

# Westpac First Trust

ARSN 102 664 700

## Annual Financial Report

30 September 2006

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This financial report covers Westpac First Trust as an individual entity.

Westpac First Trust is a managed investment scheme, constituted and registered in Australia. Its registered office is:

Level 20  
275 Kent Street  
Sydney, NSW 2000

A description of the nature of Westpac First Trust's operations and its principal activities is included in the directors' report on page 3.

# Directors' Report

The directors of Westpac Funds Management Limited ("WFML") (ABN 28 085 352 405), the responsible entity ("RE") of Westpac First Trust (the "Trust"), present their report together with the general purpose financial report of the Trust for the year ended 30 September 2006.

## Directors

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

Jim Tate

Sean McElduff

Alan Cameron (appointed 8 May 2006)

Liam Forde (appointed 8 May 2006)

Andrew Carriline (resigned 8 May 2006)

## Principal activities

The Trust is a special purpose unit trust which was established for the specific purpose of facilitating the offer of the Fixed Interest Resetable Trust Securities ("FIRsTS"). The principal activities of the Trust comprised the issue of FIRsTS and the purchase of interest bearing preferred units of the Westpac Second Trust (ARSN 102 665 029). The Trust was only permitted to invest the proceeds of the FIRsTS offer in the preferred units issued by the Westpac Second Trust. The Trust is not permitted to invest in any other assets. The preferred units provide the Trust with a vested interest in the income of the Westpac Second Trust. The Westpac Second Trust has in turn invested in convertible debentures issued by Westpac Banking Corporation's ("Westpac") New Zealand branch. Therefore, distributions paid to holders of FIRsTS are ultimately sourced from interest paid on the convertible debentures. This structure enables the holders of FIRsTS to receive the expected quarterly distributions, as described in the Product Disclosure Statement ("PDS") dated 13 November 2002 issued in respect of FIRsTS, until 31 December 2007. There were no significant changes in the nature of the Trust's activities during the period.

## Review of operations

The investment policy of the Trust continues to be that detailed in the PDS and in accordance with the provisions of the governing documents of the Trust.

### Results

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

	2006 \$'000	2005 \$'000
Net operating profit	-	-

The net operating profit for the period ended 30 September 2006 is \$nil (2005: \$nil) as interest income received on the preferred units is subsequently paid to FIRsTS holders as finance costs, and other expenses are borne by Westpac.

Quarterly distributions paid to FIRsTS holders represent interest paid on FIRsTS and not trust distributions as the FIRsTS issued by the Trust are classified as a financial liability in the balance sheet based on their redemption and settlement characteristics.

### Management expense ratio ("MER")

The MER of the Trust for the financial period is \$nil (2005: \$nil) as all expenses are borne by Westpac.

### Significant changes in state of affairs

There were no significant changes in the state of affairs of the Trust during the year.

### Matters subsequent to the end of the financial year

Except as disclosed in the financial report, no other matter or circumstance has arisen since 30 September 2006 that has significantly affected, or may significantly affect:

- i) the operations of the Trust in future financial years; or
- ii) the results of those operations in future financial years; or
- iii) the state of affairs of the Trust in future financial years.

# Directors' Report

## Likely developments and expected results of operations

The Trust will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Trust and in accordance with the provisions of the Trust Constitution.

Further information on likely developments in the operations of the Trust and the expected results of those operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Trust.

## Indemnities

No insurance premiums have been paid by the Trust in regards to insurance cover provided to either the officers of WFML or the auditor of the Trust. Provided WFML and/or its officers act in accordance with the Trust Constitution and corporations law, WFML and its officers, respectively remain indemnified out of the assets of the Trust against losses incurred while acting on behalf of the Trust. The auditor of the Trust is in no way indemnified out of the assets of the Trust.

## Fees paid to and interests held in the Trust by the RE or its associates

No fees were paid, nor were any interests in the Trust issued or granted by the Trust, to the RE or its associates during the financial year ended 30 September 2006.

## Interests in the Trust

The movement in FIRsTS on issue in the Trust during the year is as set out below:

	2006 No.	2005 No.
FIRsTS on issue at beginning of the year	6,671,140	6,671,140
FIRsTS issued during the year	-	-
FIRsTS redeemed during the year	-	-
FIRsTS on issue at 30 September	<u>6,671,140</u>	<u>6,671,140</u>

## Value of assets

	2006 \$'000	2005 \$'000
Value of trust assets at 30 September	<u>667,114</u>	<u>667,114</u>

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

## Environmental regulation

The operations of the Trust are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

## Rounding of amounts

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.

## 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 5.

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



Alan Cameron, Director



Liam Forde, Director

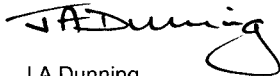
Date: 16 November 2006

## Auditor's Independence Declaration

As lead auditor for the audit of Westpac First Trust for the year ended 30 September 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 audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Westpac First Trust during the period.



J A Dunning  
Partner  
PricewaterhouseCoopers

Sydney  
16 November 2006

# Corporate Governance

## Framework and approach to corporate governance and responsibility

This section outlines the main corporate governance practices that are currently in place for Westpac Funds Management Limited in its capacity as responsible entity ("RE") of the Westpac First Trust (the "Trust").

The Trust and the RE's approach to corporate governance is to have a set of values and behaviours that underpin everyday activities, ensure transparency and fair dealing, and protect stakeholder interests. As part of the Westpac group of companies ("Westpac Group"), the RE also benefits from Westpac Banking Corporation's corporate governance framework, including risk and capital management policies, procedures and controls.

This approach includes a commitment to best practice governance standards, which the board of directors of the RE ("Board") sees as fundamental to the sustainability of the Trust and the RE's business and performance.

The Board's approach has been guided by the principles and practices which are in the best interests of investors while ensuring full compliance with legal requirements. In pursuing its commitment to best practice governance standards, the Board will continue to review and improve its governance practices and, as a member of the Westpac Group, the RE will benefit from Westpac Banking Corporation ("Westpac") continuing to:

- monitor global developments in best practice corporate governance;
- contribute to local and international debates on what represents best corporate governance practice; and
- review and improve its governance practices.

## ASX Best Practice Recommendations

In developing its overall approach to corporate governance, the Board has been guided by:

- the "Principles of Good Corporate Governance and Best Practice Recommendations" published in March 2003 by the Australian Stock Exchange Limited's Corporate Governance Council ("Recommendations"), together with the Implementation Review Group Report dated 31 March 2004, the Implementation Review Group Second Report published in February 2005 and the associated 'If not why not?' Corporate Governance Reporting Examples;
- the Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004 (also known as CLERP 9); and
- the Australian Standard AS8000 Good Governance Principles.

The ASX Listing Rules require listed entities (or in the case of a listed trust, the responsible entity of that trust) to include in their annual report a statement disclosing the extent to which they have followed the Recommendations during the reporting period, identifying the Recommendations that have not been followed and providing reasons for that variance.

This Corporate Governance Statement sets out each of the Recommendations in full and provides details of how these Recommendations have been addressed by the RE and the Trust.

A copy of this Corporate Governance Statement is available on the RE's website at [www.westpac.com.au/structuredinvestments](http://www.westpac.com.au/structuredinvestments).

## Date of this statement

This statement reflects the corporate governance policies and procedures of the RE and the Trust as at 16 November 2006.

## Principle 1: Lay solid foundations for management and oversight

It is the responsibility of the Board to ensure that the foundations for management and oversight of the RE and the Trust are established and appropriately documented.

### Role of the Board

The Board has formalised its role and responsibilities into a charter. The Board Charter clearly defines the matters reserved for the Board and those that the Board has delegated to management.

In summary, the Board's responsibilities include:

- providing strategic direction and approving significant strategic initiatives in line with the constitution of the Trust;
- determining the size and composition of the Board including the identification and evaluation of future directors;
- approving compliance plans and monitoring the effectiveness of compliance procedures;
- considering audit committee recommendations and approving the Trust's half year and end of year financial statements (including the Directors' Declaration);
- monitoring the effectiveness of the RE's risk management strategy and maintaining a direct and ongoing dialogue with the RE's auditors and regulators;
- determining the scope of authority (and any limits on that authority) delegated to senior management and determining whether all actions taken by the RE are within the authorisation of its Australian Financial Services Licence;
- appointing external auditors in respect of the RE's financial statements and the Trust's financial statements and compliance plans; and
- determining the terms of reference, membership and composition of the RE's compliance and audit committees.

A copy of the Board Charter is available at [www.westpac.com.au/structuredinvestments](http://www.westpac.com.au/structuredinvestments).

The Board has delegated to management responsibility for:

- developing and implementing Trust strategies and making recommendations on significant strategic initiatives;
- maintaining an effective risk management framework and keeping the Board fully informed about material risks;
- developing an annual budget and managing day-to-day operations within the budget;
- managing day-to-day operations in accordance with standards for social and ethical practices which have been set by the Board; and
- negotiating agreements and contracts with third parties to provide services to the Trust.

### ASX Best Practice Recommendation 1.1

The approach adopted by the Board of the RE is consistent with Recommendation 1.1 which states that the Board should formalise and disclose the functions reserved to the Board and those delegated to management.

## Principle 2: Structure the board to add value

The secret to strong and effective corporate governance is a healthy boardroom culture which promotes full disclosure of all relevant information, open discussion and the opportunity to challenge. The Board of the RE believes that sound corporate governance is crucial to protecting the interests of investors.

The Board has a broad range of relevant financial and other skills, experience and expertise to meet its objectives. The Board determines its size and composition, subject to the RE's constitution which requires that the Board comprises a minimum of one and a maximum of twelve directors ("directors").

# Corporate Governance

## Composition of the Board

The current Board's composition, with details of individual directors' backgrounds, is set out below.

### Alan Cameron

Alan Cameron A.M. is an independent non-executive Director and the current Chairman of the Board, external member and Chairman of the compliance committee and an independent member of the audit committee. Alan was Chairman of ASIC from 1993 to 2000, Commonwealth Ombudsman in 1991 and 1992, Deputy Chairman of SFE Corporation Limited from 2001 to 25 July 2006 and managing partner of the law firm Blake Dawson Waldron for 5 years during the 1980s. He is now Chairman of Cameron Ralph Pty Limited, an adviser and consultant on regulatory matters and is a Fellow of the Australian Institute of Company Directors.

### Liam Forde

Liam Forde is an independent non-executive Director of the Board, an external member of the compliance committee and the independent Chairman of the audit committee. Liam brings a wealth of experience and knowledge developed over a career spanning more than 30 years. He has held senior executive positions in a variety of industries including Ford Motor Company in the United Kingdom, Simpson Holdings Limited and Baulderstone Hornibrook in Australia. He is an experienced executive who has operated at CEO and in cross-functional roles across a diversity of industries operating in both domestic and international markets. He was formerly Chief Executive of Baulderstone Hornibrook, one of Australia's leading construction and engineering companies. Liam is a director of Rosecorp Pty Ltd Advisory Board and Crescendo Partners Advisory Board and is a member of the Australian Institute of Company Directors.

### Sean McElduff

Sean McElduff is an executive Director of the Board. Sean has been employed by Westpac since 1977 and has held a general management role in Westpac Institutional Bank since April 1999. Sean has both domestic and offshore banking experience and has held senior roles in corporate finance, capital markets and originations. In February 2003 Sean was appointed General Manager of the Specialised Capital Group, a business division within Westpac Institutional Bank which is focused on providing investors with opportunities to invest in alternate assets. Sean is a Fellow of the Australian Institute of Company Directors.

### Jim Tate

Jim Tate is an executive Director of the Board, a non-external member of the compliance committee and an executive member of the audit committee. Jim has over 25 years experience in the financial services sector. During Jim's 17 years with Westpac, he has held a number of different roles. At various times he has run the bank's Fixed Interest, Derivatives and Financial Markets' Distribution units, as well as spending seven years as head of its New York and London branches. He returned to Australia in late 1999 as General Manager, Corporate in Westpac Institutional Bank. In 2000, Jim became Managing Director of AGC, integrating its operations more closely with the bank and handling its sale to GE Capital in May 2002. In April 2003 Jim returned to Westpac Institutional Bank as Chief Financial Officer. Jim holds a Bachelor's and Master's degrees in Commerce from the University of New South Wales and is a Fellow of the Australian Institute of Company Directors.



## Meetings of the Board

The Board approves all important documents concerning the RE and the Trust, such as product disclosure statements, prospectuses, information memorandums, notices of meetings and compliance plans, as and when required. In addition, the Board meets on a monthly basis during the year and whenever necessary to deal with specific matters needing attention between the scheduled meetings. Formal meetings attended by directors for the period from 1 October 2005 to 30 September 2006 are set out below:

### Attendance at Board meetings\*

(1 October 2005 – 30 September 2006)

Director	Number of meetings held eligible to attend*	Number of meetings attended*
Jim Tate (appointed 28 July 2004)	20	17
Sean McElduff (appointed 27 August 2003)	17	17
Andrew Carriline (resigned 8 May 2006)	11	8
Alan Cameron (appointed 8 May 2006)	9	9
Liam Forde (appointed 8 May 2006)	9	9

\* This table does not include matters dealt with by the board by way of circular resolutions.

## Conflicts of interest

The Board is conscious of its obligation to ensure that directors avoid conflicts of interests (both real and apparent) between their duty to the Trust and the RE and their own interests.

Any Director with a material personal interest in a matter being considered by the Board must declare their interest and unless the Board resolves otherwise, they may not participate in boardroom discussions or vote on matters on which they face a conflict.

There are a number of policies within the Westpac Group relating to the management of conflicts of interest, such as the Insider Trading Policy. Where these types of conflicts apply to the Board there is a consistent approach adopted.

## Review of performance

Review of the Board's performance, nomination of new directors, retirement of directors and compulsory retirement of directors are matters that are considered as a whole by the Board. The Board devotes time to these matters as a specific agenda item at least once each year.

## Access to information and advice

All directors have unrestricted access to records and information of the RE and the Trust and receive regular detailed financial and operational reports from senior management to enable them to carry out their duties. The Board collectively, and each Director individually, has the right to seek independent professional advice at the Trust's expense to help them carry out their responsibilities.

## Compliance Committee

The Corporations Act states that the RE of a registered scheme must establish a compliance committee if less than half of the directors of the RE entity are external directors. The compliance committee must have at least 3 members, and a majority of them must be external members.

# Corporate Governance

The RE has a compliance committee which was established with effect from 5 April 2002 at a time when less than half of the directors of the RE were external directors. The compliance committee will continue, notwithstanding that, as a result of recent Board appointments, half of the directors of the RE are now external directors and a compliance committee is no longer required by the Corporations Act. The compliance committee is governed by terms of reference formally adopted by the Board and is responsible for monitoring the RE's compliance with the Corporations Act, the RE's constitution and its compliance plans.

A compliance plan is a plan which sets out measures that the RE must apply in operating a managed investment scheme to ensure compliance with the Corporations Act and the RE's constitution. In particular the compliance committee is responsible for:

- monitoring the RE's compliance with its compliance plans to ensure that the RE exercises appropriate due diligence to avoid any breach of law or regulation;
- reporting to the RE if it becomes aware or suspects any breach of law or breach of the RE's constitution;
- assessing the adequacy of the RE's compliance plans and recommending any changes to the Board; and
- reviewing the external auditor's audit of the RE's compliance plans.

The compliance committee comprises two external members and one non-external member. The current members of the committee and their position within the committee are:

- Alan Cameron, external member and Chairman;
- Liam Forde, external member; and
- Jim Tate, non-external member.

Pursuant to the compliance committee's terms of reference, each committee member is required to:

- act honestly;

- exercise the degree of care and diligence that a reasonable person would exercise if they were in the member's position; and
- not make use of information or their position as a member of the compliance committee in order to gain an improper advantage for themselves or another person, or cause detriment to the members of the Trust.

## ASX Best Practice Recommendation 2.1

Recommendation 2.1 states that the majority of the Board should be independent directors.

The Board has adopted the definition of independence which is used by the Board of Westpac to assess the independence of its directors. This definition of independence is available in the corporate governance section at [www.westpac.com.au/investorcentre](http://www.westpac.com.au/investorcentre).

As a result of recent appointments, the Board comprises two independent non-executive directors and two executive directors. Whilst the composition of the Board is now more in accordance with Recommendation 2.1, there is not a majority of independent directors and the Board is of the view that a third independent non-executive director should be added to the Board. Notwithstanding this, the Board believes that it is able to currently discharge its duties to investors for the following reasons:

- half of the Board's directors, including its chairman, are independent;
- all directors have extensive experience in and understanding of the industry in which the Trust and the RE operate;
- the Board has in place appropriate conflict of interest policies pursuant to which any director with a material personal interest in a matter being considered by the Board must declare that interest and unless the Board resolves otherwise must not participate in discussions or vote on the matter;

- the actions of the Board of the RE will continue to be overseen by the compliance committee, notwithstanding that the Corporations Act requirement to establish a compliance committee arises only when less than half of a board's directors are independent;
- the compliance committee comprises a majority of external members;
- the compliance committee performs a valuable role in monitoring regulatory compliance and reporting its findings directly to the Board; and
- the audit committee comprises a majority of independent directors of the Board and therefore has a degree of independence from both the RE and the Trust.

### ASX Best Practice Recommendation 2.2

Recommendation 2.2 states that the chairperson of the Board should be an independent director.

Alan Cameron, the chairman of the Board, is an independent director.

Accordingly, the approach adopted by the RE is consistent with ASX Best Practice Recommendation 2.2.

### ASX Best Practice Recommendation 2.3

The approach adopted by the Board of the RE is consistent with Recommendation 2.3 which states that the roles of chairperson and chief executive officer (or equivalent) should not be exercised by the same individual.

The chairman of the Board is Mr Alan Cameron and the person holding the equivalent position to chief executive officer in respect of the Trust is Mr Chris Bannister. It should be noted that the salaries of the executive directors and all staff responsible for the operation of the RE and the Trust are paid by Westpac. The Trust and the RE do not have any employees, and the independent directors' fees are not paid by the Trust.

### ASX Best Practice Recommendation 2.4

Recommendation 2.4 states that the Board should establish a nomination committee.

A nomination committee will generally be responsible for assessing competencies of board members, reviewing board succession plans, evaluating board performance and making recommendations for the appointment and removal of directors. In its "Principles of Good Corporate Governance and Best Practice Recommendations" published in March 2003, the ASX Corporate Governance Council stated:

*"Particularly in larger companies, a nomination committee can be a more efficient mechanism for the detailed examination of selection and appointment practices meeting the needs of the company... It is recognised that for smaller boards, the same efficiencies may not be apparent from a formal committee structure."*

The Board has elected not to establish a nomination committee on the basis that it is only a relatively small board, the RE is a wholly owned subsidiary of Westpac and it is able to efficiently carry out the functions which would otherwise be delegated to a nominations committee. Each person nominated by the Board of the RE as a non-executive director of the RE must first be approved by Westpac's Board Nominations Committee before they are appointed by the Board of the RE.

### ASX Best Practice Recommendation 2.5

Recommendation 2.5 states that information relating to ASX Best Practice Principle 2 should be reported.

Information relating to Principle 2 is set out above, therefore the approach adopted by the Board in respect of the preparation of this Corporate Governance Statement is consistent with Recommendation 2.5.

# Corporate Governance

## Principle 3: Promote ethical and responsible decision making

All executive directors, managers and employees involved in the operation of the Trust and the RE are employees of Westpac and, together with the independent directors, and along with all other employees in the Westpac Group, are required to act honestly and with integrity.

### Code of Conduct

The Board has adopted a Code of Conduct which governs workplace and human resource practices, risk management and legal compliance. This Code of Conduct is the same code which applies to all Westpac Group employees without exception, and therefore applies to all directors of the RE, managers and employees of the Westpac Group involved in the operation of the Trust and the RE. The Code of Conduct is aligned to the Westpac Group's core values of teamwork, integrity and achievement.

A copy of the Code of Conduct is available at [www.westpac.com.au/structuredinvestments](http://www.westpac.com.au/structuredinvestments).

### Supporting Policies

All directors and employees are subject to restrictions under the law relating to dealing in certain financial products, including securities in a company, if they are in possession of inside information. Inside information is information that is not generally available and, if it were generally available, a reasonable person would expect it to have a material effect on the price or value of the securities of the company.

In addition to the restrictions imposed by law, the Board of the RE has adopted Westpac's Personal Trading and Insider Trading policies. These policies, together with numerous other supporting policies set out under Principle 10 of this Corporate Governance Statement, apply to all directors of the RE, managers and employees of the Westpac Group involved in the operation of the Trust and the RE.

A summary of the Insider Trading Policy is available at [www.westpac.com.au/structuredinvestments](http://www.westpac.com.au/structuredinvestments).

## Conflicts of Interest

The Board has taken action to ensure that the directors of the RE, together with all managers and employees involved in the operation of the RE and the Trust, are provided with appropriate guidance in respect of potential conflicts of interest. In particular, the Board has:

- adopted Westpac Institutional Bank's Conflicts of Interest Policy. The aim of this policy is to assist in recognising conflicts of interest and determining appropriate disclosure and other responses in the event that a conflict arises. The policy promotes vigilance in the conflicts area which in turn reduces the possibility of a conflict arising;
- positioned the RE within "Chinese walls" in the Westpac Group in order to promote independence and to minimise the potential for a conflict of interest; and
- been guided by its compliance plan in respect of related party transactions.

### ASX Best Practice Recommendation 3.1

The approach adopted by the RE is consistent with Recommendation 3.1 which states that a code of conduct should be established to guide the directors, the chief executive officer (or equivalent), the chief financial officer (or equivalent) and any other key executives as to the practices necessary to maintain confidence in the RE's integrity and responsibility and accountability of individuals for reporting and investigating reports of unethical practices.

### ASX Best Practice Recommendation 3.2

The approach adopted by the RE is consistent with Recommendation 3.2 which states that the policy concerning trading in Trust securities by directors, officers and employees of the RE should be disclosed.

### ASX Best Practice Recommendation 3.3

Recommendation 3.3 states that information relating to ASX Best Practice Principle 3 should be reported.

Information relating to Principle 3 is set out above, therefore the approach adopted by the Board in respect of the preparation of this Corporate Governance Statement is consistent with Recommendation 3.3.

## Principle 4: Safeguard integrity in financial reporting

The Board of the RE is committed to four basic principles:

- that the financial reports present a true and fair view;
- that the Trust and the RE's accounting methods are comprehensive and relevant and comply with applicable accounting rules and policies;
- that the external auditors are independent and serve investors' interests by ensuring that investors know the Trust's true financial position; and
- that Australian and international developments are monitored and practices reviewed accordingly.

### External auditor

The external auditor, PricewaterhouseCoopers, has been engaged to perform an audit of the financial accounts and a partner of PricewaterhouseCoopers was engaged to audit the compliance plan of the Trust. All audit fees are borne by Westpac.

The RE, as part of the Westpac Group, has adopted the Westpac Group's audit governance policy to the extent that:

- the audit firm is prohibited from having a financial interest in any entity with a controlling interest in the RE or any member of the Westpac Group;
- the audit firm engagement team in any given year cannot include a person who has been an officer of any member of the Westpac Group during that year;
- the audit partner and any audit firm employee is prohibited from being an officer of the RE or any member of the Westpac Group;
- the audit firm, its partners, its employees on the Trust audit and their immediate family members are prohibited from having loans or guarantees with any member of the Westpac Group, or material indirect investments or a business relationship with any member of the Westpac Group unless the relationship is clearly insignificant to both parties;
- the Trust's auditors attend the audit committee and Board meetings at which the Trust's financial statements are approved; and

- the Trust's auditors attend the compliance meetings at which the results of the compliance plan audits are presented.

The external auditor is not able to carry out the following types of non-audit services for any member of the Westpac Group:

- preparation of accounting records and financial statements;
- financial information technology systems design and implementation;
- appraisal or valuation services and other corporate finance activities;
- internal audit services;
- temporary or permanent staff assignments, or performing any decision making, supervisory or ongoing monitoring or management functions;
- broker or dealer, investment adviser or investment banking;
- legal, litigation, or other expert services;
- actuarial services; or
- recruitment services for managerial, executive or director positions.

### Audit Committee

An audit committee will generally be responsible for reviewing the integrity of a company's financial reporting and overseeing the independence of external auditors. In its "Principles of Good Corporate Governance and Best Practice Recommendations", the ASX Corporate Governance Council stated:

*"Particularly in larger companies, an audit committee can be a more efficient mechanism than the full board for focusing the company on particular issues relevant to verifying and safeguarding the integrity of the company's financial reporting... It is recognised that for smaller boards, the same efficiencies may not be apparent from a formal committee structure."*

The Board formed the view that the establishment of an audit committee will be of benefit to the RE and the Trust and therefore on 23 June 2004 the Board formally approved the formation of an audit committee.

# Corporate Governance

The audit committee comprises three members, chosen by the Board on the basis of their:

- financial expertise and ability to read and understand financial statements;
- understanding of the industry in which the RE and the Trust operate; and
- non-involvement in the day to day operations of the RE's and the Trust's business.

A formal audit committee charter has been adopted setting out the audit committee's role and responsibilities, composition, structure and membership requirements.

The current members of the audit committee, and the position each member holds within the Committee, are set out below:

- Liam Forde – independent member and Chairman;
- Alan Cameron – independent member; and
- Jim Tate – member.

Although the committee members are all directors of the Board of the RE, the executive Director is not involved in the day to day operation or management of the RE or the Trust and the other two directors are non-executive and independent, and therefore have a degree of independence from both the RE and the Trust.

The members of the audit committee also comprise the membership of the compliance committee. The ASX Corporate Governance Council has recognised that, in respect of trusts, the functions of an audit committee may overlap with the functions of a compliance committee as both committees serve substantively similar purposes.

A copy of the audit committee's charter is available at [www.westpac.com.au/structuredinvestments](http://www.westpac.com.au/structuredinvestments).

## ASX Best Practice Recommendation 4.1

The procedures implemented by the RE are consistent with Recommendation 4.1 which states that the chief executive officer (or equivalent) and the chief financial officer (or equivalent) should be required to state in writing to the Board that the Trust's financial reports present a true and fair view, in all material respects, of the Trust's financial condition and operational results and are in accordance with relevant accounting standards.

These statements have been provided to the Board by the persons holding the equivalent positions of chief executive officer and chief financial officer in respect of the Trust.

## ASX Best Practice Recommendation 4.2

The approach adopted by the RE is consistent with Recommendation 4.2 which states that the Board should establish an audit committee. The Board formally approved the formation of the audit committee on 23 June 2004.

## ASX Best Practice Recommendation 4.3

Recommendation 4.3 states that an audit committee should be structured so that it consists of only non-executive directors, has a majority of independent directors, has an independent chairperson who is not chairperson of the board and has at least three members.

The audit committee has three members, a majority of whom are independent directors.

However, the composition of the audit committee is not entirely consistent with all of the elements of Recommendation 4.3, as only two of its members are non-executive directors. As detailed in respect of Recommendation 2.1, the Board comprises only two non-executive directors. Accordingly, it is not possible at present for the RE to establish an audit committee which is entirely consistent with all of the elements of Recommendation 4.3. The Board intends to pursue the appointment of an additional independent non-executive director.



However, the Board considers that the integrity of the financial reports of the Trust is ensured for the following reasons:

- the independence of the audit committee is preserved by it comprising a majority of independent directors;
- the members of the audit committee have the appropriate qualifications and understanding of the industry in which the Trust and the RE operate;
- the members of the audit committee are not involved in the day to day operation of the Trust or the RE and maintain a degree of independence from the Trust and the RE;
- the members of the audit committee regularly communicate with the external auditors of the Trust to discuss and address any issues raised by the external auditor in relation to the financial reports of the Trust; and
- a formal audit committee charter has been adopted setting out the audit committee's responsibilities, composition, structure and membership requirements.

#### **ASX Best Practice Recommendation 4.4**

The approach adopted by the RE is consistent with Recommendation 4.4 which states that the audit committee should have a formal charter.

#### **ASX Best Practice Recommendation 4.5**

Recommendation 4.5 states that information relating to ASX Best Practice Principle 4 should be reported.

Information relating to Principle 4 is set out above, therefore the approach adopted by the Board in respect of the preparation of this Corporate Governance Statement is consistent with Recommendation 4.5.

## **Principle 5: Make timely and balanced disclosure**

The RE is committed to giving all investors in the Trust comprehensive and equal access to information about the Trust's activities, and to fulfil continuous disclosure obligations to the broader market.

### **Market Disclosure Policy**

The Board has adopted a Market Disclosure Policy which governs how the RE communicates with investors and the market. This policy, which is closely aligned with Westpac's Market Disclosure Policy, is designed to ensure compliance with the ASX Listing Rules and continuous disclosure requirements. It ensures any information that a reasonable person would expect to have a material effect on the price of the Trust's securities is disclosed.

This policy applies to all directors, managers and employees of the Westpac Group involved in the operation of the Trust and the RE.

### **ASX Best Practice Recommendation 5.1**

The approach adopted by the RE is consistent with Recommendation 5.1 which states that written policies and procedures should be established which are designed to ensure compliance with ASX Listing Rules, disclosure requirements and to ensure accountability at a senior management level for that compliance.

### **ASX Best Practice Recommendation 5.2**

Recommendation 5.2 states that information relating to ASX Best Practice Principle 5 should be reported.

Information relating to Principle 5 is set out above, therefore the approach adopted by the Board in respect of the preparation of this Corporate Governance Statement is consistent with Recommendation 5.2.

# Corporate Governance

## Principle 6: Respect the rights of shareholders

In addition to its statutory reporting obligations, the RE is committed to timely and ongoing communication with investors in the Trust. It seeks to accomplish this through:

- the annual report distributed in December each year;
- updates to all investors whenever significant developments occur; and
- posting relevant information on the RE's internet site.

### ASX Best Practice Recommendation 6.1

Recommendation 6.1 states that a communications strategy should be designed and disclosed to promote effective communication with shareholders and encourage effective participation at general meetings.

The strategy adopted by the RE is consistent with the relevant aspects of Recommendation 6.1.

### ASX Best Practice Recommendation 6.2

Recommendation 6.2 states that a request should be made to the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

The external auditor attends the audit committee and Board meetings at which the Trust's financial statements are approved. A request will be extended to the external auditor to attend any annual general or special general meetings.

## Principle 7: Recognise and manage risk

A key strategy of the RE is to effectively manage the risks inherent in its business while supporting the reputation, performance and success of the RE and the Trust. The RE's approach is to develop policies, controls and procedures for identifying and managing risk, all aimed at achieving an appropriate balance between the assumption of risk and the pursuit of reward.

The RE, as part of the Westpac Group, has adopted Westpac's approach to risk management. The Board has specifically recognised the following major risk areas:

- credit risk, being the risk of financial loss from the failure of counterparties to meet their obligations and honour fully the terms of their contract;
- market risk, being the potential for losses arising from adverse movements in the level and volatility of market rates, such as interest rates;
- operational risk, being the risk of inadequate or failed internal processes, people and systems or from external events; and
- compliance risk being the risk of failure to comply with all applicable legal and regulatory requirements.

Other risk categories are also considered by the Board, for example liquidity risk, equity underwriting risk and insurance risk.

These risk categories are interlinked and therefore an integrated approach needs to be adopted in order to manage them.

The Board is responsible for approving the overall risk management framework in addition to monitoring and reviewing the performance of management. Executive management is responsible for implementing the Board-approved risk management strategy and for developing policies, controls, processes and procedures to identify and manage risks in all of the Trust's activities.

### ASX Best Practice Recommendation 7.1

The approach adopted by the RE is consistent with Recommendation 7.1 which states that the Board or appropriate board committee should establish policies on risk oversight and management.



## ASX Best Practice Recommendation 7.2

The procedures implemented by the RE are consistent with Recommendation 7.2 which states that the chief executive officer (or equivalent) and the chief financial officer (or equivalent) should state to the Board in writing that the statement given in accordance with Best Practice Recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that the RE's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

These statements have been provided to the Board by the persons holding the equivalent positions of chief executive officer and chief financial officer in respect of the Trust.

## Principle 8: Encourage enhanced performance

The Board regularly reviews its overall performance, as well as the performance of all committees and individual directors. These matters are specifically reserved for consideration by the Board under the Board Charter. The compliance committee also undertakes a review of its own performance.

In addition, as employees of Westpac, all executive directors and senior management responsible for the operation of the RE and the Trust are subject to performance evaluation procedures which apply to all employees of the Westpac Group.

## ASX Best Practice Recommendation 8.1

The approach adopted by the RE is consistent with Recommendation 8.1, which states the process for performance evaluation of the board, its committees and individual directors, and key executives should be disclosed.

## Principle 9: Remunerate fairly and responsibly

Executive directors and the staff responsible for the operation of the RE and the Trust are employees of Westpac, and as such are remunerated by Westpac.

Westpac has a robust framework in place to ensure that the level and composition of remuneration is sufficient, reasonable and explicitly linked to performance, and the executive directors and staff responsible for the operation of the RE and the Trust are covered by this framework.

The independent directors of the RE are paid an annual fee by the RE directly. The independent directors' fees are not paid by the Trust.

Accordingly, the Trust's financial performance is not affected by the payment of any remuneration.

For details of Westpac's remuneration policy, please refer to the Westpac Banking Corporation's annual financial report.

## ASX Best Practice Recommendation 9.1

Recommendation 9.1 states that the RE's remuneration policies should be disclosed to enable investors to understand the costs and benefits of those policies and the link between remuneration paid to directors and key executives and corporate performance.

- the remuneration of executive directors and staff involved in the operation of the RE and the Trust is the responsibility of Westpac, and not the RE or the Trust;
- the fees paid to the independent directors are paid by the RE and not paid by the Trust and these fees are calculated on a simple basis; and
- the financial performance of the Trust is not impacted by any payments to directors or staff.

Accordingly, Recommendation 9.1 is not relevant to the RE or the Trust.

# Corporate Governance

## ASX Best Practice Recommendation 9.2

Recommendation 9.2 states that the Board should establish a remuneration committee.

For the same reasons canvassed in respect of Recommendation 9.1, the Board of the RE also believes that it is not necessary for it to establish a remuneration committee.

## ASX Best Practice Recommendation 9.3

Recommendation 9.3, which states that the structure of non-executive directors' remuneration and that of executives should be clearly distinguished, is not relevant to the RE as the executive directors are employed and remunerated by Westpac and the independent directors are paid a fee directly by the RE and not by the Trust.

## ASX Best Practice Recommendation 9.4

Recommendation 9.4, which states that the Board should ensure that payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders, is not relevant to the RE as the independent directors do not receive equity-based remuneration.

## Principle 10: Recognise the legitimate interests of stakeholders

The RE is committed to recognising the interests of investors, customers and clients, as well as all staff involved in the management and operation of the RE and the Trust.

The Board has adopted a Code of Conduct which governs workplace and human resource practices, risk management and legal compliance. This Code is discussed in more detail under Principle 3 of this Corporate Governance Statement.

In addition to the Code of Conduct, all staff involved in the operation of the RE and the Trust, and the directors of the RE, are bound by various other codes and policies which apply to Westpac employees.

These include:

- our "Ask Once Commitments" and Complaints Policy and Procedures;
- an Anti-Money Laundering Policy;
- Risk Management Policies and Frameworks, including fraud risk, operational risk, compliance risk, market risk and related entity risk;
- an Insider Trading Policy;
- a Conflicts of Interest Policy;
- an Occupational Health & Safety Policy; and
- a Privacy Policy.

Summaries of most of these policies are available at [www.westpac.com.au](http://www.westpac.com.au).

## ASX Best Practice Recommendation 10.1

The approach adopted by the RE is consistent with Recommendation 10.1, which states that the RE should establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.

# Income statement

For the year ended 30 September 2006

	Note	2006 \$'000	2005 \$'000
<b>Income</b>			
Interest income	3	<u>43,863</u>	<u>43,863</u>
<b>Total income</b>		<u>43,863</u>	<u>43,863</u>
<b>Expenses</b>			
Finance costs	4	<u>43,863</u>	<u>43,863</u>
<b>Total operating expenses</b>		<u>43,863</u>	<u>43,863</u>
<b>Net operating profit</b>		<u>          -</u>	<u>          -</u>
<b>Profit attributable to FIRsTS holders</b>		<u>          -</u>	<u>          -</u>

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

Earnings per FIRsTS for the year ended 30 September 2006 is \$nil (2005: \$nil). Refer to Note 14 for detail on the earnings per unit.

# Balance sheet

As at 30 September 2006

	Note	2006 \$'000	2005 \$'000
<b>Current assets</b>			
Receivables	6	11,056	-
<b>Total current assets</b>		<u>11,056</u>	<u>-</u>
<b>Non-current assets</b>			
Receivables – investment in preferred units	7	667,114	-
Investment in preferred units	7	-	667,114
<b>Total non-current assets</b>		<u>667,114</u>	<u>667,114</u>
<b>Total assets</b>		<u>678,170</u>	<u>667,114</u>
<b>Current liabilities</b>			
Payables	8	11,056	-
<b>Total current liabilities</b>		<u>11,056</u>	<u>-</u>
<b>Non-current liabilities</b>			
Interest bearing liabilities – FIRsTS issued	7	667,114	667,114
<b>Total non-current liabilities</b>		<u>667,114</u>	<u>667,114</u>
<b>Total liabilities</b>		<u>678,170</u>	<u>667,114</u>
<b>Net assets</b>		<u>-</u>	<u>-</u>
<b>FIRsTS holders' funds</b>		<u>-</u>	<u>-</u>

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

# Statement of changes in equity

For the year ended 30 September 2006

	2006 \$'000	2005 \$'000
<b>Total equity at the beginning of the financial year</b>	-	-
Net income/(expense) recognised directly in equity	-	-
Profit/(loss) for the financial year	-	-
<b>Total recognised income and expense for the financial year</b>	-	-
Transactions with unitholders in their capacity as equity holders	-	-
<b>Total equity at the end of the financial year</b>	-	-

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

# Cash flow statement

For the year ended 30 September 2006

	Note	2006 \$'000	2005 \$'000
<b>Cash flows from operating activities</b>			
Interest income received on preferred units		32,807	43,863
Finance costs paid - Interest on FIRsTS		<u>(32,807)</u>	<u>(43,863)</u>
<b>Net cash flows from operating activities</b>	9	<u>-</u>	<u>-</u>
<b>Net increase in cash and cash equivalents held</b>		-	-
Cash and cash equivalents at the beginning of the year		<u>-</u>	<u>-</u>
<b>Cash and cash equivalents at the end of the year</b>		<u><u>-</u></u>	<u><u>-</u></u>

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

# Notes to the financial statements

## Note 1 – Summary of significant accounting policies

Westpac First Trust (the “Trust”) was constituted on 16 October 2002, and registered on 11 November 2002 as a managed investment scheme with the Australian Securities and 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.

The Trust is a special purpose unit trust which was established for the specific purpose of facilitating the offer of the Fixed Interest Resetable Trust Securities (“FIRsTS”). The principal activities of the Trust comprised the issue of FIRsTS and the purchase of interest bearing preferred units of the Westpac Second Trust (ARSN 102 665 029). The Trust was only permitted to invest the proceeds of the FIRsTS offer in the preferred units issued by the Westpac Second Trust. The Trust is not permitted to invest in any other assets. The preferred units provide the Trust with a vested interest in the income of the Westpac Second Trust. The Westpac Second Trust has in turn invested in convertible debentures issued by Westpac Banking Corporation’s (“Westpac”) New Zealand branch. Therefore, distributions paid to holders of FIRsTS are ultimately sourced from interest paid on the convertible debentures. This structure enables the holders of FIRsTS to receive the expected quarterly distributions, as described in the Product Disclosure Statement (“PDS”) dated 13 November 2002 issued in respect of FIRsTS, until 31 December 2007. There were no significant changes in the nature of the Trust’s activities during the period.

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

The financial statements were authorised for issue by the directors on 16 November 2006.

### (a) Basis of preparation

This general purpose financial report for the year ended 30 September 2006 has been prepared in accordance with the requirements of 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 and the *Corporations Act 2001*.

The financial report is prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

#### *Application of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards*

This is the first annual financial report of the Trust to be prepared in accordance with A-IFRS. AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

The Trust’s financial statements until 30 September 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (“AGAAP”). AGAAP differs in certain respects from A-IFRS. When preparing the Trust’s financial report for the year ended 30 September 2006, management has amended certain accounting and valuation methods applied in the previous AGAAP financial statements to comply with A-IFRS. The comparative information was not restated as there were no A-IFRS adjustments required for the Trust.

The Trust has taken the exemption available under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* to apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 October 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRS on net assets attributable to unitholders and profit are given in Note 16.

# Notes to the financial statements

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

### (b) Income

Interest income is recognised in the income statement using the effective interest rate method.

### (c) Finance costs

Interest expense is recognised in the income statement using the effective interest rate method.

### (d) Income tax

Under current legislation, the Trust is not subject to income tax provided the taxable income of the Trust is fully distributed to FIRsTS holders each year.

### (e) 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. They are brought to account at the face value or the gross value of the outstanding balance, where appropriate.

### (f) Receivables

#### From 1 October 2004 to 30 September 2005

The Trust has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 only from 1 October 2005. The Trust has applied previous AGAAP to the comparative information on financial instruments within the scope of AASB 132 and AASB 139.

Under AGAAP the investment in preferred units was held at recoverable amount being the net amount expected to be recovered through the cash inflows and outflows arising from continued use and subsequent disposal. Under AGAAP, the investment in preferred units was classified as an investment.

#### From 1 October 2005

The investment in preferred units of the Westpac Second Trust is classified as a receivable in the balance sheet. Receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Collectibility of receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful 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. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

### (g) Financial liabilities

#### From 1 October 2004 to 30 September 2005

The Trust has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 only from 1 October 2005. The Trust has applied previous AGAAP to the comparative information on financial instruments within the scope of AASB 132 and AASB 139.

Under AGAAP the Fixed Interest Resettable Trust Securities ("FIRsTS") issued by the Trust were recognised at the amount of consideration received. Under AGAAP, the FIRsTS were classified as interest bearing liabilities.

#### From 1 October 2005

FIRsTS issued are classified as interest bearing liabilities in the balance sheet. Borrowings are initially recognised at fair value, and then subsequently measured at amortised cost using the effective interest rate method. The issue costs relating to the FIRsTS were borne by Westpac Banking Corporation ("Westpac").

A description of FIRsTS is provided in Note 5 to the financial statements.



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

### (h) Provisions

A provision is recognised in the balance sheet when there is 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.

### (i) Distributions

In accordance with the Trust's constitution, the Trust fully distributes its distributable income to FIRsTS holders by cash.

The distributions are payable quarterly, and are treated by the Trust as an interest expense. This is because the payments specifically relate to FIRsTS and these are recognised in the balance sheet as a liability.

### (j) Earnings per FIRsTS

Earnings per FIRsTS is determined by dividing the operating profit by the weighted average number of FIRsTS on issue during the period.

### (k) 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.

### (l) 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.

### (m) New accounting standards and UIG interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 September 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 2005-4 Amendments to Australian Accounting Standards [AASB 139, AASB 132, AASB 1]*

AASB 7 and AASB 2005-10 are applicable to annual reporting periods beginning on or after 1 January 2007. AASB 2005-4 is applicable to annual reporting periods beginning on or after 1 January 2006. 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.

### (n) Rounding of amounts

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

# Notes to the financial statements

## Note 2 – Segment information

### Business segment

The Trust operates solely in financial services.

### Geographical segment

The Trust operates solely in Australia. The ultimate underlying investment is held in New Zealand.

## Note 3 – Interest income

	2006 \$'000	2005 \$'000
Interest income on preferred units	<u>43,863</u>	<u>43,863</u>

## Note 4 – Finance costs

	2006 \$'000	2005 \$'000
Interest paid on FIRsTS	<u>43,863</u>	<u>43,863</u>

Distributions of \$1.66 per FIRsTS were paid to FIRsTS holders on 3 October 2006.

## Note 5 – Auditor's remuneration

During the year, as specified within Westpac FIRsTS's Product Disclosure Statement, the following fees charged by PricewaterhouseCoopers were borne by Westpac.

	2006 \$'000	2005 \$'000
Audit of statutory financial statements	46,000	42,000
Audit of compliance plan	7,340	7,000
Audit of international financial reporting standards	<u>12,500</u>	<u>–</u>
	<u>65,840</u>	<u>49,000</u>

## Note 6 – Receivables

	2006 \$'000	2005 \$'000
Interest receivable on preferred units	<u>11,056</u>	<u>–</u>

As the scheduled distribution date of 30 September was a non-business day, interest on the preferred units was received on 3 October 2006, the first business day following the year end.

## Note 7 – Westpac FIRsTS

The FIRsTS are units in the Trust with non-cumulative interest payments. The Trust is a controlled entity of Westpac. The material assets of the Trust are 6,671,140 preferred units issued by another Westpac controlled entity, Westpac Second Trust. The preferred units have an issue price of \$100 each. Westpac Second Trust has issued one ordinary unit with an issue price of \$100 to Westpac Alpha Pty Limited (ABN 102 545 326), a 100% owned subsidiary of Westpac. The material assets of Westpac Second Trust are convertible debentures issued by Westpac in an aggregate amount of NZD\$731,156,944 and a currency swap with Westpac to fix at AUD\$667,114,000.

FIRsTS are expected to pay interest quarterly until 31 December 2007, the first rollover date based on an annual interest rate of 6.575%.

The Trust is expected to receive interest quarterly from Westpac Second Trust until 31 December 2007, the first rollover date based on an annual interest rate of 6.575%.

## Note 8 – Payables

	2006 \$'000	2005 \$'000
Interest payable on FIRsTS	11,056	–

As the scheduled distribution date of 30 September was a non-business day, interest on the FIRsTS issued was paid on 3 October 2006, the first business day following the year end.

## Note 9 – Reconciliation of profit attributable to FIRsTS holders to net cash flows from operating activities

	2006 \$'000	2005 \$'000
Profit attributable to FIRsTS holders	–	–
Changes in assets and liabilities		
Increase in payables	11,056	–
Increase in receivables	(11,056)	–
Net cash flows from operating activities	–	–

# Notes to the financial statements

## Note 10 – Financial risk management

### (a) Credit risk

Credit risk is the risk that a counterparty will fail to perform contractual obligations, either in whole or in part, under a contract. The main counterparty is Westpac New Zealand Branch as issuer of convertible debentures to the Westpac Second Trust. Westpac Second Trust in turn issued preferred units to the Trust.

The Trust's maximum credit risk exposure at balance date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the balance sheet.

### (b) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Trust's exposure to interest rate risk and the weighted average interest rate for each class of financial asset and financial liability is set out in the table below:

	Weighted average interest rate (% pa)	Floating \$'000	Fixed interest rate maturing			Non-interest bearing \$'000	Total \$'000
			1 year or less \$'000	Over 1 to 5 years \$'000	More than 5 years \$'000		
<b>30 September 2006</b>							
<b>Financial Assets</b>							
Receivables		-	-	-	-	11,056	11,056
Receivables – Investment in preferred units	6.575%	-	-	667,114	-	-	667,114
		-	-	667,114	-	11,056	678,170
<b>Financial liabilities</b>							
Payables		-	-	-	-	11,056	11,056
Interest bearing liabilities – FIRsTS issued	6.575%	-	-	667,114	-	-	667,114
		-	-	667,114	-	11,056	678,170
<b>Net financial assets</b>		-	-	-	-	-	-

## Note 10 – Financial risk management *(continued)*

### (b) Interest rate risk *(continued)*

	Weighted average interest rate (% pa)	Floating \$'000	Fixed interest rate maturing			Non-interest bearing \$'000	Total \$'000
			1 year or less \$'000	Over 1 to 5 years \$'000	More than 5 years \$'000		
<b>30 September 2005</b>							
<b>Financial Assets</b>							
Investment in preferred units	6.575%	-	-	667,114	-	-	667,114
		-	-	667,114	-	-	667,114
<b>Financial liabilities</b>							
Interest bearing liabilities – FIRsTS issued	6.575%	-	-	667,114	-	-	667,114
		-	-	667,114	-	-	667,114
<b>Net financial assets</b>		-	-	-	-	-	-

### (c) Liquidity and cash flow risk

Liquidity risk is the risk that the Trust will experience difficulty in either realising assets or otherwise raising sufficient funds to satisfy commitments associated with financial instruments. Cash flow risk is the risk that the future cash flows derived from holding financial instruments will fluctuate. The risk management guidelines adopted are designed to minimise liquidity and cash flow risk through ensuring there is no significant exposure to illiquid or thinly traded financial instruments.

### (d) Fair values of financial assets and financial liabilities

All financial assets and financial liabilities included in the balance sheet are carried at amortised cost.

# Notes to the financial statements

## Note 11 – Related parties

### Responsible entity

The RE of the Trust is WFML, a wholly owned subsidiary of Westpac.

### Key management personnel

#### (a) Directors

Key management personnel includes persons who were directors of WFML at any time during the financial year as follows:

Jim Tate

Sean McElduff

Alan Cameron (appointed 8 May 2006)

Liam Forde (appointed 8 May 2006)

Andrew Carriline (resigned 8 May 2006)

#### (b) Other key management personnel

Other persons with the responsibility for planning, directing and controlling the activities of the Trust, directly or indirectly during the financial year were:

David Westaway

Garry Luscombe

Chris Bannister

### Key management personnel unitholdings

There were no key management personnel of the Trust who held units in the Trust at any time during the reporting period.

### Key management personnel compensation

Key management personnel are paid by Westpac. The Trust did not make any payments attributable to the compensation of key management personnel during the reporting period.

### Key management personnel loan disclosures

The Trust has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the reporting period.

### Other transactions within the Trust

Apart from those details disclosed in this note, no director has entered into a material contract with the Trust since the end of the previous financial year and there were no material contracts involving directors' interests subsisting at year end.

## Note 11 – Related parties *(continued)*

### Transactions with related parties

The following transactions occurred with related parties:

	2006 \$	2005 \$
Income distribution on preferred units issued by Westpac Second Trust	<u>43,862,745</u>	<u>43,862,745</u>

All transactions with related parties have been completed during the period, except for the distribution from Westpac Second Trust for the quarter ended 30 September 2006. As 30 September 2006 was a non-business day, the distribution was paid on the first business day following the year end.

### Outstanding balances

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	2006 \$	2005 \$
Receivables – investment in preferred units issued by Westpac Second Trust	<u>667,114,000</u>	<u>667,114,000</u>
Receivables – investment receivable on preferred units issued by Westpac Second Trust	<u>11,055,815</u>	<u>–</u>

All related party transactions are conducted on normal commercial terms and conditions.

All expenses of the Trust are borne by Westpac.

## Note 12 – Economic dependency

The Trust depends on the ultimate parent entity Westpac for its income. Westpac pays the Westpac Second Trust interest on the Westpac Second Trust's investment in convertible debentures issued by Westpac, and Westpac Second Trust then distributes this to the Trust. Further, all expenses of the Trust are borne by Westpac.

## Note 13 – Contingent liabilities and commitments

The Trust does not have any contingent liabilities or commitments.

## Note 14 – Earnings per unit

Earnings per FIRsTS for the period ending 30 September 2006 is \$nil as distributed income on preferred units is categorised as interest expense, and other expenses incurred by the Trust are borne by Westpac.

## Note 15 – Events occurring after reporting date

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

# Notes to the financial statements

## Note 16 – Explanation of transition to A-IFRS

### **(1) Reconciliation of equity reported under previous AGAAP to equity under A-IFRS**

The Trust has taken the exemption available under AASB 1 *First Time Adoption of Australian Equivalents to International Financial Reporting Standards* to apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 July 2005. The effect of this is:

*(i) at the date of transition to A-IFRS: 1 October 2004*

No adjustment is required.

*(ii) at the end of the last reporting period under previous AGAAP: 30 September 2005*

No adjustment is required.

### **(2) Reconciliation of profit under previous AGAAP to profit under A-IFRS**

*(i) Reconciliation of profit for the year ended 30 September 2005*

No adjustment is required.

### **(3) Reconciliation of cash flow statement under previous AGAAP to A-IFRS**

The adoption of A-IFRS has not resulted in any adjustments to the cash flow statement for the year ended 30 September 2005.



# Directors' declaration

In the directors' opinion:

- (a) the financial statements and notes set out on pages 19 to 32 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 financial position as at 30 September 2006 and of its performance, as represented by the results of its operations and its cash flows, for the financial 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



Liam Forde, Director

Date: 16 November 2006

# Independent audit report to the members



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

Darling Park Tower 2  
201 Sussex Street  
GPO BOX 2650  
SYDNEY NSW 1171  
DX 77 Sydney  
Australia  
[www.pwc.com/au](http://www.pwc.com/au)  
Telephone +61 2 8266 0000  
Facsimile +61 2 8266 9999  
Direct Phone +61 2 8266 0661  
Direct Fax Enter your fax number

## **Independent audit report to the unitholders of Westpac First Trust**

### **Matters relating to the electronic presentation of the audited financial report**

This audit report relates to the financial report of Westpac First Trust (the registered scheme) for the year ended 30 September 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 audit report refers only to the financial report identified below. 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 audited financial report to confirm the information included in the audited financial report presented on this web site.

### **Audit opinion**

In our opinion, the financial report of Westpac First Trust:

- gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of the Westpac First Trust as at 30 September 2006 and of its performance for the year ended on that date, and
- is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*.

This opinion must be read in conjunction with the rest of our audit report.

### **Scope**

#### **The financial report and directors' responsibility**

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for the Westpac First Trust (the registered scheme), for the year ended 30 September 2006.

The directors of the Westpac Funds Management Limited (the responsible entity) are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Liability limited by a scheme approved under Professional Standards Legislation

### Audit approach

We conducted an independent audit in order to express an opinion to the members of the registered scheme. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected. For further explanation of an audit, visit our website <http://www.pwc.com/au/financialstatementaudit>.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the registered scheme's financial position, and of its performance as represented by the results of their operations, changes in equity and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

Our procedures include reading the other information included in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

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

### Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

  
PricewaterhouseCoopers



J A Dunning  
Partner

Sydney  
16 November 2006

# Annexure A – FIRsTS holder information

## Date of currency

The FIRsTS holder information set out below was current as at 13 November, 2006.

## Twenty largest FIRsTS holders

The names of the twenty largest holders of FIRsTS are listed below:

Name	FIRsTS Issued	
	Number held	Percentage of issued FIRsTS
1 J P Morgan Nominees Australia Limited	633,765	9.50%
2 Citicorp Nominees Pty Limited	541,166	8.11%
3 National Nominees Limited	536,116	8.04%
4 Westpac Custodian Nominees Limited	290,408	4.35%
5 ANZ Nominees Limited	240,844	3.61%
6 UBS Nominees Pty Ltd	240,515	3.61%
7 HSBC Custody Nominees (Australia) Limited	234,100	3.51%
8 UCA Cash Management Fund Ltd	112,502	1.69%
9 Suncorp Custodian Services Pty Limited	100,000	1.50%
10 GIO General Ltd	97,633	1.46%
11 Goldman Sachs JBWere Capital Markets Ltd (Hybrid Portfolio A/C)	92,654	1.39%
12 Cogent Nominees Pty Limited	86,031	1.29%
13 UBS Wealth Management Australia Nominees Pty Ltd	82,951	1.24%
14 The Australian National University	73,016	1.09%
15 Suncorp General Insurance Limited	72,535	1.09%
16 Brispot Nominees Pty Ltd (House Head Nominee No 1 A/C)	60,332	0.90%
17 Transport Accident Commission C/- National Nominees Limited	60,000	0.90%
18 RBC Dexia Investor Services Australia Nominees Pty Limited (MLCI A/C)	55,136	0.83%
19 Mt Pritchard & District Community Club	55,000	0.82%
20 AMP Life Limited	53,306	0.80%
	<b>3,718,010</b>	<b>55.73%</b>

The top 20 FIRsTS holders hold 55.73% of FIRsTS issued.

## Analysis of FIRsTS holdings as at 13 November, 2006

	Number of holders	Number of FIRsTS held	% of total FIRsTS held
1 - 1,000	6,039	1,453,823	21.79%
1,001 - 5,000	268	602,375	9.03%
5,001 - 10,000	23	165,588	2.48%
10,001 - 100,000	43	1,619,938	24.28%
100,001 and over	8	2,829,416	42.41%
Total	6,381	6,671,140	100.00%

## Geographic spread

State	Number of FIRsTS holders	Number of FIRsTS held	% of total FIRsTS held
ACT – Australian Capital Territory	391	180,655	2.71%
NSW – New South Wales	2,128	2,852,439	42.76%
NT – Northern Territory	9	2,750	0.04%
QLD – Queensland	809	572,855	8.59%
SA – South Australia	414	121,590	1.82%
TAS – Tasmania	133	27,698	0.42%
VIC – Victoria	1,817	2,605,682	39.06%
WA – Western Australia	377	139,851	2.10%
Total local	6,078	6,503,520	97.49%
Total overseas	303	167,620	2.51%
Total	6,381	6,671,140	100.00%

# Annexure A – FIRsTS holder information

## Voting rights

On a show of hands, FIRsTS holders have one vote each. On a poll, FIRsTS holders have one vote per dollar value of units held in the scheme.

Holders of FIRsTS are entitled to vote at any meeting of FIRsTS holders convened in accordance with the constitution of Westpac First Trust.

Holders of FIRsTS are not entitled to vote at any meeting of Westpac ordinary shareholders.

## Substantial FIRsTS holders

No substantial holding notices were received by the responsible entity during the period 1 October 2005 to 30 September 2006.

## Number of unitholders with less than a marketable parcel of securities

The number of FIRsTS holders holding less than a marketable parcel of 5 securities is 2 and they hold 2 securities.

# 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

## Auditors

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

## Westpac First Trust registry

Link Market Services Limited  
Level 8, 680 George Street  
Sydney NSW 2000  
Tel: +61 2 8280 7111

## Stock exchange listing

ASX Company announcements – WBK  
Price – WBKPA

For all enquiries  
please call us on

**1300 888 736**