Stockland Direct Retail Trust No. 1 and its controlled entities

ARSN: 121 832 086

Annual Financial Report 30 June 2015

Registered office:

133 Castlereagh Street
Sydney NSW 2000

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

Directors' Report		1
Auditor's Independence Declaration		5
Consolidated Statement of Profit or Loss and Other Comprehensive Income		6
Consolidated Balance Sheet		7
Consolidated Statement of Changes in Equity		8
Consolidated Cash Flow Statement		9
Notes to the Consolidated Financial Statements		10
1	Summary of significant accounting policies	10
2	Critical accounting estimates and judgements	16
3	Operating segments	19
4	Auditor's remuneration	19
5	Current assets – Cash and cash equivalents	19
6	Current assets – Trade and other receivables	19
7	Current assets – Other assets	19
8	Non-current assets – Investment properties	20
9	Non-current assets – Trade and other receivables	21
10	Non-current assets – Other assets	21
11	Current liabilities – Trade and other payables	21
12	Current and non-current liabilities – Interest-bearing loans and borrowings	21
13	Current liabilities – Other Liabilities	22
14	Non-current other liabilities	22
15	Units on issue	22
16	Reserves	22
17	Distributions to Unitholders	23
18	Notes to the Cash Flow Statement	23
19	Financial instruments	23
20	Related parties	27
21	Controlled entities	28
22	Commitments	28
23	Contingent liabilities and contingent assets	29
24	Parent Entity Disclosures	29
25	Events subsequent to the end of the year	29
Directors' Declaration		30
Independent Auditor's Report		31

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 2015

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 2015, the state of the consolidated entity's affairs as at 30 June 2015 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 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. Mr Neil is 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 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 , the Stockland and Stockland Capital Partners Financial Services Compliance Committees and the Stockland Residential Estates Equity Fund No. 1 Investment Committee.

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. Mr Steinert is a Director of The Green Building Council of Australia.

During the year 5 board meetings (2014: 4 meetings) were held.

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
Ms K Grace – Executive Member (appointed October 2014)
Mr P Hepburn – Executive Member (resigned October 2014)

During the year 4 meetings (2014: 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 six monthly and its meetings are attended by management and 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 3 meetings (2014: 5 meetings) were held.

Principal activity

The principal activity of the consolidated entity is the investment in a portfolio of 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 $10,435,000 for the financial year ended 30 June 2015 (2014: $5,520,000).

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 2015 resulting in an upwards revaluation totalling $6,705,000 (30 June 2014: $2,598,000) being recognised in the consolidated entity's consolidated statement of comprehensive income. The total portfolio was revalued upwards to $78,600,000. This represents an increase of 10.78% on the 30 June 2014 total carrying value of $70,950,000. Refer to Note 8 for individual property values.

Loan facility

On 19 December 2014, the Trust entered into a new loan facility agreement with Commonwealth Bank of Australia ("CBA") providing maximum available funds of $41,000,000. As at 30 June 2015, $40,500,000 was drawn down. The former $40,000,000 facility agreement with National Australia Bank was terminated and repaid on 19 December 2014 (drawn as at 30 June 2014: $39,349,000).

The new 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%.

SCPL as Responsible Entity of the Trust negotiated the new facility with CBA. For this service, $102,500 (equivalent to 0.25% of the facility limit) has been charged to the Trust and was paid during the year out of the Trust assets. The fee is based on a market based rate relative to the value of the facility refinanced and has been benchmarked to arm's length fees for similar services.
The weighted average interest rate on the Trust's loan facility for the period to 30 June 2015 was 4.38% p.a. (30 June 2014: 4.67% p.a.).

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.

The Trust had a loan facility arrangement with Stockland Trust Management Limited ("STML") as Responsible Entity for Stockland Trust which the Trust could draw down on in the event that the loan facility with NAB was not refinanced. The loan facility arrangement with STML was negotiated on market terms and conditions which could have been accepted at any time up to 28 February 2015. A line fee of 0.30% per annum was charged on the available facility. Following the Trust entering into the new facility agreement with CBA, the loan facility arrangement with STML was terminated on 19 December 2014.

Significant changes in the state of affairs

At the Unitholders meeting on 27 June 2014, an ordinary resolution was passed to continue the Trust and convene another meeting to consider the termination of the Fund by 30 June 2019.

Other than the above, 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 2015 (2014: 7,877,500).

The Responsible Entity has not held any units in the consolidated entity either directly or indirectly during the financial year (2014: 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.

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

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 2015.

Rounding

The consolidated entity 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 2015

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Stockland Direct Retail Trust No. 1 for the year ended 30 June 2015, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. 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
28 August 2015

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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 2015

	Notes	Consolidated 2015 $'000	2014 $'000
Revenue and other income			
Rent from investment properties		**8,784**	8,724
Interest income		**6**	5
Net gain from fair value adjustment of investment properties	**8**	**6,705**	2,598
Total revenue and other income		**15,495**	11,327
Investment property expenses		**(2,502)**	(2,844)
Finance expense relating to interest-bearing liabilities at amortised cost		**(1,926)**	(2,206)
Auditor's remuneration	**4**	**(88)**	(91)
Responsible Entity fees	**20**	**(338)**	(313)
Other expenses		**(206)**	(353)
Total expenses		**(5,060)**	(5,807)
Profit for the financial year		**10,435**	5,520
Other comprehensive income			
Effective portion of changes in fair value of cash flow hedges	**16**	**(187)**	-
Other comprehensive income for the year		**(187)**	-
Total comprehensive income for the year		**10,248**	5,520

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
For the year ended 30 June 2015

		Consolidated	
	Notes	2015 $'000	2014 $'000
Current assets			
Cash and cash equivalents	5	**512**	1,325
Trade and other receivables	6	**354**	367
Other assets	7	**569**	342
Total current assets		**1,435**	2,034
Non-current assets			
Investment properties	8	**77,027**	69,552
Trade and other receivables	9	**705**	568
Other assets	10	**595**	600
Total non-current assets		**78,327**	70,720
Total assets		**79,762**	72,754
Current liabilities			
Trade and other payables	11	**1,362**	2,766
Interest-bearing loans and borrowings	12	**-**	39,278
Other liabilities	13	**713**	713
Total current liabilities		**2,075**	42,757
Non-current liabilities			
Interest-bearing loans and borrowings	12	**40,107**	-
Other liabilities	14	**187**	-
Total non-current liabilities		**40,294**	-
Total liabilities		**42,482**	42,757
Net assets		**37,393**	29,997
Unitholders' funds			
Units on issue	15	**26,114**	26,114
Reserves	16	**(187)**	-
Undistributed profit		**11,466**	3,883
Total Unitholders' funds		**37,393**	29,997

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 2015

		Unitholders' funds							
		Units on issue		Undistributed profit		Reserves		Total	
Consolidated	Note	2015 $'000	2014 $'000	2015 $'000	2014 $'000	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Opening balance		**26,114**	26,114	**3,883**	739	**-**	-	**29,997**	26,853
Profit for the financial year		**-**	-	**10,435**	5,520	**-**	-	**10,435**	5,520
Effective portion of changes in fair value of cash flow hedges	16	**-**	-	**-**	-	**(187)**	-	**(187)**	-
Total comprehensive income for the financial year		**-**	-	**10,435**	5,520	**(187)**	-	**10,248**	5,520
Transactions with Unitholders in their capacity as owners:									
Distributions paid/payable to Unitholders	17	**-**	-	**(2,852)**	(2,376)	**-**	-	**(2,852)**	(2,376)
Closing balance		**26,114**	26,114	**11,466**	3,883	**(187)**	-	**37,393**	29,997

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 2015

	Notes	Consolidated 2015 $'000	2014 $'000
Cash flows from operating activities			
Cash receipts in the course of operations		**9,334**	9,161
Cash payments in the course of operations		**(5,397)**	(3,428)
Interest received		**6**	5
Interest and borrowing costs paid		**(2,268)**	(2,232)
Net cash inflow from operating activities	**18**	**1,675**	3,506
Cash flows from investing activities			
Payments for investment properties		**(783)**	(867)
Net cash utilised in investing activities		**(783)**	(867)
Cash flows from financing activities			
Increase in borrowings		**40,500**	-
Repayment of external borrowings		**(39,349)**	-
Distribution paid to Unitholders		**(2,856)**	(2,138)
Net cash utilised in financing activities		**(1,705)**	(2,138)
Net (decrease)/increase in cash and cash equivalents		**(813)**	501
Cash and cash equivalents at the beginning of the financial year		**1,325**	824
Cash and cash equivalents at the end of the financial year	**5**	**512**	1,325

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

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 2015 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 2015 was authorised for issue by the Directors of Stockland Capital Partners Limited ("SCPL"), the Responsible Entity for the Trust, on 28 August 2015.

(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 for the year to 30 June 2015

The Trust has adopted all the mandatory amended accounting standards issued that are relevant to its operations and effective for the current reporting period. Of the accounting standards that have been amended and published that are mandatory for this reporting period, the following have been noted for their material impact on Stockland:

- AASB 2013-3 *Amendments to AASB 136 Recoverable Amount Disclosures for Non-Financial Assets (effective 1 January 2014).*

  The AASB has made small changes to some of the disclosures that are required under AASB 136 Impairment of Assets. These may result in additional disclosures if the Group recognises an impairment loss or the reversal of an impairment loss during the period. They do not affect any of the amounts recognised in the financial statements.

- *AASB 2013-4 Amendments to Australian Accounting Standards - Novation of Derivatives and Continuation of Hedge Accounting (effective 1 January 2014).*

  The AASB has made small amendments to AASB 139 Financial Instruments: Recognition and measurement. The amendments will allow entities to continue hedge accounting, where a derivative contract that was designated as a hedge has been novated to a central counterparty as a consequence of laws or regulations. This is not applicable to the consolidated entity as it does not have any novated derivatives.

Mandatory in future years

Certain new accounting standards and interpretations have been published that are not mandatory for the year ended 30 June 2015 and 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 January 2018 but is available for early adoption. The consolidated entity is still assessing the potential impact on its consolidated financial statements resulting from the application of this amendment and is not currently intending to early adopt this standard.

- *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 annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The consolidated entity is assessing the potential impact on its consolidated financial statements resulting from the application of AASB 15.

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 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 the going concern and historical cost conventions except for derivative financial instruments and investment properties which are stated at their fair value.

At the Unitholders meeting on 27 June 2014, an ordinary resolution was passed to continue the Trust and convene another meeting to consider the termination of the Fund by 30 June 2019.

The consolidated entity is in a net current deficiency position of $640,000 as at 30 June 2015 due primarily to the distribution provision of $712,800 relating to the final quarter of 2015. As at 30 June 2015, there remains $500,000 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 2015, 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.

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.

1 Summary of significant accounting policies (continued)

(e) Operating segments

An operating segment is a component of the consolidated entity 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 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.

(h) 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(i).

(i) 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.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the Profit and Loss.

Amounts in equity are recognised in the Statement of Comprehensive Income in the periods when the hedged item is also recognised in the Statement of Comprehensive Income.

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.

1 Summary of significant accounting policies (continued)

(i) 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.

(j) 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.

(k) 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.

(l) 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.

1 Summary of significant accounting policies (continued)

(m) 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.

(n) 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.

(o) 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.

(p) 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.

(q) Investments

Controlled entities

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

(r) 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.

1 Summary of significant accounting policies (continued)

(r) 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.

(s) 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.

(t) 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.

At the Unitholders meeting on 27 June 2014, an ordinary resolution was passed to continue the Trust and convene another meeting to consider the termination of the Fund by 30 June 2019.

(u) 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 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 2015 $'000	Valuation Technique	Inputs used to Measure Fair Value	Range of Unobservable Inputs 30 June 2015
Retail	Level 3	78,600	DCF, income capitalisation method and comparable transactions	Net passing rent (per sqm p.a.)	$119 - 502
				Net market rent (per sqm p.a.)	$123 – 480
				10 year average market rental growth	3.01% - 3.52%
				Adopted capitalisation rate	7.00% - 9.50%
				Adopted terminal yield	7.25% - 9.75%
				Adopted discount rate	8.50% - 9.50%
Total		**78,600**			

The adopted valuation for the investment property is the mid-point of the 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, with allowances for capital expenditure reversions.
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).

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, the unitholders require that it be performed 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.

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 2015. 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

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	
		2015	2014
		$	$
4	**Auditor's remuneration**		
	Audit services		
	Audit and review of the Financial Report		
	PwC Australia	**50,627**	52,152
	Compliance audit services		
	PwC *Australia*	**11,128**	12,971
		61,755	65,123
	Other services		
	Other non-audit related services		
	Taxation compliance services		
	PwC *Australia*	**26,367**	25,600
	Total remuneration	**88,122**	90,723

		Consolidated	
		2015	2014
		$'000	$'000
5	**Current assets – Cash and cash equivalents**		
	Cash at bank and on hand	**512**	1,325

The weighted average interest rate for cash at bank and on hand as at 30 June 2015 was 2.15% p.a. (2014: 2.23% p.a.).

6	**Current assets – Trade and other receivables**		
	Trade debtors	**217**	62
	Other receivables	**137**	305
		354	367
7	**Current assets – Other assets**		
	Prepayments	**90**	112
	Lease incentives (deferred cost)	**58**	26
	Fit-out contributions	**216**	204
	Other assets	**205**	-
		569	342

8 Non-current assets – Investment properties

						Capitalisation rate		Weighted average lease term[1]		Consolidated	
Description	**Title**	**Acquisition date**	**Original purchase price $'000**	**Independent Valuation date**	**Independent Valuation $'000**	**30 June 2015 %**	30 June 2014 %	**30 June 2015**	30 June 2014	**Book value 2015 $'000**	Book value 2014 $'000
Benowa Gardens Shopping Centre, Benowa, Qld	Freehold	Dec 2006	26,024	**June 2015**	39,000	**7.25**	8.25	**4.44**	4.90	**39,000**	33,250
Pacific Pines Shopping Centre, Pacific Pines, Qld	Freehold	Dec 2006	17,041	**June 2015**	24,000	**7.0**	7.5	**6.71**	7.20	**24,000**	22,800
Tamworth Homespace, Tamworth, NSW	Freehold	Dec 2006	19,225	**June 2015**	15,600	**9.5**	10.5	**2.50**	3.50	**15,600**	14,900
Total Investment properties (including amounts classified in Trade and other receivables and Other assets)										**78,600**	70,950
Less amounts classified as:											
- Trade and other receivables (straight lining of rental income)										**(705)**	(568)
- Other assets (fitout and lease incentives) - current										**(273)**	(230)
- non-current										**(595)**	(600)
Total Investment properties										**77,027**	69,552

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

		Consolidated	
		2015	2014
		$'000	$'000
8	**Non-current assets – Investment properties (continued)**		
	Reconciliation – investment properties		
	Carrying amount at the beginning of the financial year	**69,552**	**66,076**
	Net gain on fair value adjustments of investment properties	**6,705**	**2,598**
	Expenditure capitalised	**770**	**878**
	Carrying amount at the end of the financial year	**77,027**	**69,552**
9	**Non-current assets – Trade and other receivables**		
	Trade debtors – straight-lining of rental income	**705**	568
10	**Non-current assets – Other assets**		
	Fit-out contributions	**515**	579
	Lease incentives (deferred cost)	**80**	21
		595	600
11	**Current liabilities – Trade and other payables**		
	Trade payables and accruals	**1,110**	1,442
	Amounts due to related entity	**138**	316
	Responsible Entity fees accrued and deferred	**86**	964
	Goods and services tax ("GST") payable	**28**	44
		1,362	2,766
12	**Current and non-current liabilities – Interest-bearing loans and borrowings**		
	Current liabilities		
	Loan facility drawn	-	39,349
	Less: attributable transaction costs	-	(71)
	Total Balance Sheet carrying amount at amortised cost	-	39,278
	Non-current liabilities		
	Loan facility drawn	**40,500**	-
	Less: attributable transaction costs	**(393)**	-
	Total Balance Sheet carrying amount at amortised cost	**40,107**	-

Loan facility

On 19 December 2014, the Trust entered into a new loan facility agreement with Commonwealth Bank of Australia ("CBA") providing maximum available funds of $41,000,000. As at 30 June 2015, $40,500,000 was drawn down. The former $40,000,000 facility agreement with National Australia Bank was terminated and repaid on 19 December 2014 (drawn as at 30 June 2014: $39,349,000).

The new 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%.

SCPL as Responsible Entity of the Trust negotiated the new facility with CBA. For this service, $102,500 (equivalent to 0.25% of the facility limit) has been charged to the Trust and was paid during the year out of the Trust assets. The fee is based on a market based rate relative to the value of the facility refinanced and has been benchmarked to arm's length fees for similar services.

The weighted average interest rate on the Trust's loan facility for the period to 30 June 2015 was 4.38% p.a. (30 June 2014: 4.67% p.a.).

12 Current and non-current liabilities – Interest-bearing loans and borrowings (continued)

Loan facility (continued)

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.

The Trust had a loan facility arrangement with Stockland Trust Management Limited ("STML") as Responsible Entity for Stockland Trust which the Trust could draw down on in the event that the loan facility with NAB was not refinanced. The loan facility arrangement with STML was negotiated on market terms and conditions which could have been accepted at any time up to 28 February 2015. A line fee of 0.30% per annum was charged on the available facility. Following the Trust entering into the new facility agreement with CBA, the loan facility arrangement with STML was terminated on 19 December 2014.

	Consolidated	
	2015	2014
	$'000	$'000
13 Current liabilities – Other Liabilities		
Distribution payable	**713**	713
	713	713
14 Non-current other liabilities		
Derivative liability	**187**	-
	187	-

15 Units on issue

	Consolidated		Consolidated	
	2015	2014	**2015**	2014
	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 2014	Opening Balance	**39,600,000**	**26,114**
30 June 2015	**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	
	2015	2014
	$'000	$'000
16 Reserves		
Cash flow hedge reserve		
Balance at the beginning of the financial year	-	-
Effective portion of changes in the fair value of cash flow hedges during the financial year	**(187)**	-
Balance at the end of the financial year	**(187)**	-

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.

17 Distributions to Unitholders

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

	Distribution per unit	Total amount $'000	Date of payment	Tax deferred
2015				
30 September 2014	1.8000¢	**713**	31 October 2014	11.36%
31 December 2014	1.8000¢	**713**	28 February 2015	11.36%
31 March 2015	1.8000¢	**713**	30 April 2015	11.36%
30 June 2015	1.8000¢	**713**	30 August 2015[1]	11.36%
Total distributions		**2,852**		

[1] Proposed payment date.

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

	Distribution per unit	Total amount $'000	Date of payment	Tax deferred
2014				
30 September 2013	1.2000¢	475	31 October 2013	14.07%
31 December 2013	1.2000¢	475	28 February 2014	14.07%
31 March 2014	1.8000¢	713	30 April 2014	14.07%
30 June 2014	1.8000¢	713	30 August 2014	14.07%
Total distributions		2,376		

18 Notes to the Cash Flow Statement

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

	Consolidated **2015** **$'000**	Consolidated 2014 $'000
Profit for the financial year	**10,435**	5,520
Amortisation of borrowing costs	**107**	163
Net (gain) from fair value adjustment of investment properties	**(6,705)**	(2,598)
Straight line rent	**137**	146
Net cash inflow from operating activities before change in assets and liabilities	**3,974**	3,231
(Increase) in trade and other receivables and other assets	**(285)**	(374)
(Decrease)/Increase in trade and other payables and other liabilities	**(2,014)**	649
Net cash inflow from operating activities	**1,675**	3,506

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.

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. Refer to Note 20 for management of the Limited Liability Fund.

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 2015 is 51.5% (2014: 55.5%) which is in compliance with the LVR covenant requirement of 65% (2014: 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 2015, for the consolidated entity, the ageing analysis of total trade receivables is as follows:

		2015	
	Trade receivables $'000	**Impairment $'000**	**Net receivables $'000**
Not past due	-	-	-
0-30 days past due	**60**	-	**60**
31-60 days past due	**16**	-	**16**
61-90 days past due	**16**	-	**16**
+91 days past due	**123**	-	**123**
	215	-	**215**

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

		2014	
	Trade receivables $'000	Impairment $'000	Net receivables $'000
Not past due	-	-	-
0-30 days past due	17	-	17
31-60 days past due	4	-	4
61-90 days past due	3	-	3
+91 days past due	38	-	38
	62	-	62

19 Financial instruments (continued)

(a) Financial risk and capital management (continued)

Credit risk (continued)

As at 30 June 2015 and 30 June 2014, 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, 6 and 7 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 2015, the current weighted average debt maturity is 4.5 years (2014: 0.5 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

	2015				
	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	**1,362**	**1,362**	-	-	-
Distribution payable	**713**	**713**	-	-	-
Loan facility	**48,142**	**1,476**	**1,518**	**45,148**	-
Interest rate swap	**168**	**207**	**167**	**(206)**	-
	50,385	**3,758**	**1,685**	**44,942**	-

	2014				
	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	2,838	2,838	-	-	-
Distribution payable	713	713	-	-	-
Loan facility	40,550	40,550	-	-	-
Interest rate swap	-	-	-	-	-
	44,101	44,101	-	-	-

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 (2014: 100 basis points) with all other variables held constant.

	2015		2014	
	Interest rates higher $000	**Interest rates lower $000**	Interest rates higher $000	Interest rates lower $000
Market interest rate movement of 100 basis points (2014: 100 basis points)				
Statement of Comprehensive Income	**(399)**	**399**	(380)	380
Equity	**1,174**	**(1,222)**	-	-

(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 2015.

(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 2015 and 30 June 2014.

Financial liabilities	**2015 $'000**	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**
Interest rate swap	**187**	**-**	**187**	**-**
Investment properties	**78,600**	**-**	**-**	**78,600**

Financial liabilities	2014 $'000	Level 1 $'000	Level 2 $'000	Level 3 $'000
Interest rate swap	-	-	-	-
Investment properties	70,950	-	-	70,950

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	
	2015	2014
Responsible Entity fees and other transactions	**$'000**	$'000
Responsible Entity fee		
The Responsible Entity charged Responsible Entity fees calculated at 0.45% p.a. of the gross value of the consolidated entity and Trust.	**338**	**313**
For the year ended 30 June 2015, the Responsible Entity has not deferred any of the Responsible Entity fees (2014: $nil was deferred).		
Total Responsible Entity fees included in Current liabilities – Trade and other payables as at 30 June 2015 is $86,455 (2014: $964,333).		
Performance fee		
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 year (2014: $nil) as the Responsible Entity has not achieved the performance targets required to earn this fee.		
Manager Expenses		
Other recoverable expenses including accounting, taxation and compliance service fees totalling $73,600 have been charged by the Responsible Entity (2014: $73,600).	**74**	**74**
There are no manager expenses included the Current liabilities – Trade and other payables at 30 June 2015 (2014: $73,600).		
Standby loan facility line fees		
Stockland Trust Management Limited, as Responsible Entity for Stockland Trust had provided a standby loan facility offer to the Fund on market terms. The facility charges line fees of 0.30% p.a. on the facility limit which the Trust recognised in the Consolidated Statement of Comprehensive Income. The facility was terminated on 19 December 2014.	**57**	**93**
Total standby loan facility line fees included the Current liabilities – Trade and other payables at 30 June 2015 is $41,455 (30 June 2014: $60,000).		
Total Responsible Entity fees and other transactions recognised in the Statement of Comprehensive Income	**469**	**480**

20 Related Parties (continued)

Other *related* party transactions

Limited Liquidity Facility ("LLF")

NAB agreed to acquire up to 1,000,000 units per quarter in the Trust from investors seeking to transfer their units, up to a maximum of 19.9% of the Trust's units. The price for each unit was the most recent NTA per unit less a 2.5% discount, any transfer costs and a $110 processing fee per application. Stockland Trust Management Limited ("STML"), as Responsible Entity for Stockland Trust, placed a standing order with NAB to acquire the first 19.9% of the Units NAB acquires under the LLF. The facility commenced operation in the quarter beginning 1 January 2008 and was terminated on 10 June 2014 following Stockland Trust's holding in the Trust reaching 19.9% of the Trust's units.

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 $526,496 (2014: $645,121) 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 2015 is $113,714 (2014: $111,088).

Units held by Stockland Trust

As at 30 June 2015, Stockland Trust Management Limited, as Responsible Entity for Stockland Trust, a related party of the Responsible Entity, holds 7,877,500 units (2014: 7,877,500) in the consolidated entity.

Finance Negotiation Fee

SCPL as Responsible Entity of the Trust negotiated the new facility with CBA. For this service, $102,500 (equivalent to 0.25% of the facility limit) has been charged to the Trust and was paid during the year out of the Trust assets in accordance with the PDS and the Trust's constitution.

This has been recognised as part of borrowing transaction costs and is being amortised over the life of the facility through finance costs in the Profit or Loss.

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 2015, the consolidated entity has no commitments (2014: $nil).

	Consolidated	
	2015	2014
	$'000	$'000
Non-cancellable operating lease receivable from investment property tenants		
Non-cancellable operating lease commitments receivable:		
Within one year	**6,956**	6,518
Later than one year but not later than five years	**18,924**	17,427
Later than five years	**5,814**	5,559
	31,694	29,504

23 Contingent liabilities and contingent assets

As at 30 June 2015, the consolidated entity has no contingent assets or liabilities (2014: $nil).

24 Parent Entity Disclosures

As at, and throughout, the financial year ended 30 June 2015 the parent entity of the consolidated entity was Stockland Direct Retail Trust No.1.

	Trust	
	2015 **$'000**	2014 $'000
Results of the parent entity		
Profit for the financial year	**2,524**	1,931
Other comprehensive income	**(187)**	-
Total comprehensive income for the year	**2,337**	1,931
Financial position of the parent entity at year end		
Current assets	**640**	1,241
Total assets	**58,651**	59,449
Current liabilities	**966**	2,079
Total liabilities	**41,074**	41,359
Net assets	**17,577**	18,090
Total Unitholders funds of the parent entity comprising of:		
Units on issue	**26,114**	26,114
Reserves	**(187)**	-
Undistributed loss	**(8,350)**	(8,024)
Total Unitholder's funds	**17,577**	18,090

Parent entity contingencies
There are no contingencies with the parent entity as at 30 June 2015 (2014: $nil).

Parent entity capital commitments
The parent entity has not entered into any capital commitments as at 30 June 2015 (2014: $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 2015

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 29, 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 2015 and of their 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 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 2015 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 2015, 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, 28 August 2015