

**Stockland Direct Retail Trust No. 1
and its controlled entities**

ARSN: 121 832 086

**Annual Financial Report
30 June 2017**

Registered office:

133 Castlereagh Street
Sydney NSW 2000

Stockland Direct Retail Trust No. 1 and its controlled entities

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This financial report covers Stockland Direct Retail Trust No. 1 ("the Trust") and its controlled entities which was formed and is domiciled in Australia.

Stockland Direct Retail Trust No. 1 and its controlled entities

Directors' Report

For the year ended 30 June 2017

The Directors of Stockland Capital Partners Limited ("SCPL"), the Responsible Entity of Stockland Direct Retail Trust No. 1 ("the Trust"), present their report together with the Financial Report made in accordance with a resolution of the Directors with respect to the results of the Trust and its controlled entities ("the consolidated entity") for the year ended 30 June 2017, the state of the consolidated entity's affairs as at 30 June 2017 and the Independent Auditor's Report thereon.

SCPL was appointed as Responsible Entity at the date the Trust commenced on 26 April 2006. On 4 October 2006, the Trust was registered as a managed investment scheme with Australian Securities and Investment Commission ("ASIC") and SCPL was appointed as the Responsible Entity.

Directors

The Directors of the Responsible Entity of the Trust at any time during or since the end of the financial year ("the Directors") are:

Barry Neil

Chairman (Non-Executive)

Mr Neil was appointed to the Board on 23 October 2007 and has over forty years' experience in property, both in Australia and overseas. He is Chairman of Keneco Pty Limited and Bitumen Importers Australia Pty Limited, a Director of Terrace Tower Group Pty Ltd and was previously Director of Property for Woolworths Limited. He also served as Chief Executive Officer, Investment Division (1999 to 2004), and Executive Director (1987 to 2004) of Mirvac Limited. Mr Neil is Chair of Stockland Capital Partners Limited, the Responsible Entity for Stockland's unlisted funds and a member of the Stockland Audit and Sustainability Committees.

Anthony Sherlock

(Non-Executive)

Mr Sherlock was appointed as a Director of Stockland Capital Partners Limited, the Responsible Entity for Stockland's unlisted funds, in August 2004. He is a former Senior Partner of Coopers & Lybrand having national responsibility for credit risk management. In that capacity, he obtained experience in the banking and finance, mining, agriculture, building, construction and development sectors. Mr Sherlock is a non-executive Director of Invigor Group Limited, Equatorial Mining Limited, Kerrygold Limited. He is the former Chairman of Australian Wool Corporation Limited and The Woolmark Company Pty Ltd, a former Non-Executive Director of Austral Coal Limited, Sydney Attractions Group Limited, IBA Health Limited and Export Finance Insurance Corporation Limited and has acted on a number of committees for both Federal and State Governments. He is a member of the Stockland Capital Partners Audit Committee. Mr Sherlock was also a member of the Stockland and the Stockland Capital Partners Financial Services Compliance Committees prior to the incorporation of these committees into the Audit Committee and Stockland Capital Partners Audit Committee respectively

Mark Steinert

Managing Director – Stockland – (Executive) – Appointed 29 January 2013

Mr Steinert was appointed Managing Director and Chief Executive Officer of Stockland on 29 January 2013. Mr Steinert was also appointed to the Board on 29 January 2013. Mr Steinert has over twenty-six years of experience in property and financial services including eight years in direct property primarily with Jones Lang LaSalle and ten years in listed real estate with UBS. Mr Steinert was appointed as Head of Australasian Equities at UBS in 2004 and as Global Head of Research in New York in late 2005. In 2012 he was appointed as Global Head of Product Development and Management for Global Asset Management at UBS, a \$559 billion Global Fund Manager. Mr Steinert is a member of the Stockland Sustainability Committee and a Director of Stockland Capital Partners Limited, the Responsible Entity for Stockland's unlisted property funds. He is the immediate past President and current Director of the Property Council of Australia, and also served as a Director of the Green Building Council of Australia until 30 June 2016.

During the year 4 board meetings (2016: 4 meetings) were held.

Stockland Direct Retail Trust No. 1 and its controlled entities
Directors' Report
For the year ended 30 June 2017

Stockland Capital Partners Limited Audit Committee

The Audit Committee assists the Board in fulfilling its governance and disclosure responsibilities in relation to financial reporting, internal controls, risk management systems and internal and external audits.

The primary objective of the Committee is to assist the Board of SCPL in discharging its responsibilities for:

- financial reporting and audit practices;
- accounting policies;
- the management of risk; and
- the adequacy and effectiveness of internal controls.

The Committee meets at least bi-annually and its meetings are attended by management and external audit and other parties as relevant. The Committee may meet privately with the external auditor in the absence of management at least once a year. The Committee has the power to conduct or authorise investigations into, or consult independent specialists on, any matters within the Committee's scope of responsibility. The Committee has written terms of reference which incorporates best practice. Its members must be independent of management and at least one member of the Committee must have relevant accounting qualifications and experience and all members should have a good understanding of financial reporting.

The members of the Committee during or since the end of the financial year were:

Mr T Pockett (Chair) – Non-Executive Director of Stockland (resigned 26 October 2016)

Mr S Newton (Chair) – Non-Executive Director of Stockland (appointed 26 October 2016)

Mr A Sherlock – Non-Executive Director

During the year 4 meetings (2016: 3 meetings) were held.

Principal activity

The principal activity of the consolidated entity is the investment in two neighbourhood shopping centres located in Queensland and a bulky goods centre located in New South Wales.

Review and results of operations

The consolidated entity recorded a profit of \$5,582,000 for the financial year ended 30 June 2017 (2016: \$7,255,000).

Distributions paid or declared by the consolidated entity to Unitholders during the financial year are set out in Note 17 of the Financial Statements.

Independent valuations were undertaken on all of the consolidated entity's investment properties as at 30 June 2017 resulting in an upwards revaluation totalling \$1,610,000 (30 June 2016: \$3,626,000) being recognised in the consolidated statement of comprehensive income. As a result, the total portfolio was revalued upwards to \$86,800,000. This represents an increase of 3.46% on the 30 June 2016 total carrying value of \$83,900,000. Refer to Note 8 for individual property values.

Stockland Direct Retail Trust No. 1 and its controlled entities
Directors' Report
For the year ended 30 June 2017

Loan facility

On 23 February 2016, the Trust negotiated an increased loan facility agreement with Commonwealth Bank of Australia ("CBA") providing maximum available funds of \$43,000,000. As at 30 June 2017, \$41,400,000 was drawn down. Please refer to Note 12.

The fund has one interest rate swap contract which has the effect of converting variable rates to fixed rates. The swap contract has a notional amount of \$30,000,000 with a termination date of 19 December 2019. The fixed interest rate applicable to the swap is 2.805% p.a. and the variable rate is the three month Bank Bill Rate (BBSY), consistent with the base rate of the loan facility.

Significant changes in the state of affairs

There have been no significant changes in the state of the affairs of the consolidated entity during the financial year.

Events subsequent to the end of the year

There has not arisen, in the interval between the end of the current financial year and the date of this report any item, transaction or event of a material or unusual nature, likely, in the opinion of the Directors, to affect significantly the operations of the consolidated entity, the results of operations, or the state of the affairs of the consolidated entity, in future financial years.

Likely developments

The Responsible Entity will continue to review investment management strategies with a view to optimising both the income and capital return over the investment term.

Environmental regulation

The consolidated entity's operations are subject to various environmental regulations under both Commonwealth and State legislation. The Responsible Entity believes that the consolidated entity has adequate systems in place for the management of its environmental responsibilities and is not aware of any breach of environmental requirements as they may apply to the consolidated entity.

Related parties

Interests of the Responsible Entity

Stockland Trust Management Limited, as Responsible Entity of Stockland Trust, a related party of the Responsible Entity, holds 7,877,500 units in the consolidated entity as at 30 June 2017 (2016: 7,877,500).

Stockland Capital Partners Limited as the Responsible Entity has not held any units in the consolidated entity either directly or indirectly during the financial year (2016: nil).

Responsible Entity's remuneration

The Responsible Entity charged a responsible entity fee of 0.45% p.a. of the gross assets of the consolidated entity, calculated monthly. The Responsible Entity may defer a portion of annual fees each year. The Responsible Entity is entitled to recover all fees deferred either from consolidated entity earnings or on the winding up of the consolidated entity. The Responsible Entity charges are set out in Note 20 of the Financial Report.

Directors' interests

No directors of the Responsible Entity held any units in the Trust at the date of this report.

Stockland Direct Retail Trust No. 1 and its controlled entities
Directors' Report
For the year ended 30 June 2017

Indemnities and insurance of officers and auditor

Indemnification

Under the Trust Constitution, the Responsible Entity, including its officers and employees, is indemnified out of the consolidated entity's assets for any loss, damage, expense or other liability incurred by it in properly performing or exercising any of its powers, duties or rights in relation to the consolidated entity.

The consolidated entity has not indemnified or made a relevant agreement for indemnifying against a liability in respect of any person who is the auditor of the consolidated entity.

Insurance premiums

During the financial year, the Responsible Entity has paid insurance premiums in respect of Directors' and officers' liability insurance contracts. Such insurance contracts insure against certain liabilities (subject to specified exclusions) for persons who are or have been Directors and officers of the Responsible Entity.

In addition, the Responsible Entity has paid insurance premiums for professional indemnity insurance policies to cover certain risks for the Directors. Details of the premium paid has been included in Note 20.

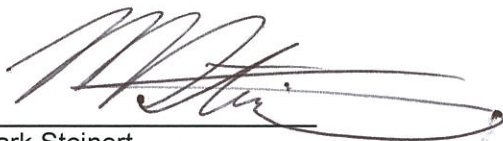
Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

The external auditor's independence declaration is set out on page 5 and forms part of the Directors' Report for the year ended 30 June 2017.

Rounding

The consolidated entity is an entity of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2017/191 and in accordance with that Corporations Instrument, amounts in the Financial Report and Directors' Report have been rounded to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the Directors:



Mark Steinert
Director

Dated at Sydney, 25 August 2017



Auditor's Independence Declaration

As lead auditor for the audit of Stockland Direct Retail Trust No. 1 for the year ended 30 June 2017, 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 Stockland Direct Retail Trust No. 1 and the entities it controlled during the period.



N R McConnell
Partner
PricewaterhouseCoopers

Sydney
25 August 2017

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Stockland Direct Retail Trust No. 1 and its controlled entities
Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2017

		Consolidated	
		2017	2016
	Notes	\$'000	\$'000
Revenue and other income			
Rent from investment properties		9,162	8,870
Interest income		1	3
Net gain from fair value adjustment of investment properties	8	1,610	3,626
Total revenue and other income		10,773	12,499
 Investment property expenses		(2,796)	(2,796)
Finance expense relating to interest-bearing liabilities at amortised cost		(1,779)	(1,808)
Auditor's remuneration	4	(68)	(93)
Responsible Entity fees	20	(393)	(372)
Other expenses		(155)	(175)
Total expenses		(5,191)	(5,244)
 Profit for the financial year		5,582	7,255
 Other comprehensive income			
Effective portion of changes in fair value of cash flow hedges	16	346	(751)
Other comprehensive income for the year		346	(751)
Total comprehensive income for the year		5,928	6,504

The above Consolidated Statement of Profit or Loss and other Comprehensive Income should be read in conjunction with the accompanying notes.

Stockland Direct Retail Trust No. 1 and its controlled entities
Consolidated Balance Sheet
As at 30 June 2017

		Consolidated	
	Notes	2017 \$'000	2016 \$'000
Current assets			
Cash and cash equivalents	5	1,616	1,011
Trade and other receivables	6	226	253
Other assets	7	670	632
Total current assets		2,512	1,896
Non-current assets			
Investment properties	8	84,854	82,200
Trade and other receivables	9	678	699
Other assets	10	914	681
Total non-current assets		86,446	83,580
Total assets		88,958	85,476
Current liabilities			
Trade and other payables	11	2,506	1,762
Other liabilities	13	734	734
Total current liabilities		3,240	2,496
Non-current liabilities			
Interest-bearing loans and borrowings	12	41,173	41,081
Other liabilities	14	592	938
Total non-current liabilities		41,765	42,019
Total liabilities		45,005	44,515
Net assets		43,953	40,961
Unitholders' funds			
Units on issue	15	26,114	26,114
Reserves	16	(592)	(938)
Undistributed profit		18,431	15,785
Total Unitholders' funds		43,953	40,961

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

Stockland Direct Retail Trust No. 1 and its controlled entities
Consolidated Statement of Changes in Equity
For the year ended 30 June 2017

Consolidated	Note	Unitholders' funds						
		Units on issue		Undistributed profit		Reserves		Total
		2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000
Opening balance		26,114	26,114	15,785	11,466	(938)	(187)	40,961
Profit for the financial year		-	-	5,582	7,255	-	-	5,582
Effective portion of changes in fair value of cash flow hedges	16	-	-	-	-	346	(751)	346
Total comprehensive income for the financial year		-	-	5,582	7,255	346	(751)	5,928
Transactions with Unitholders in their capacity as owners:								
Distributions paid/payable to Unitholders	17	-	-	(2,936)	(2,936)	-	-	(2,936)
Closing balance		26,114	26,114	18,431	15,785	(592)	(938)	43,953

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

Stockland Direct Retail Trust No. 1 and its controlled entities
Consolidated Cash Flow Statement
For the year ended 30 June 2017

		Consolidated	
	Notes	2017	2016
		\$'000	\$'000
Cash flows from operating activities			
Cash receipts in the course of operations		9,845	9,776
Cash payments in the course of operations		(3,594)	(3,999)
Interest received		1	3
Interest and borrowing costs paid		(1,667)	(1,719)
Net cash inflow from operating activities	18	4,585	4,061
Cash flows from investing activities			
Payments for investment properties	8	(1,044)	(1,547)
Net cash utilised in investing activities		(1,044)	(1,547)
Cash flows from financing activities			
Increase in borrowings		-	900
Distribution paid to Unitholders	17	(2,936)	(2,915)
Net cash utilised in financing activities		(2,936)	(2,015)
Net increase in cash and cash equivalents		605	499
Cash and cash equivalents at the beginning of the financial year		1,011	512
Cash and cash equivalents at the end of the financial year	5	1,616	1,011

The above Consolidated Cash Flow Statement should be read in conjunction with the accompanying notes.

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2017

1 Summary of significant accounting policies

Stockland Direct Retail Trust No. 1 ("The Trust") is a Managed Investment Scheme domiciled in Australia. The consolidated Financial Report as at and for the financial year ended 30 June 2017 comprises the Financial Report of the Trust and its controlled entities ("the consolidated entity").

The Financial Report as at and for the financial year ended 30 June 2017 was authorised for issue by the Directors of Stockland Capital Partners Limited ("SCPL"), the Responsible Entity for the Trust, on 25 August 2017.

(a) Statement of compliance

The consolidated Annual Report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ("AASBs") (including Australian Interpretations) adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. The consolidated Annual Report complies with the International Financial Reporting Standards ("IFRSs") and interpretations adopted by the International Accounting Standards Board ("IASB").

(b) New and amended Accounting Standards

Mandatory in future years

Certain new accounting standards and interpretations have been published that are not mandatory for the year ended 30 June 2017 and where allowed have not been early adopted by the Trust. The Trust's assessment of the impact of these new standards and interpretations is set out below:

- *AASB 9 Financial Instruments (effective for annual reporting periods beginning on or after 1 January 2018)*
AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 July 2018. The consolidated entity is still assessing the potential impact on its consolidated financial statements resulting from the application of this amendment. There is no material impact expected on the financial statements.
- *AASB 15 Revenue from Contracts with Customers (effective for annual reporting periods beginning on or after 1 January 2018)*
AASB 15 Revenue from Contracts with Customers establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 Revenue, AASB 111 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. AASB 15 is effective for the Trust from 1 July 2018. The consolidated entity is assessing the potential impact on its consolidated financial statements resulting from the application of AASB 15. There is no material impact expected on the financial statements.
- *AASB 16 Leases (effective for annual reporting periods beginning on or after 1 January 2019)*
AASB 16 Leases requires recognition of a right-of-use asset along with the associated lease liability in the balance sheet when acting as a lessee in an operating lease. Interest expense, using the effective interest rate method, and depreciation expense on the right-to-use asset will now be recognised on operating leases by lessees instead of a rental expense. Lessor accounting remains largely unchanged. AASB 16 replaces existing guidance, including AASB 117 Leases and IFRIC 4 Determining whether an Arrangement contains a Lease. AASB 16 is effective for annual reporting periods beginning on or after 1 January 2019. As lessor accounting is largely unchanged and all of the Trust properties are freehold, there is no material impact expected on the consolidated financial statements.

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2017

1 Summary of significant accounting policies (continued)

(c) Basis of preparation

The Financial Report is presented in Australian dollars, which is the consolidated entity's functional currency.

The Trust and its controlled entities are entities of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2017/191 and in accordance with that Corporations Instrument, amounts in the Financial Report have been rounded to the nearest thousand dollars, unless otherwise stated.

The Financial Report has been prepared on the basis of the going concern and historical cost conventions except for derivative financial instruments and investment properties which are stated at their fair value.

The consolidated entity is in a net current deficiency position of \$728,000 as at 30 June 2017 due primarily to the distribution provision of \$734,000 relating to the final quarter of 2017. As at 30 June 2017, there remains \$1,600,000 of undrawn debt available and the Trust's cash flow forecasts indicate sufficient resources will be available to meet its obligations as and when they fall due.

The Directors have formed the view that the consolidated Financial Report for the year ended 30 June 2017, can be prepared on a going concern basis.

The preparation of Financial Statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. The key estimates and judgements are set out in Note 2.

Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. Refer to Note 2 for significant areas of estimation.

The accounting policies have been applied consistently for the purposes of this Financial Report.

Certain comparative amounts have been restated to conform with the current year's presentation.

The significant policies which have been adopted in the preparation of this Financial Report are:

(d) Revenue recognition

Revenue is recognised at the fair value of the consideration received or receivable net of the amount of goods and services tax ("GST") levied.

Revenue is recognised for the major business activities as follows:

Rent from investment properties

Rent from investment properties is recognised in the Profit and Loss on a straight-line basis over the lease term. Rent not received at balance date is reflected in the Balance Sheet as a receivable or if paid in advance, as rents in advance. Lease incentives granted are recognised over the lease term, on a straight-line basis, as a reduction of rent.

Interest income

Interest income is recognised in the Profit and Loss as it accrues using the effective interest method and if not received at balance date, is reflected in the Balance Sheet as a receivable.

Distributions

Revenue from distributions from controlled entities are recognised in the Profit and Loss on the date the Trust's right to receive payment is established, being the date when they are declared by those entities.

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2017

1 Summary of significant accounting policies (continued)

(e) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of GST except where the amount of GST incurred is not recoverable from the relevant taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the relevant taxation authority is included as a current asset or liability in the Balance Sheet.

Cash flows are included in the Cash Flow Statement on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

(f) Income tax

Under current Australian income tax legislation, the Trust and the consolidated entity are not liable for income tax, provided that the taxable income (including any assessable component of any capital gains from the sale of investment assets) is fully distributed to Unitholders each year. Tax allowances for building, plant and equipment depreciation are distributed to Unitholders in the form of tax preferred components of distributions.

(g) Derivative financial instruments

The consolidated entity holds derivative financial instruments to hedge interest rate risk exposures arising from operational, financing and investment activities. In accordance with the Responsible Entity's treasury policy, the consolidated entity does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are recognised initially at fair value and subsequently are remeasured at each balance date. The gain or loss on re-measurement to fair value is recognised in the Profit and Loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged. Refer to Note 1(h).

(h) Hedging

The Responsible Entity formally designates and documents the relationship between hedging instruments and hedged items at the inception of the transaction, as well as its risk management objective and strategy for undertaking various hedge transactions. The Responsible Entity also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

Cash flow hedge

A cash flow hedge is a hedge of the exposure to variability in cash flows attributable to a particular risk associated with an asset, liability or highly probable forecast transaction that could affect the Profit and Loss.

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income within the statement of comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit and loss within other income or other expenses.

When the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously in equity are transferred into the initial measurement of the cost of the asset or liability.

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2017

1 Summary of significant accounting policies (continued)

(h) Hedging (continued)

Cash flow hedge (continued)

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Statement of Comprehensive Income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in equity is recognised immediately in the Statement of Comprehensive Income.

(i) Finance costs

Finance costs to external parties

Finance costs to external parties include interest, amortisation of discounts or premiums relating to borrowings and amortisation of ancillary costs incurred in connection with the arrangement of borrowings.

Where interest rates are hedged, the finance costs are recognised net of any realised effect of the hedge.

Finance costs to external parties are recognised as an expense in the Profit and Loss on an accruals basis, and if not paid at balance date are reflected in the Balance Sheet as a liability.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and at call deposits. Bank overdrafts that are repayable on demand and form part of the consolidated entity's cash management are included as a component of cash and cash equivalents for the purpose of the Cash Flow Statement.

(k) Impairment of assets

The carrying amounts of the consolidated entity's assets are reviewed at each balance date, to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the Profit and Loss, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess impairment losses recognised through the Profit and Loss.

Calculation of recoverable amount

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment. Non-significant receivables are not individually assessed. Instead, impairment testing is performed by placing non-significant receivables in portfolios of similar risk profiles, based on objective evidence from historical experience adjusted for any effects of conditions existing at each balance date.

The recoverable amount of other assets is the greater of their fair value less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2017

1 Summary of significant accounting policies (continued)

(l) Trade and other payables

Trade and other payables are stated at amortised cost.

Distributions to Unitholders

Distributions payable are recognised in the reporting period in which the distributions are declared, determined, or publicly recommended by the Directors of the Responsible Entity on or before the end of the financial year, but not distributed at balance date.

(m) Interest-bearing loans and borrowings

Interest-bearing loans and borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing loans and borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the Profit and Loss over the period of the borrowings on an effective interest basis unless there is an effective fair value hedge of the borrowings, in which case the borrowings are carried at fair value and changes in the fair value recognised in the Profit and Loss.

(n) Provisions

A provision is recognised when a present legal or constructive obligation exists as a result of a past event and it is probable that a future sacrifice of economic benefits will be required to settle the obligation, the timing or amount of which is uncertain.

If the effect is material, provisions are determined by discounting the expected future cash flows at the rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Performance fee

The performance fee is recognised in the Profit and Loss on an accrual basis. The performance fee is calculated in accordance with the Constitution based on the value of the consolidated entity's property interest at the current balance date, discounted to reflect the projected life of the consolidated entity and inherent market risks. The performance fee recognised will continue to be remeasured at each reporting date to reflect movements in the consolidated entity's performance during the period. Any revision to the performance fee will be adjusted through the Profit and Loss in the current financial year.

(o) Basis of consolidation

This consolidated Financial Report has been prepared based upon a business combination of the Trust and its controlled entities.

Controlled entities are all entities over which the Fund 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 Fund controls another entity.

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

(p) Investments

Controlled entities

Investments in controlled entities are carried at the lower of cost and recoverable amount in the consolidated entity's Financial Statements.

(q) Investment properties

Investment properties comprise investment interests in land and buildings (including integral plant and equipment) held for the purpose of producing rental income, capital appreciation, or both.

Investment properties are initially recognised at cost including any acquisition costs. Investment properties are subsequently stated at fair value at each balance date with any gain or loss arising from a change in fair value recognised in the Profit and Loss in the period.

Stockland Direct Retail Trust No. 1 and its controlled entities
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1 Summary of significant accounting policies (continued)

(q) Investment properties (continued)

Where a property is undergoing redevelopment, it is carried at fair value. Where property does not qualify as investment property but is to be redeveloped into investment property it is treated as investment property and carried at fair value.

Lease incentives provided by the consolidated entity to lessees, and rental guarantees which may be received by the consolidated entity from third parties (arising from the acquisition of investment properties) are included in the measurement of fair value of investment property and are treated as separate assets. Such assets are amortised over the respective periods to which the lease incentives and rental guarantees apply, either using a straight-line basis, or a basis which is more representative of the pattern of benefits.

A property interest under an operating lease is classified and accounted for as an investment property on a property-by-property basis when the consolidated entity holds it to earn rental income, for capital appreciation, or both. Any such property interest under an operating lease classified as an investment property is carried at fair value.

Fair value

When assessing fair value, the Directors of the Responsible Entity will consider the discounted cash flows of the investment property based on reliable estimates of future cash flows; other contracts and recent prices for similar properties; and capitalised income projections based on the property's net market income. In addition, independent valuations are performed at regular intervals appropriate to the nature of the investment property. These valuations are considered by the Directors of the Responsible Entity when determining fair value.

Subsequent costs

The consolidated entity recognises in the carrying amount of an investment property the cost of replacing part of that investment property when that cost is incurred if it is probable that the future economic benefits embodied within the item will flow to the consolidated entity and the cost can be measured reliably. All other costs are recognised in the Profit and Loss as an expense as incurred.

Disposal of revalued assets

The gain or loss on disposal of revalued assets is calculated as the difference between the carrying amount of the asset at the time of disposal and the net proceeds on disposal and is included in the Profit and Loss in the financial year of disposal.

(r) Unitholders Funds

Units within SDRT1 have been classified as equity as the units are redeemable on liquidation, the life of the trust is indefinite and the Responsible Entity determines the level of distributions on a discretionary basis as the Unitholders are entitled to a pro rata share of the entity's net assets on termination.

(s) Life of the Trust

The underlying constitution of the Trust indicates that the life is indefinite and Unitholder approval is required to wind up the Trust.

(t) Comparatives

No comparatives have been amended from those reported in the previous financial year except for those reclassified to conform with current year's presentation.

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2017

2 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience as adjusted for current market conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The consolidated entity makes estimates and assumptions concerning the future. The resulting accounting estimates will seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

Key sources of estimation uncertainty

Fair value measurement, valuation techniques and inputs

The following table shows the valuation techniques used in measuring the fair value of investment properties, as well as significant unobservable inputs used.

Class of property	Fair Value Hierarchy	Fair Value 30 June 2017 \$'000	Valuation Technique	Inputs used to Measure Fair Value	Range of Unobservable Inputs 30 June 2017	Range of Unobservable Inputs 30 June 2016
Retail	Level 3	86,800	DCF, income capitalisation method	Net passing rent (per sqm p.a.)	\$131 – 565	\$127 – 516
				Net market rent (per sqm p.a.)	\$127 – 559	\$125 – 556
				10 year average market rental growth	2.61% - 3.70%	2.68% - 3.79%
				Adopted capitalisation rate	6.25% - 8.25%	6.50% - 9.00%
				Adopted terminal yield	6.25% - 8.50%	6.50% - 9.25%
				Adopted discount rate	7.75% - 8.50%	8.25% - 9.25%
Total		86,800				

The adopted valuation for the investment property is within the range of valuations determined using the discounted cash flow ("DCF") method and the income capitalisation method. Both the DCF and income capitalisation methods use unobservable inputs in determining fair value, as per the table above.

The table below explains the key inputs used to measure fair value for commercial properties:

Discounted cash flow method	Under the DCF method, a property's fair value is estimated using explicit assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. The DCF method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, an appropriate, market-derived discount rate is applied to establish the present value of the income stream associated with the real property.
Income capitalisation method	This method involves assessing the total net market income receivable from the property and capitalising this in perpetuity to derive a capital value, to which various capital adjustments are made.
Net passing rent	Net passing rent is the contracted amount for which a property or space within a property is leased. In a net rent, the owner recovers outgoings from the tenant on a pro-rata basis (where applicable).
Net market rent	A net market rent is the estimated amount for which a property or space within a property should lease between a willing lessor and a willing lessee on appropriate lease terms in an arm's length transaction, after proper marketing and wherein the parties have each acted knowledgeably, prudently and without compulsion. In a net rent, the owner recovers outgoings from the tenant on a pro-rata basis (where applicable).

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
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2 Critical accounting estimates and judgements (continued)

Key sources of estimation uncertainty (continued)

Fair value measurement, valuation techniques and inputs (continued)

10 year average market rental growth	The expected annual rate of change in market rent over a 10 year forecast period in alignment with expected market movements.
Adopted capitalisation rate	The rate at which net market income is capitalised to determine the value of a property. The rate is determined with regards to market evidence and the prior external valuation.
Adopted terminal yield	The capitalisation rate used to convert income into an indication of the anticipated value of the property at the end of the holding period when carrying out a discounted cash flow calculation. The rate is determined with regards to market evidence and the prior external valuation.
Adopted discount rate	The rate of return used to convert a monetary sum, payable or receivable in the future, into present value. It reflects the opportunity cost of capital, that is, the rate of return the capital can earn if put to other uses having similar risk. The rate is determined with regards to market evidence and the prior external valuation.

Valuation process

The aim of the valuation process is to ensure that all investment property assets are held at fair value in the Trust's accounts and that the Trust is compliant with applicable regulations (for example ASIC regulations) and the SCPL Responsible Entity Constitution and Compliance Plan.

The Trust's external valuations are performed by independent professionally qualified valuers who hold a recognised relevant professional qualification and have specialised expertise in the investment properties valued.

External Valuations

The SCPL Responsible Entity Compliance Plan for the Trust requires that the asset must be valued by an independent external valuer at least every three years however, valuations are completed at least annually.

Sensitivity information

Significant input	Fair value measurement sensitivity to significant increase in input	Fair value measurement sensitivity to significant decrease in input
Net passing rent	Increase	Decrease
Gross market rent	Increase	Decrease
Net market rent	Increase	Decrease
10 year average market rental growth	Increase	Decrease
Adopted capitalisation rate	Decrease	Increase
Adopted terminal yield	Decrease	Increase
Adopted discount rate	Decrease	Increase

Generally, a change in the assumption made for the adopted capitalisation rate is accompanied by a directionally similar change in the adopted terminal yield. The adopted capitalisation rate forms part of the income capitalisation approach and the adopted terminal yield forms part of the discounted cash flow approach.

Stockland Direct Retail Trust No. 1 and its controlled entities
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2 Critical accounting estimates and judgements (continued)

Key sources of estimation uncertainty (continued)

Fair value measurement, valuation techniques and inputs (continued)

When calculating the income capitalisation approach, the net market rent has a strong interrelationship with the adopted capitalisation rate given the methodology involves assessing the total net market income receivable from the property and capitalising this in perpetuity to derive a capital value. In theory, an increase in the net market rent and an increase (softening) in the adopted capitalisation rate could potentially offset the impact to the fair value. The same can be said for a decrease in the net market rent and a decrease (tightening) in the adopted capitalisation rate. A directionally opposite change in the net market rent and the adopted capitalisation rate could potentially magnify the impact to the fair value.

When assessing a discounted cash flow, the adopted discount rate and adopted terminal yield have a strong interrelationship in deriving a fair value given the discount rate will determine the rate in which the terminal value is discounted to the present value.

In theory, an increase (softening) in the adopted discount rate and a decrease (tightening) in the adopted terminal yield could potentially offset the impact to the fair value. The same can be said for a decrease (tightening) in the discount rate and an increase (softening) in the adopted terminal yield. A directionally similar change in the adopted discount rate and the adopted terminal yield could potentially magnify the impact to the fair value.

Estimates of performance fee expense

The Responsible Entity may be entitled to charge a performance fee if certain out-performance is achieved by the consolidated entity. In the event a performance fee is applicable, the fee is calculated at 2.5% of the gross value of the property on the calculation date calculated on a cumulative basis. The consolidated entity has not provided for a performance fee as at 30 June 2017. Refer to Note 20 for further details.

The Responsible Entity determines the value of the performance fee to be provided based on the current property valuation and estimates regarding the likely sales proceeds on disposal of the consolidated entity's property.

An estimate of the performance fee expense is then made factoring in the current fair value of the consolidated entity's property and expectations regarding future property market volatility.

Assumptions underlying the Responsible Entity's estimates of performance fee expense

The performance fee, if any, is recognised in the Profit and Loss on an accruals basis. It is calculated in accordance with the Constitution. This involves the assumptions set out below.

The discounted cash flow approach applied for determining the fair value of the property usually includes assumptions in relation to current and recent investment property prices. If such prices are not available, then the fair value of investment properties is determined using assumptions that are mainly based on market conditions existing at each balance date.

The principal assumptions underlying the Responsible Entity's estimation of fair value are those related to the receipt of contractual rentals, expected future market rentals, void periods, maintenance requirements, and appropriate discount rates. These valuations are regularly compared to actual market yield data, and actual transactions by the consolidated entity and those reported by the market.

The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

It is assumed payment of the performance fee will occur in accordance with the Constitution and the projected life of the consolidated entity. The consolidated entity has then applied an appropriate discount rate to reflect the projected life of the Trust.

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2017

2 Critical accounting estimates and judgements (continued)

Assumptions underlying the Responsible Entity's estimates of fair value of derivatives

The fair value of derivatives is determined using a generally accepted pricing model based on a discounted cash flow analysis using assumptions supported by observable market rates. The determination of fair value of derivatives is described further in Note 19.

3 Operating segments

The consolidated entity and the Trust operate solely in the business of investment management in Australia, this being its one operating segment.

	Consolidated	
	2017	2016
	\$	\$
4 Auditor's remuneration		
<i>Audit services</i>		
Audit and review of the Financial Report		
<i>PwC Australia</i>	53,710	52,146
Compliance audit services		
<i>PwC Australia</i>	14,547	14,123
	68,257	66,269
<i>Other services</i>		
<i>Other non-audit related services</i>		
Taxation compliance services		
<i>PwC Australia</i>	-	27,159
Total remuneration	68,257	93,428
	Consolidated	
	2017	2016
	\$'000	\$'000
5 Current assets – Cash and cash equivalents		
Cash at bank and on hand	1,616	1,011
The weighted average interest rate for cash at bank and on hand as at 30 June 2017 was 1.24% p.a. (2016: 1.64% p.a.).		
6 Current assets – Trade and other receivables		
Trade debtors	54	143
Straight lining of rental income	54	-
Other receivables	118	110
	226	253
7 Current assets – Other assets		
Prepayments	102	97
Lease incentives (deferred cost)	49	77
Fit-out contributions	252	243
Other assets	267	215
	670	632

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
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8 Non-current assets – Investment properties

Description	Title	Acquisition date	Original purchase price \$'000	Independent Valuation date	Independent Valuation \$'000	Capitalisation rate		Weighted average lease term ¹		Consolidated	
						30 June 2017 %	30 June 2016 %	30 June 2017	30 June 2016	Book value 2017 \$'000	Book value 2016 \$'000
Benowa Gardens Shopping Centre, Benowa, Qld	Freehold	Dec 2006	26,024	June 2017	40,700	7.0	7.0	3.17	3.68	40,700	40,000
Pacific Pines Shopping Centre, Pacific Pines, Qld	Freehold	Dec 2006	17,041	June 2017	28,000	6.25	6.5	5.64	6.31	28,000	27,000
Tamworth Homespace, Tamworth, NSW	Freehold	Dec 2006	19,225	June 2017	18,100	8.25	9.0	2.76	2.81	18,100	16,900
Total Investment properties (including amounts classified in Trade and other receivables and Other assets)											
Less amounts classified as:											
- Trade and other receivables (straight lining of rental income)										(732)	(699)
- Other assets (fitout and lease incentives)										(300)	(320)
										(914)	(681)
Total Investment properties										84,854	82,200

¹Weighted average lease term is stated as years by area.

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2017

		Consolidated	
		2017	2016
		\$'000	\$'000
8	Non-current assets – Investment properties (continued)		
	Reconciliation – investment properties		
	Carrying amount at the beginning of the financial year	82,200	77,027
	Net gain on fair value adjustments of investment properties	1,610	3,626
	Expenditure capitalised	1,044	1,547
	Carrying amount at the end of the financial year	84,854	82,200
9	Non-current assets – Trade and other receivables		
	Trade debtors – straight-lining of rental income	678	699
10	Non-current assets – Other assets		
	Fit-out contributions	836	594
	Lease incentives (deferred cost)	78	87
		914	681
11	Current liabilities – Trade and other payables		
	Trade payables and accruals	2,312	1,542
	Amounts due to Responsible Entity	182	169
	Goods and services tax ("GST") payable	12	51
		2,506	1,762
12	Non-current liabilities – Interest-bearing loans and borrowings		
	Non-current liabilities		
	Loan facility drawn	41,400	41,400
	Less: attributable transaction costs	(227)	(319)
	Total Balance Sheet carrying amount at amortised cost	41,173	41,081

Loan facility

On 23 February 2016, the Trust negotiated an increased loan facility agreement with Commonwealth Bank of Australia ("CBA") providing maximum available funds of \$43,000,000. As at 30 June 2017, \$41,400,000 was drawn down.

The banking facility matures on 19 December 2019 (5 year term) and the fees associated with the agreements are:

- Establishment fee: 0.50% of the facility limit payable on execution.
- Base rate: Average BBSY bid rate p.a.
- Line fee: 0.75% p.a. of the facility limit if the Trust's Loan to Value Ratio ("LVR") is less than or equal to 55% and 0.80% p.a. of the facility limit if the Trust's LVR is greater than 55%.
- Margin: 0.75% p.a. if the Trust's LVR is less than or equal to 55% and 0.80% p.a. if the Trust's LVR is greater than 55%.

The weighted average interest rate on the Trust's loan facility for the year to 30 June 2017 was 4.08% p.a. (30 June 2016: 4.20% p.a.).

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2017

		Consolidated	
		2017	2016
		\$'000	\$'000
13	Current liabilities – Other Liabilities		
	Distribution payable	734	734
		734	734
14	Non-current other liabilities		
	Cash flow hedge – interest rate swap liability	592	938
		592	938

15 Units on issue

	Consolidated		Consolidated	
	2017	2016	2017	2016
	No. of units	No. of units	\$'000	\$'000
Units on issue	39,600,000	39,600,000	26,114	26,114

Date	Details	No. of units	\$'000
Movement in units			
1 July 2016	Opening Balance	39,600,000	26,114
30 June 2017	Closing Balance	39,600,000	26,114

Rights and restrictions over units

Each unit ranks equally with all other units for the purpose of distributions and on termination of the Trust.

		Consolidated	
		2017	2016
		\$'000	\$'000
16	Reserves		
	Cash flow hedge reserve		
	Balance at the beginning of the financial year	(938)	(187)
	Effective portion of changes in the fair value of cash flow hedges during the Financial year	346	(751)
	Balance at the end of the financial year	(592)	(938)

The cash flow hedge reserve is used to record the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges.

Stockland Direct Retail Trust No. 1 and its controlled entities
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17 Distributions to Unitholders

Distributions to Unitholders recognised in the financial year by the consolidated entity are:

Quarter Ended	Distribution per unit	Total amount \$'000	Date of payment	Tax deferred
2017				
30 September 2016	1.8540¢	734	31 October 2016	0.57%
31 December 2016	1.8540¢	734	28 February 2017	0.57%
31 March 2017	1.8540¢	734	28 April 2017	0.57%
30 June 2017	1.8540¢	734	31 August 2017 ¹	0.57%
Total distributions		2,936		

¹ Proposed payment date.

Distributions to Unitholders recognised in the comparative financial year by the consolidated entity are:

Quarter Ended	Distribution per unit	Total amount \$'000	Date of payment	Tax deferred
2016				
30 September 2015	1.8540¢	734	29 October 2015	14.10%
31 December 2015	1.8540¢	734	29 February 2016	14.10%
31 March 2016	1.8540¢	734	29 April 2016	14.10%
30 June 2016	1.8540¢	734	31 August 2016	14.10%
Total distributions		2,936		

18 Notes to the Cash Flow Statement

Reconciliation of profit for the financial year to net cash inflow from operating activities:

	Consolidated	
	2017	2016
	\$'000	\$'000
Profit for the financial year	5,582	7,255
Amortisation of borrowing costs	92	70
Net (gain) from fair value adjustment of investment properties	(1,610)	(3,626)
Straight line rent	(33)	(6)
Net cash inflow from operating activities before change in assets and liabilities	4,031	3,693
(Increase) in trade and other receivables and other assets	(190)	(36)
Increase in trade and other payables and other liabilities	744	404
Net cash inflow from operating activities	4,585	4,061

19 Financial instruments

(a) Financial risk and capital management

The consolidated entity's activities expose it to a variety of financial risks: credit risk, liquidity risk, and interest rate risk. The consolidated entity's overall financial risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the consolidated entity's financial performance. The consolidated entity uses derivative financial instruments to hedge exposure to fluctuations in interest rates.

Financial risk and capital management is carried out by a central treasury department under policies approved by the Directors of the Responsible Entity. The Board provides written principles of overall risk management, as well as written policies covering specific areas such as managing capital, mitigating interest rate and credit risks, use of derivative financial instruments and investing excess liquidity.

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2017

19 Financial instruments (continued)

(a) Financial risk and capital management (continued)

Capital management

The Responsible Entity's objective when managing capital is to safeguard the ability to continue as a going concern, whilst providing returns for Unitholders and benefits for other stakeholders and to maintain a capital structure to minimise the cost of capital.

The Responsible Entity can alter the capital structure of the consolidated entity by adjusting the amount of distributions paid to Unitholders and adjusting the timing of development and capital expenditure.

In this context, the consolidated entity considers capital to include interest-bearing loans and borrowings and Unitholders' funds.

Management monitor the capital structure of the consolidated entity through the loan-to-value ratio. The ratio is calculated as the amount of the loan facility drawn divided by the latest valuation of the consolidated entity's properties. The loan-to-value ratio as at 30 June 2017 is 47.7% (2016: 49.3%) which is in compliance with the LVR covenant requirement of 65% (2016: 65%).

Credit risk

Credit risk is the risk that a customer or counterparty to a financial instrument will default on their contractual obligations resulting in a financial loss to the consolidated entity.

The consolidated entity has no significant concentrations of credit risk and has policies to review the aggregate exposure of tenancies across its portfolio. The consolidated entity also has policies to ensure that leases are made to customers with an appropriate credit history.

Derivative counterparties are limited to entities with high credit ratings set down by Standard and Poors.

As at 30 June 2017, for the consolidated entity, the ageing analysis of total trade receivables is as follows:

	Trade receivables	2017 Impairment	Net receivables
	\$'000	\$'000	\$'000
Not past due	-	-	-
0-30 days past due	28	-	28
31-60 days past due	-	-	-
61-90 days past due	4	-	4
+91 days past due	22	-	22
	54	-	54

The ageing analysis of trade receivables for the comparative year is:

	Trade receivables	2016 Impairment	Net receivables
	\$'000	\$'000	\$'000
Not past due	-	-	-
0-30 days past due	92	-	92
31-60 days past due	12	-	12
61-90 days past due	10	-	10
+91 days past due	29	-	29
	143	-	143

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
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19 Financial instruments (continued)

(a) Financial risk and capital management (continued)

Credit risk (continued)

As at 30 June 2017 and 30 June 2016, there were no significant financial assets that were past due and impaired or that would otherwise be past due whose terms have been renegotiated.

The carrying amount of financial assets included in the Balance Sheet represents the consolidated entity's maximum exposure to credit risk in relation to these assets. Refer to Notes 5 (Cash and cash equivalents), Notes 6 (Trade and other receivables) and Notes 7 (Other assets) for a breakdown of these financial assets.

Liquidity risk

Liquidity risk is the risk that the consolidated entity will not be able to meet its financial obligations as they fall due. Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The consolidated entity aims at maintaining flexibility in funding by keeping sufficient committed credit lines available. Management prepares and monitors rolling forecasts of liquidity requirements on the basis of expected cash flow.

The consolidated entity manages liquidity risk through monitoring the maturity of its debt portfolio. As at 30 June 2017, the current weighted average debt maturity is 2.5 years (2016: 3.5 years). Refer to Note 12 for further detail of the loan facility.

The table below reflects all estimated maturities of financial liabilities including principal and estimated interest cash flows calculated based on conditions existing at balance date. The amounts presented represent the future undiscounted cash flows and may not equate to carrying amounts of financial liabilities in the Balance Sheet.

Contractual maturity of financial assets and liabilities including derivatives and estimated interest

	2017				
	Contractual cash flows \$'000	1 year or less \$'000	1-3 years \$'000	3-5 years \$'000	5+ years \$'000
Consolidated					
Trade payables and accruals	2,506	2,506	-	-	-
Distribution payable	734	734	-	-	-
Loan facility	43,629	1,331	42,298	-	-
Interest rate swap	597	302	295	-	-
	47,466	4,873	42,593	-	-
2016					
	Contractual cash flows \$'000	1 year or less \$'000	1-3 years \$'000	3-5 years \$'000	5+ years \$'000
Consolidated					
Trade payables and accruals	1,762	1,762	-	-	-
Distribution payable	734	734	-	-	-
Loan facility	44,868	1,349	1,282	42,237	-
Interest rate swap	1,035	288	341	406	-
	48,399	4,133	1,623	42,643	-

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2017

19 Financial instruments (continued)

(a) Financial risk and capital management (continued)

Interest rate risk

Interest rate risk is the risk that the fair value of financial instruments or cash flows associated with instruments will fluctuate due to changes in market interest rates.

The income and the associated operating cash flows of the consolidated entity's financial assets are substantially independent of changes in market interest rates.

Sensitivity analysis

The following sensitivity analysis shows the effect on the consolidated entity's Profit and Loss and Unitholders' funds if market interest rates at balance date had been 100 basis points higher/lower (2016: 100 basis points) with all other variables held constant.

	2017		2016	
	Interest rates higher \$000	Interest rates lower \$000	Interest rates higher \$000	Interest rates lower \$000
Market interest rate movement of 100 basis points (2016: 100 basis points)				
Statement of Comprehensive Income	(398)	398	(404)	404
Equity	656	(673)	931	(965)

(b) Fair value of financial assets and financial liabilities

The carrying amounts of cash and cash equivalents, trade and other receivables, and trade and other payables as disclosed in the Balance Sheet reflect the fair value of these financial assets and liabilities as at 30 June 2017.

(c) Fair value hierarchy

The fair value hierarchy requires the consolidated entity to classify fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements.

The following hierarchy is used for determining and disclosing the fair value of SDRT 1's financial instruments, by valuation method:

- Level 1: quoted prices (unadjusted) in active markets for identical financial assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the financial asset or liability, either directly or indirectly; and
- Level 3: inputs for the financial asset or liability that are not based on observable market data.

The determination of what constitutes "observable" requires significant judgement by the responsible entity. The responsible entity considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The table below sets out the consolidated entity's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2017 and 30 June 2016.

	2017 \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Financial liabilities				
Interest rate swap	592	-	592	-
	2016 \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Financial liabilities				
Interest rate swap	938	-	938	-

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
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20 Related parties

Stockland Capital Partners Limited ("SCPL") is the Responsible Entity of the consolidated entity. The Key Management Personnel of the consolidated entity has been defined as the Responsible Entity. The Responsible Entity does not hold any units in the consolidated entity. All fees and charges from the Responsible Entity and its related parties are in accordance with the PDS and the Trust's constitution.

	Consolidated	
	2017	2016
Responsible Entity fees and other transactions	\$	\$
<i>Responsible Entity fee</i>		
The Responsible Entity charged Responsible Entity fees calculated at 0.45% p.a. of the gross assets of the consolidated entity and Trust.	392,988	372,030
Total Responsible Entity fees included in Current liabilities – Trade and other payables as at 30 June 2017 is \$99,465 (2016: \$95,024).		
<i>Performance fee</i>		
The Responsible Entity may be entitled to a performance fee if certain out-performance is achieved by the Consolidated entity. The performance fee is calculated at 2.5% of the gross value of the property or properties as disclosed in the Balance Sheet at each reporting date or realised on a sale of the property or properties during the period.	-	-
No performance fee was charged in the current period (2016: \$nil) as the Responsible Entity has not achieved the performance targets required to earn this fee.		
<i>Manager Expenses</i>		
Other recoverable expenses including accounting, taxation and compliance service fees totalling \$75,072 have been charged by the Responsible Entity (2016: \$73,600).	75,072	73,600
Total manager expenses included in Current liabilities – Trade and other payables as at 30 June 2017 is \$83,073 (2016: \$73,600).		
Total Responsible Entity fees and other transactions recognised in the Statement of Comprehensive Income	468,060	445,630

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
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20 Related Parties (continued)

Other related party transactions

Insurance Premiums

Insurance premium amounts are paid by the Trust to Stockland Singapore Pte Ltd, an insurance company, which is a related party of the Trust. Insurance premiums of \$147,824 (2016:\$145,119) were paid by the Fund during the financial year.

Total insurance premiums included in Current liabilities – Trade and other payables at 30 June 2017 are \$208,608 (2016: \$63,250).

Property Management fee

Stockland Property Management Pty Limited has been appointed as the property manager to undertake the ongoing property management and leasing of the properties. A fee of \$626,139 (2016: \$622,177) was paid/payable to the property manager during the financial year. Total accrued property management fees by the consolidated entity included in Current liabilities – Trade and other payables as at 30 June 2017 is \$671,803 (2016: \$300,316).

In the prior year, SDRT1 received \$140,331 from the Property Manager as a reimbursement of uncollectable debts. This follows an assessment which was undertaken into the value of certain trade receivables that were not fully recovered in the course of ordinary business.

Tenancy Design Fees

During the year, the Trust paid \$143,224 (2016: \$88,860) in Tenancy Design Fees to Stockland Development Pty Limited. Total tenancy design fees included in Current liabilities – Trade and other payables as at 30 June 2017 is \$6,806 (2016:nil)

Units held by Stockland Trust

As at 30 June 2017, Stockland Trust Management Limited, as Responsible Entity for Stockland Trust, a related party of the Responsible Entity, holds 7,877,500 units (2016: 7,877,500) in the consolidated entity.

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2017

21 Controlled entities

The following entities were 100% controlled by the parent entity during the current and previous financial years:

Controlled entities of Stockland Direct Retail Trust No. 1

SDRT 1 Property # 1 Trust

SDRT 1 Property # 2 Trust

SDRT 1 Property # 4 Trust

Stockland Holding Trust No. 1

22 Commitments

As at 30 June 2017, the consolidated entity has no commitments (2016: \$nil)

	Consolidated	
	2017	2016
	\$'000	\$'000
Non-cancellable operating lease receivable from investment property tenants		
Non-cancellable operating lease commitments receivable:		
Within one year	7,165	7,601
Later than one year but not later than five years	18,064	19,323
Later than five years	3,745	5,333
	28,974	32,257

23 Contingent liabilities and contingent assets

As at 30 June 2017, the consolidated entity has no contingent assets or liabilities (2016: \$nil).

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Financial Statements
For the year ended 30 June 2017

24 Parent Entity Disclosures

As at, and throughout, the financial year ended 30 June 2017 the parent entity of the consolidated entity was Stockland Direct Retail Trust No.1.

	Trust 2017 \$'000	2016 \$'000
Results of the parent entity		
Profit for the financial year	3,979	3,466
Other comprehensive income	346	(751)
Total comprehensive income for the year	4,325	2,715
Financial position of the parent entity at year end		
Current assets	1,776	920
Total assets	60,566	60,153
Current liabilities	1,516	1,716
Total liabilities	42,690	42,798
Net assets	17,876	17,355
Total Unitholders funds of the parent entity comprising of:		
Units on issue	26,114	26,114
Reserves	(592)	(938)
Undistributed loss	(7,646)	(7,821)
Total Unitholder's funds	17,876	17,355

Parent entity contingencies

There are no contingencies with the parent entity as at 30 June 2017 (2016: \$nil).

Parent entity capital commitments

The parent entity has not entered into any capital commitments as at 30 June 2017 (2016: \$nil).

Parent entity guarantees in respect of debts of its subsidiaries

The parent entity has not entered into any guarantees in respect of debts of its subsidiaries.

25 Events subsequent to the end of the year

There has not arisen, in the interval between the end of the current financial year and the date of this report any item, transaction or event of a material or unusual nature, likely, in the opinion of the Directors, to affect significantly the operations of the consolidated entity, the results of operations, or the state of the affairs of the consolidated entity, in future financial years.

Stockland Direct Retail Trust No. 1 and its controlled entities

Directors' Declaration


For the year ended 30 June 2017

In the opinion of the Directors of Stockland Capital Partners Limited, the Responsible Entity of Stockland Direct Retail Trust No. 1 and its controlled entities:

1. the Financial Statements and Notes, set out on pages 6 to 30, are in accordance with the Corporations Act 2001, including:
 - (a) giving a true and fair view of the Trust's and consolidated entity's financial position as at 30 June 2017 and of their performance for the financial year ended on that date; and
 - (b) complying with Australian Accounting Standards and the Corporations Regulations 2001.
2. the Financial Report also complies with International Financial Reporting Standards as disclosed in Note 1(a);
3. at the date of this declaration, there are reasonable grounds to believe that the Trust and the consolidated entity will be able to pay their debts as and when they become due and payable;
4. the Trust has operated during the financial year ended 30 June 2017 in accordance with the provisions of the Trust Constitution as amended dated 26 August 2006; and
5. the Register of Unitholders has, during the financial year ended 30 June 2017, been properly drawn and maintained so as to give a true account of the Unitholders of the Trust.

Signed in accordance with a resolution of the Directors of the Responsible Entity made pursuant to Section 295 (5) of the Corporations Act 2001.

Signed in accordance with a resolution of the Directors:



Mark Steinert
Director

Dated at Sydney, 25 August 2017



Independent auditor's report

To the unitholders of Stockland Direct Retail Trust No. 1

Our opinion

In our opinion:

The accompanying financial report of Stockland Direct Retail Trust No. 1 (the Trust) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the Consolidated Balance Sheet as at 30 June 2017
- the Consolidated Statement of Changes in Equity for the year then ended
- the Consolidated Cash Flow Statement for the year then ended
- the Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year then ended
- the Notes to the Consolidated Financial Statements, which include a Summary of significant accounting policies
- the Director's Declaration

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Other information

The Directors of the Responsible Entity are responsible for the other information. The other information obtained at the date of this auditor's report comprises the Director's report included in the annual report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

PricewaterhouseCoopers, ABN 52 780 433 757

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In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors of the Responsible Entity for the financial report

The directors of Stockland Capital Partners Limited (the Responsible Entity) are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors of the Responsible Entity determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors of the Responsible Entity are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Responsible Entity either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our auditor's report.

A handwritten signature in dark ink, appearing to read 'PricewaterhouseCoopers', written over the printed name.

PricewaterhouseCoopers

A handwritten signature in dark ink, appearing to read 'N R McConnell', written over the printed name.

N R McConnell
Partner

Sydney
25 August 2017