Stockland Direct Office Trust No. 2

ARSN: 115 017 466

Annual Report
30 June 2014

Registered office:

133 Castlereagh Street
Sydney NSW 2000

Stockland Direct Office Trust No. 2
Contents

The Financial Report covers the Stockland Direct Office Trust No. 2 ("the Trust") which was formed and is domiciled in Australia.

Stockland Direct Office Trust No. 2
Directors' Report
For the year ended 30 June 2014

The Directors of Stockland Capital Partners Limited ("SCPL"), the Responsible Entity of Stockland Direct Office Trust No. 2 ("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 for the year ended 30 June 2014, the state of the Trust's affairs as at 30 June 2014 and the Independent Auditor's Report thereon.

SCPL was appointed the Responsible Entity at the date the Trust commenced.

Directors

The Directors of the Responsible Entity 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 19 October 2010 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.

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 Equatorial Mining Limited and 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 and Risk Committee and the Stockland Capital Partners Financial Services Compliance Committees.

Mark Steinert

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

Mr Steinert was appointed Managing Director & CEO of Stockland in January 2013. He has 25 years of experience in property and financial services including eight years in direct property primarily with Jones Lang LaSalle and 10 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.

Stockland Capital Partners Limited Financial Services Compliance Committee

A Financial Services Compliance Committee has been set up to oversee the Compliance Plan approved by the Responsible Entity for the Trust.

The role of the Committee includes evaluation of the effectiveness of the Trust's Compliance Plans designed to protect the interests of Unitholders. The Compliance Plan has been approved by the Australian Securities and Investments Commission ("ASIC"). The Committee meets regularly and must report breaches of the law and Constitution to the Board which is required to report any material breach of the Compliance Plan to ASIC.

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

Mr T Williamson (Chair) – Non-Executive Director of Stockland
Mr A Sherlock – Non-Executive Director
Mr P Hepburn – Executive Member

During the year 4 meetings (2013: 4 meetings) were held.

Stockland Capital Partners Limited Audit and Risk Committee

The Audit and Risk 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 quarterly and its meetings are attended by management, internal 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 Williamson (Chair) – Non-Executive Director of Stockland
Mr A Sherlock – Non-Executive Director

During the year 4 meetings (2013: 4 meetings) were held.

Principal activity

The principal activity of the Trust was the indirect ownership of property situated at 1-5 Lyon Park Road, Macquarie Park, New South Wales, via its 49% investment in Macquarie Park Trust ("MPT"). The Trust's investment was sold and settled on 7 February 2014.

Review and results of operations

The Trust recorded a profit from operating activities of $4,204,000 for the financial year ended 30 June 2014 (2013: $3,385,000).

Distributions paid or declared by the Trust to Unitholders during the financial year are set out in Note 12 of the Financial Statements.

The sale of the Trust's investment in MPT was settled on 7 February 2014 at which time the Trust's $103,225,693 loan facility was also repaid. Under the terms of the contract for sale, SDOT2 is required to retain $10,000,000 in a Retention Fund until 30 April 2015 (Retention Period) to support warranties provided to the purchaser. These are typical warranties provided by the vendor in a transaction of this type.

A gross distribution was paid on 28 February 2014 for $68,513,000. The final instalment amount owed by the individual investors to Westpac comprising repayment of the Instalment receipt of 60 cents per unit ($51,520,200 in total) and accrued interest of 0.59 cents per unit for the period 1 January 2014 to 28 February 2014 ($510,504 in total) were paid directly to Westpac in accordance with the terms of the Security Trust Deed. The remaining net distribution paid to unitholders was approximately 18.28 cents per unit ($15,694,575 in total) and is comprised of both income and capital distributions. Refer to Note 12 for further detail on the distribution.

Result of Members' Meeting

A Meeting of Members was held on 24 September 2012 for the Responsible Entity to make a recommendation to Unitholders concerning the future strategy of the Trust. The Special Resolution (more than 75% of the total eligible votes cast by Unitholders entitled to vote) was approved by Unitholders which authorised the Responsible Entity to sell the Trust's interest in the investment property and after the conclusion of the sale, terminate and wind up the Trust as soon as practicable thereafter.

Significant changes in the state of affairs

Other than the disposal of the investment in MPT, there have been no other significant changes in the state of affairs of the Trust.

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 other item, transaction or event of a material or unusual nature, likely, in the opinion of the Directors, to affect significantly the operations of the Trust, the results of operations, or the state of the affairs of the Trust in future financial years.

Environmental regulation

The Trust's operations are subject to various environmental regulations under both Commonwealth and State legislation. The Responsible Entity believes that the Trust 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 Trust.

Related parties

Stockland Trust Management Limited, as the Responsible Entity of Stockland Trust, a related party of the Responsible Entity, holds 17,083,717 instalment receipts in the Trust as at 30 June 2014 (2013: 17,083,717).

Interests of the Responsible Entity

The Responsible Entity has not held any units in the Trust either directly or indirectly during the financial year.

Responsible Entity's remuneration

The Responsible Entity charged a responsible entity fee of 0.45% p.a. (2013: 0.45% p.a.) of the gross assets of the Trust. The Responsible Entity may defer a portion of the annual fees each year. The Responsible Entity is entitled to recover all fees deferred either from Trust earnings or on winding up of the Trust. The Responsible Entity charges are set out in Note 15 of the Financial Report.

Directors' interests

No Directors of the Responsible Entity held any instalment receipts in the Trust at the date of this report.

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 Trust'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 Trust.

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

Insurance premiums

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 nature and the amount of the liabilities covered or the amount of the premium paid has not been included as such disclosure is prohibited under the terms of the insurance contracts.

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 2014.

Rounding

The Trust is an entity of the kind referred to in ASIC Class Order 98/100 (as amended) and in accordance with that Class Order; 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, 28 August 2014

Auditor's Independence Declaration

As lead auditor for the audit of Stockland Direct Office Trust No. 2 for the year ended 30 June 2014, 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 Office Trust No. 2 and the entities it controlled during the period.

N R McConnell
Partner
PricewaterhouseCoopers

Sydney
28 August 2014

Stockland Direct Office Trust No. 2
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2014

	Notes	2014 $'000	2013 $'000
Revenue and other income			
Interest income		**151**	96
Total revenue and other income		**151**	96
Share of net profit of investment accounted for using the equity method	8	**7,318**	12,993
Net gain after selling costs on disposal of investment	8	**543**	-
Finance expense		**(3,148)**	(7,731)
Auditor's remuneration	4	**(37)**	(30)
Responsible Entity fees	15	**(520)**	(867)
Other expenses		**(103)**	(1,076)
Profit for the financial year		**4,204**	3,385
Other comprehensive income which may be recycled through Profit or Loss			
Effective portion of changes in fair value of cash flow hedges		**-**	2,694
Other comprehensive income for the year		**-**	2,694
Total comprehensive income for the year		**4,204**	6,079

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

Stockland Direct Office Trust No. 2
Balance Sheet
As at 30 June 2014

	Notes	**2014 $'000**	2013 $'000
Current assets			
Cash and cash equivalents	5	**5,381**	706
Trade and other receivables	6	**242**	3
Other assets	7	**10,000**	201
Interest in investment property held for sale	8	**-**	184,008
Total current assets		**15,623**	184,918
Total assets		**15,623**	184,918
Current liabilities			
Trade and other payables	9	**2,966**	3,374
Interest-bearing loans and borrowings	10	**-**	102,968
Total current liabilities		**2,966**	106,342
Total liabilities		**2,966**	106,342
Net assets		**12,657**	78,576
Unitholders' funds			
Units on issue	11	**10,999**	68,961
Undistributed profit		**1,658**	9,615
Total unitholders' funds		**12,657**	78,576

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

Stockland Direct Office Trust No. 2
Statement of Changes in Equity
For the year ended 30 June 2014

		Unitholders' Funds							
		Issued capital		Undistributed profit		Reserves		Total	
	Notes	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000	2014 $'000	2013 $'000
Opening balance		**68,961**	68,961	**9,615**	12,326	**-**	(2,694)	**78,576**	78,593
Profit for the financial year		**-**	-	**4,204**	3,385	**-**	-	**4,204**	3,385
Other comprehensive income for the year		**-**	-	**-**	-	**-**	2,694	**-**	2,694
Total comprehensive income for the year		**-**	-	**4,204**	3,385	**-**	2,694	**4,204**	6,079
Transactions with Unitholders in their capacity as owners:									
Distributions paid/payable to Unitholders	12	**(57,962)**	-	**(12,161)**	(6,096)	**-**	-	**(70,123)**	(6,096)
Closing balance		**10,999**	68,961	**1,658**	9,615	**-**	-	**12,657**	78,576

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

Stockland Direct Office Trust No. 2
Cash Flow Statement
For the year ended 30 June 2014

	Notes	2014 $'000	2013 $'000
Cash flows from operating activities			
Cash receipts in the course of operations		**184**	-
Cash payments in the course of operations		**(1,000)**	(870)
Distributions received from investment	8	**8,900**	11,605
Interest received		**151**	96
Interest paid		**(2,805)**	(7,378)
Net cash inflow from operating activities	13	**5,430**	3,453
Cash flows from investing activities			
Disposal of investment		**173,595**	-
Cash flows from investing activities		**173,595**	-
Cash flows from financing activities			
Return of capital to unitholders		**(57,962)**	-
Repayment of borrowings		**(103,226)**	-
Distributions paid to unitholders		**(13,162)**	(6,120)
Net cash utilised in financing activities		**(174,350)**	(6,120)
Net increase/(decrease) in cash and cash equivalents		**4,675**	(2,667)
Cash and cash equivalents at the beginning of the year		**706**	3,373
Cash and cash equivalents at the end of the year	5	**5,381**	706

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

1 Summary of significant accounting policies

Stockland Direct Office Trust No. 2 ("the Trust") is a Managed Investment Scheme domiciled in Australia.

The Financial Report of the Trust as at and for the financial year ended 30 June 2014 was authorised for issue by the Directors of the Responsible Entity on 28 August 2014.

(a) Statement of compliance

The Financial 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 Financial 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

Certain Accounting Standards have been amended and published that are mandatory for this reporting period. These include:

- *AASB 10 Consolidated Financial Statements*: Replaces all of the guidance on control and consolidation in AASB 127 Consolidated and Separate Financial Statements. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns.
- *AASB 11 Joint Arrangements*: introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or a joint venture.
- *AASB 12 Disclosure of interests in Other Entities:* sets out the required disclosures for entities reporting under the two new standards.
- *AASB 13 Fair Value Measurement:* explains how to measure fair value and aims to enhance fair value disclosures.

The Trust has disposed all of its investment properties as part of the wind up process and therefore the new standards and guidance listed above do not have any impact on the Trust.

(c) Basis of preparation

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

The Trust is an entity of the kind referred to in ASIC Class Order 98/100 (as amended) and in accordance with that Class Order, 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 historical cost conventions except for derivative financial instruments, which are stated at fair value. In addition the Investment Property in the joint venture entity is stated at fair value.

Orderly windup basis

The Financial Report for the period ended 30 June 2014 has not been prepared on a going concern basis as on 24 September 2012, the Unitholders authorised the Responsible Entity to terminate and wind up the Trust as soon as practicable following the conclusion of the sale of the property in which SDOT2 had an interest. Accordingly, an orderly wind up basis has been adopted on orderly realisation of the Trust's assets and settlement of its liabilities over the next twelve months. The Trust has sufficient cash and cash equivalents to enable this orderly realisation to occur over the timeframe.

The Financial Report has been prepared on the alternate basis set out in the accounting policies below.

The Financial Report has been prepared on the historical cost conventions except for derivative financial instruments which are stated at fair value and its equity accounted investment whose carrying amount includes share of revaluation movements on its investment property which is carried at fair value in the comparative period.

1 Summary of significant accounting policies (continued)

(c) Basis of preparation (continued)

The orderly settlement of liabilities has also resulted in all non-current liabilities being reclassified to current to reflect the director's expectations regarding payment.

However, the ultimate amounts achieved in the wind up could differ to those amounts recorded in the financial statements at 30 June 2014.

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. 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.

The significant policies which have been adopted in the preparation of the 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.

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.

(e) Operating segments

An operating segment is a component of the Trust that engages in business activities from which it may earn revenues and incur expenses.

(f) 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.

(g) Income tax

Under current Australian income tax legislation, the Trust is 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.

(h) 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 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 or Loss on an accruals basis, and if not paid at balance date are reflected in the Balance Sheet as a liability.

1 Summary of significant accounting policies (continued)

(i) 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 Trust's cash management are included as a component of cash and cash equivalents for the purpose of the Cash Flow Statement.

(j) 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 on or before the end of the financial year, but not distributed at balance date.

(k) 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.

(l) 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.

(m) Investments

Joint venture entities

The Trust's 49% investment in Macquarie Park Trust ("MPT") was treated as an investment in a joint venture until disposal.

Investments in joint ventures are accounted for using equity accounting principles. Investments in joint ventures are carried at the lower of the equity accounted amount and the recoverable amount.

The Trust's share of the joint venture's net profit or loss is recognised in the Trust's Profit or Loss from the date joint control commences until the date joint control ceases. Other movements in reserves are recognised directly in reserves, classified as a liability to Unitholders.

(n) Unitholders Funds

Units within SDOT2 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.

(o) 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.

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 Trust makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, 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.

2 Critical accounting estimates and judgements (continued)

(a) Key sources of estimation uncertainty

Estimates of fair value of investment property interest

The joint venture entity in which the Trust held an investment holds an Investment Property which is measured at fair value. The carrying value of the equity accounted investment is based on the underlying fair value of the Investment Property held in the joint venture entity and the key judgements involved in making this estimate are detailed below. External valuations are obtained every reporting period.

The best evidence of fair value is current prices in an active market for similar Investment Properties. Where such information is not available, the Responsible Entity determines the Property's value within a range of reasonable fair value estimates. In making its judgement, the Responsible Entity considers information from a variety of sources including:

(i) current prices in an active market for properties of different nature, condition or location (or subject to different leases or other contracts), adjusted to reflect those differences;

(ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices;

(iii) discounted cash flow projections based on reliable estimates of future cash flows, derived from the term of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of cash flows; and

(iv) capitalised income projections based upon a property's estimated net market income, which is assumed to be a level annuity in perpetuity, and a capitalisation rate derived from analysis of market evidence. Reversions associated with short-term leasing risks/costs, incentives and capital expenditure may be deducted from the capitalised net income figure.

3 Operating segments

The Trust operates solely in the business of investment management in Australia, this being it's one operating segment.

4 Auditor's remuneration

	2014 $	2013 $
Audit services		
Audit and review of the Financial Report		
PwC Australia	**15,360**	15,000
Compliance audit services		
PwC Australia	**12,971**	9,500
	28,331	24,500
Other services		
Other non-audit related services		
Taxation compliance services		
PwC Australia	**8,192**	5,800
	8,192	5,800
Total remuneration	**36,523**	30,300

	2014 $'000	2013 $'000
5 Current assets – Cash and cash equivalents		
Cash at bank and on hand	**5,381**	**706**

The weighted average interest rate for cash at bank and on hand as at 30 June 2014 was 2.31% p.a. (2013: 3.27% p.a.).

6 Current Assets – Trade and other receivables

	2014 $'000	2013 $'000
Other receivables	242	3
	242	3

7 Current assets – Other assets

	2014 $'000	2013 $'000
Prepayments	-	201
Other assets	10,000	-
	10,000	201

Other assets of $10,000,000 relates to retention monies held on behalf of the Trust by an external solicitor until the retention period matures on 30 April 2015. If no claims have been made on the retention monies at this time, the full amount will be returned to the Trust.

8 Interest in investment property held for sale/ Investments accounted for using the equity method

	Location	Principal activity	Holding 2014 %	Holding 2013 %	Carrying amount 2014 $'000	Carrying amount 2013 $'000
Macquarie Park Trust ("MPT")	NSW	Property investment	-	49	-	184,008

The joint venture was formed in Australia. The principal activity is investment in real property.

The Trust disposed of its investment in the joint venture on 7 February 2014.

	2014 $'000	2013 $'000
Movements in carrying amount of interest in investment property held for sale		
Carrying amount at the beginning of the financial year	184,008	183,570
Share of net profit	7,318	12,993
Distributions received	(8,900)	(11,605)
	182,426	184,958
Add/(Less): selling costs utilised/(accrued)	1,664	(950)
Disposal of investment	(184,633)	-
Gain on disposal	543	-
Carrying amount at the end of the financial year	-	184,008
Share of joint venture entity's assets and liabilities		
Current assets	-	186,294
Non-current assets	-	-
Total assets	-	186,294
Current-liabilities	-	(1,336)
Total liabilities	-	(1,336)
Share of net assets after equity accounting adjustments	-	184,958
Share of joint venture entity's revenue, expenses and results up until disposal (2013: full year)		
Revenue	9,409	16,887
Loss from fair value adjustment of investment property	(696)	(1,667)
Expenses	(1,395)	(2,227)
Net profit accounted for using the equity method	7,318	12,993

		2014	2013
		$'000	$'000
9	**Current liabilities – Trade and other payables**		
	Trade payables and accruals	**2,966**	1,734
	Interest payable on loan facility	-	116
	Distribution payable	-	1,524
		2,966	3,374
10	**Current – Interest-bearing loans and borrowings**		
	Loan Facility	-	103,226
	Less: attributable transaction costs	-	(258)
	Total Balance Sheet carrying amount at amortised cost	-	102,968

Details of the facilities are set out below:

		Facility limit		**Utilised**	
		2014	2013	**2014**	2013
Facility	**Maturity date**	**$'000**	$'000	**$'000**	$'000
Acquisition Tranche 1	30 September 2014	-	7,426	-	7,426
Acquisition Tranche 2	30 September 2014	-	95,800	-	95,800
Capital Expenditure	28 June 2014	-	-	-	-
Overdraft		-	1,000	-	-
		-	104,226	-	103,226

The Trust fully repaid the existing loan and cancelled the available facilities on 28 February 2014 subsequent to the disposal of the Trust's investment in MPT (30 June 2013: $104,225,693 of which $103,225,693 had been drawn down). The weighted average interest rate on the loan facility for the period of 1 July 2013 to 28 February 2014 was 4.47% p.a. (30 June 2013: 4.68% p.a.). The total loan facility had been hedged through an interest rate swap contract which matured on 28 June 2013. Taking into account the interest rate swap in place, the weighted average interest rate on the total loan facility for the period to 28 February 2014 is 4.47% p.a. (30 June 2013: 6.53% p.a.).

11 Units on issue

	2014	2013	**2014**	2013
	No. of units	No. of units	**$'000**	$'000
Units on issue	**85,867,000**	85,867,000	**10,999**	68,961

Rights and restrictions over units

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

(b) All units are held by Permanent Trustee Company Limited, who acts as custodian for instalment receipt holders until the final instalment is paid by investors.

12 Distributions to Unitholders

Distributions to Unitholders recognised in the financial year by the Trust are:

	Distribution per unit	Total amount $'000	Date of payment
2014			
30 September 2013	**1.87500¢**	**1,610**[1]	31 October 2013
28 February 2014	**79.7900¢**	**68,513**[2]	28 February 2014
Total distributions		**70,123**	

[1] This is a profit distribution and includes interest of $844,000 relating to the Final Instalment paid to Westpac, being the Security Interest Holder, on behalf of investors in accordance with the Security Trustee Deed. The balance of the distribution to Unitholders after the payment of interest is $766,000.

[2] This distribution has been made from a combination of profit and contributed equity.

The distribution is from profit is $10,551,000 which includes interest of $1,299,000 relating to the Final Instalment paid to Westpac, being the Security Interest Holder, on behalf of investors in accordance with the Security Trustee Deed. The balance of the above distribution to Unitholders after the payment of interest is $9,252,000.

The distribution from contributed equity is $57,962,000. This distribution from contributed equity includes the repayment of the final instalment receipt of $0.60 per unit.

Distributions to Unitholders recognised in the previous financial year by the Trust are:

	Distribution per unit	Total amount $'000	Date of payment
2013			
30 September 2011	1.7500¢	1,524[3]	28 October 2011
31 December 2011	1.7500¢	1,524[3]	29 February 2013
31 March 2013	1.7500¢	1,524[3]	30 April 2013
30 June 2013	1.7500¢	1,524[3]	31 August 2013
Total distributions		6,096	

[3] The above distributions are income distributions. In addition, each of the above distributions includes payment of $810,000 relating to the Final Instalment paid to Westpac, being the Security Interest Holder on behalf of investors in accordance with the Security Trustee Deed. The balance of the above distributions to Unitholders after the payment of interest is $714,000 for each quarterly distribution.

13 Notes to the Cash Flow Statement

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

	2014 $'000	2013 $'000
Profit for the financial year	**4,204**	3,385
Amortisation of borrowing costs	**258**	387
Change in value of investment using the equity method	**(1,759)**	(440)
Net cash inflow from operating activities before change in assets and liabilities	**2,703**	3,332
Decrease in non-current prepayments and other assets	**200**	-
Decrease in current other assets	**2,798**	42
(Decrease)/increase in trade and other payables	**(271)**	79
Net cash inflow from operating activities	**5,430**	3,453

14 Financial instruments

(a) Financial risk and capital management

The Trust's activities expose it to a variety of financial risks: credit risk, liquidity risk and interest rate risk. The Trust's overall financial risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Trust's financial performance. The Trust 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 Board 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.

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 Trust by adjusting the amount of distributions paid to Unitholders.

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

Management monitor the capital structure of the Trust through the loan-to-value ratio. The ratio is calculated as the amount of the loan facility drawn divided by 49% of the latest valuation of the Macquarie Park property. The loan-to-value ratio as at 30 June 2014 is nil (2013: 56%).

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 Trust.

Derivative counterparties and cash deposits are currently limited to high credit quality financial institutions.

As at 30 June 2014 and 30 June 2013, there were no significant financial assets that were past due. Additionally, there were no significant financial assets that would otherwise be past due whose terms have been renegotiated.

The carrying amount of financial assets included in the Balance Sheet represents the Trust's maximum exposure to credit risk in relation to these assets. Refer to Notes 5, 6 and 7 for a breakdown of these financial assets.

Liquidity risk

Liquidity risk is the risk that the Trust 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 Trust 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 Trust manages liquidity risk through monitoring the maturity of its debt portfolio. The current weighted average debt maturity is nil (2013:1.25 years) due to the repayment of the loan on 28 February 2014.

The table below reflects all contractual 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 do not equate to carrying amounts of financial liabilities in the Balance Sheet.

14 Financial instruments (continued)

(a) Financial risk and capital management (continued)

Contractual maturity of financial liabilities including derivatives and estimated interest

	Contractual cash flows $'000	1 year or less $'000	1-3 years $'000	3-5 years $'000	5+ Years $'000
30 June 2014					
Trade and other payables	**(2,998)**	**(2,998)**	-	-	-
	(2,998)	**(2,998)**	-	-	-
30 June 2013					
Trade and other payables	(1,766)	(1,766)	-	-	-
Distribution payable	(1,524)	(1,524)	-	-	-
Facility agreement	(105,641)	(105,641)	-	-	-
	(108,931)	(108,931)	-	-	-

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 Trust's financial assets are substantially independent of changes in market interest rates.

The Responsible Entity, on behalf of the Trust, managed interest rate risk by using floating-to-fixed interest rate swaps. The interest rate swaps had the economic effect of converting borrowings from floating rates to fixed rates. The debt fixed/hedged percentage as at 30 June 2014 was nil (30 June 2013: nil). Under the interest rate swaps, the Responsible Entity agreed with other parties to exchange, at specified intervals, generally quarterly, the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts. The interest rate swap matured on 28 June 2013.

(b) Fair value of financial assets and liabilities

The carrying amounts of cash and cash equivalents, 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 2014.

15 Related parties

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

Responsible Entity fees and other transactions	**2014 $'000**	2013 $'000
Responsible Entity fees		
The Responsible Entity charged responsible entity fees calculated at 0.45% p.a. of the gross value of the assets of the Trust.	**520**	867
The Trust has not deferred any of the current year Responsible Entity fees for the year ended 30 June 2014 (2013: $nil).		
Total accrued and deferred Responsible Entity fees (from previous financial years) included in Current liabilities – Trade and other payables as at 30 June 2014 are $1,514,799 (2013: $1,708,131).		
Asset disposal fees		
The Responsible Entity and its related parties have performed services on behalf of the Trust to facilitate the disposal of the Trust's investment in MPT. Services provided included due diligence management, agency services, the provision of legal and research services and contract negotiation expertise. Total fees charged to the Trust were $504,620 (30 June 2013: $nil). The fees have been benchmarked against comparable external industry fees for similar services in accordance with the PDS.	**505**	-
Total accrued asset disposal fees included in Current liabilities – Trade and other payables at 30 June 2014 are $504,620 (2013: $nil).		
Debt restructuring fee		
The Responsible Entity performed services on behalf of the Trust to negotiate the terms of an early settlement of the external debt and the final instalment on behalf of unit holders at the time of the asset disposal. The Responsible Entity has charged a fee of $96,875 (representing 0.0625% of external debt facility and the final instalment) (2013: $nil). The fee has been benchmarked against comparable external industry fees for similar services in accordance with the PDS.	**97**	-
Total accrued pre-maturity debt repayment fees included the Current liabilities – Trade and other payables at 30 June 2014 are $96,875 (2013: $nil).		
Manager Expenses		
Other recoverable expenses including accounting, taxation and compliance service fees totalling $73,600 have been charged by the Responsible Entity (2013: $nil).	**74**	-
Total manager expenses included the Current liabilities – Trade and other payables at 30 June 2014 are $73,600 (2013: $nil).		
Performance fees		
The Responsible Entity is entitled to charge a performance fee calculated on a sliding scale provided the final distribution per unit exceeds the application price by at least 6%.	**-**	-
No performance fee was charged in the current year (2013: $nil) as the Responsible Entity has not achieved the performance targets required to earn this fee. No performance fees will be charged in the future.		
Total Responsible Entity fees and other transactions recognised in the Profit and Loss	**1,196**	867

15 Related parties (continued)

Other related party transactions

Units held by Stockland Trust

As at 30 June 2014, Stockland Trust Management Limited, as Responsible Entity for Stockland Trust, a related party of the Responsible Entity, hold 17,083,717 instalment receipts (2013: 17,083,717) in the Trust.

As at 30 June 2014, Stockland Trust Management Limited, as Responsible Entity for Stockland Trust, held 51% (2013: 31%) of the units in Macquarie Park Trust ("MPT").

Property Management and Leasing Fee

Stockland Property Management Pty Limited, a related party of the Responsible Entity, charged $777,345 (2013: $647,504) to MPT for property management services including onsite property management staff and leasing fees. Of this amount, $777,345 (2013: $607,504) forms part of the outgoings recoverable from tenants pursuant to leases.

Macquarie Park Trust Responsible Entity fee

Stockland Trust Management Limited, a related party of the Responsible Entity charged $386,220 (2013: $569,230) to MPT as a Responsible Entity fee.

16 Commitments

As at 30 June 2014, the Trust has no commitments (2013: $nil).

17 Contingent liabilities and contingent assets

As at 30 June 2014, the Trust has a contingent liability amounting to $10,000,000 (2013: $nil) in relation to retention amounts on the sale of the investment in MPT. The retention period expires on 30 April 2015.

18 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 other item, transaction or event of a material or unusual nature, likely, in the opinion of the Directors, to affect significantly the operations of the Trust, the results of operations, or the state of the affairs of the Trust, in future financial years.

Stockland Direct Office Trust No. 2
Directors' Declaration
For the year ended 30 June 2014

In the opinion of the Directors of Stockland Capital Partners Limited, the Responsible Entity of Stockland Direct Office Trust No. 2:

1. the Financial Statements and Notes set out on pages 6 to 20, are in accordance with the Corporations Act 2001 including:
   (a) giving a true and fair view of the financial position of the Trust as at 30 June 2014 and of its performance for the financial year ended on that date; and
   (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) 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 will be able to pay its debts as and when they become due and payable;
4. the Trust has operated during the financial year ended 30 June 2014 in accordance with the provisions of the Trust Constitution as amended dated 27 June 2005; and
5. the Register of Unitholders has, during the financial year ended 30 June 2014, been properly drawn up 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, 28 August 2014

Independent auditor's report to the members of Stockland Direct Office Trust No. 2

Report on the financial report

We have audited the accompanying financial report of Stockland Direct Office Trust No. 2 (the Trust), which comprises the balance sheet as at 30 June 2014, the statement of profit or loss and other comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' responsibility 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, the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757
Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

In our opinion:

(a) the financial report of Stockland Direct Office Trust No. 2 is in accordance with the *Corporations Act* 2001, including:

  (i) giving a true and fair view of the Trust's financial position as at 30 June 2014 and its financial performance for the period on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Intrepretations) and the *Corporations Regulations 2001*; and

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1(a).

Emphasis of matter – going concern no longer appropriate

Without qualifying our opinion, we draw attention to the following matter. As indicated in Note 1 to the financial statements, the unitholders authorised the responsible entity to terminate and wind up the Trust. As a result, the financial statements have been prepared on a liquidation basis and not on a going concern basis.

PricewaterhouseCoopers

N R McConnell
Partner

Sydney
28 August 2014