February 2010

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Independent auditor's report to the unit holders of Westpac Office Trust

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial statements of Westpac Office Trust, which comprise the statement of financial position as at 31 December 2009, the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 ('WFML') (the responsible entity of the registered scheme) 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 establishing 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 2009 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.

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.

Independent auditor's report to the unit holders of Westpac Office Trust (continued)

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 the Westpac Office Trust (the registered scheme) for the half-year ended 31 December 2009 included on Westpac Office Trust's web site. The responsible entity's directors are responsible for the integrity of the Westpac Office Trust's web site. We have not been engaged to report on the integrity of this web site. The review report refers only to the statements named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. 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 2009 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.*

PricewaterhouseCoopers

JW Bennett
Partner

Sydney
19 February 2010

Annexure A – Business Development Agreement

1 ASX waiver

The Australian Securities Exchange Limited (ASX) has granted the Scheme a waiver from compliance with ASX Listing Rule 10.1, which allows the Scheme 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 Scheme 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 Scheme into a BDA with Westpac, and on the same date, the Scheme executed the BDA. The Scheme has elected to meet the reporting condition in this annual report. This waiver had been extended in 2006 for 4 years.

At a meeting held on 10 September 2009, unitholders voted in favour to amend the terms and extend the BDA, which was initially due to expire in July 2010, for another four years to July 2014. The ASX waiver has been granted and extends to 20 July 2014.

2 Summary of the terms and conditions of the BDA

(a) Business development services

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

(b) 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 Scheme. If the Scheme so elects, Westpac must then conduct appropriate due diligence and provide the Scheme with an investment proposal containing certain information to assist the Scheme in determining whether to proceed with the acquisition of the investment, including independent certification that the investment meets the investment criteria.

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

The Scheme may request Westpac to hold the investment on the Scheme's behalf if the Scheme 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 Scheme on request and the Scheme 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.

(c) Term, termination and amendment

The agreement had 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.

At a meeting held on 10 September 2009, unitholders voted in favour to amend the terms and extend the BDA, which was initially due to expire in July 2010, for another four years to July 2014.

(d) Costs and fees

Westpac must bear any costs associated with bidding for new properties if the Scheme elects not to proceed to acquire an investment or if it does but the bid is unsuccessful. If a bid is successful, the Scheme will pay Westpac's reasonable costs and expenses, and if the Scheme 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 Scheme to Westpac must be on commercially competitive terms.

3 Acquisitions from Westpac Banking Corporation in the relevant reporting period

The Scheme did not acquire any investments from Westpac or its subsidiaries during the period ended 31 December 2009.

D. Independent auditor's review report

The financial report has been reviewed and the report is attached. Refer to Section C.