

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

**ARSN: 121 832 086**

**Annual Financial Report  
30 June 2018**

Registered office:

133 Castlereagh Street  
Sydney NSW 2000

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

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This financial report covers Stockland Direct Retail Trust No. 1 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 2018**

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 financial year ended 30 June 2018, the state of the Consolidated Entity's affairs as at 30 June 2018 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 the Australian Securities and Investment Commission ("ASIC").

#### **Directors**

The Directors of SCPL as at the end of the financial year ("the Directors") are:

##### **Barry Neil**

Chairman (Non-Executive) – Appointed 19 October 2010

Mr Neil was appointed as Chairman and Director of SCPL 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 also a Director of Stockland Corporation Limited and Stockland Trust Management Limited and a member of the Stockland Audit and Sustainability Committees.

##### **Mark Steinert**

Managing Director (Executive) – Appointed 29 January 2013

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

##### **Mr Stephen Newton**

Director (Non-Executive) – Appointed 18 December 2017

Mr Newton was appointed as a Director of SCPL on 18 December 2017 and as Chair of the SCPL Audit and Risk Committee on 26 October 2016. Mr Newton is currently a Director of BAI Communications Group, Gateway Lifestyle Residential Parks Group and Viva Energy REIT Group. He is also an Advisory Board Member, representing Alberta Investment Management Corp (Canada), of the Forestry Investment Trust, Chairman of the Finance Council for the Catholic Archdiocese of Sydney and Director of Sydney Catholic Schools Ltd. He is a former Director of Campus Living Funds Management Limited, Australand Property Group, University of Notre Dame Australia and Newcastle Airport Limited.

Mr Newton has extensive experience across real estate investment, development and management and infrastructure investment and management. He is a Principal of Arcadia Funds Management Limited, a real estate investment management and capital advisory business he established in 2002. Prior to this, Mr Newton was the Chief Executive Officer - Asia/Pacific for the real estate investment management arm of Lend Lease Corporation and a member of the global senior executive management group. His career at Lend Lease spanning almost 23 years included experience across residential development, retail shopping centres, and commercial and industrial property as well as real estate investment management in Australia and overseas.

Mr Newton is a Member of the Institute of Chartered Accountants in Australia. Mr Newton is also a Director of Stockland Corporation Limited and Stockland Trust Management Limited, the Chair of the Stockland Audit Committee and a member of the Stockland Risk and Sustainability Committees.



**Stockland Direct Retail Trust No. 1 and its controlled entities**  
**Directors' Report**  
**For the year ended 30 June 2018**

**Directors** (continued)

**Mr Terry Williamson**

Director (Non-Executive Independent) – Appointed 9 April 2018

Mr Williamson was appointed as a Director of SCPL on 9 April 2018. He is also a member of the SCPL Audit and Risk Committee. Mr Williamson was a former Director of Stockland Corporation Limited and Stockland Trust Management Limited from April 2003 to October 2015. He is a current Director of Avant Insurance Limited and Avant Group Holdings Limited. Mr Williamson is also a member of the Building and Estates Committee, a sub-committee of the Senate of the University of Sydney. Mr Williamson was previously the Chief Financial Officer of Bankers Trust Australia Limited/BT Financial Group Pty Limited from 1997 to 2002 and prior to that was a partner of PriceWaterhouse (now PricewaterhouseCoopers) for 17 years. Mr Williamson was former Chair of the Stockland Audit Committee, Stockland Financial Services Compliance Committee and Stockland Capital Partners Financial Services Compliance Committee and a former member of the Stockland Sustainability Committee.

**Former Director**

**Anthony Sherlock**

Director (Non-Executive Independent) – Deceased 7 December 2017

Mr Sherlock was appointed as a Director of SCPL in August 2004. Mr Sherlock passed away on 7 December 2017. He was a 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 was a non-executive Director of Invigor Group Limited, Equatorial Mining Limited and Kerrygold Limited. He was 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 had acted on a number of committees for both Federal and State Governments. He was a member of the Stockland Capital Partners Audit Committee. Mr Sherlock was also a member of the Stockland and the Stockland Capital Partners Financial Services Compliance Committees prior to the incorporation of these committees into the Stockland Audit Committee and Stockland Capital Partners Audit Committee respectively.

**Stockland Capital Partners Limited Audit and Risk Committee**

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

The Stockland Capital Partners Audit and Risk Committee is responsible for:

- the integrity of Stockland Capital Partner's financial reports and external audit;
- the appropriateness of Stockland Capital Partner's accounting policies and processes;
- the effectiveness of Stockland Capital Partner's financial reporting controls and procedures;
- the effectiveness of Stockland Capital Partner's internal control environment;
- compliance with Stockland Capital Partner's Australian Financial Services Licences and Compliance Plans;
- compliance with relevant laws and regulations including any prudential supervision procedures; and
- the assessment of the impact of non-financial risks.

The charter of the Committee was updated in August 2018 to rename the Committee as "Audit and Risk Committee" as to reflect the consideration of audit and risk issues. The Committee meets at least bi-annually and its meetings are attended by management and external audit and other parties as relevant. The Committee may meet privately with the external auditor in the absence of management at least once a year. The Committee has the power to conduct or authorise investigations into, or consult independent specialists on, any matters within the Committee's scope of responsibility. The Committee has written terms of reference which incorporate 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 at any time during the financial year were:

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

Mr A Sherlock – Non-Executive Independent Director (deceased 7 December 2017)

Mr T Williamson – Non-Executive Director (appointed 9 April 2018)



**Stockland Direct Retail Trust No. 1 and its controlled entities**  
**Directors' Report**  
**For the year ended 30 June 2018**

**Directors' meetings**

The number of meetings of the Board of Directors ("the Board") and of the Board Committees and the number of meetings attended by each of the Directors during the financial year were:

Director	Scheduled Board		Audit and Risk Committee <sup>1</sup>	
	A	B	A	B
Mr B Neil	4	4	-	-
Mr S Newton	2	2	4	4
Mr A Sherlock	2	2	2	2
Mr M Steinert	4	4	-	-
Mr T Williamson	1	1	1	1

A – Meetings attended / B – Meeting eligible to attend

<sup>1</sup> Audit Committee was renamed to Audit and Risk Committee in August 2018

**Principal activity**

The principal activity of the Consolidated Entity is the investment in two neighbourhood shopping centres located in Queensland and a large format centre located in New South Wales.

**Review and results of operations**

The Consolidated Entity recorded a profit of \$3,107,000 for the financial year ended 30 June 2018 (2017: \$5,582,000).

The Consolidated Entity declared distributions totalling \$2,936,000 (2017: \$2,936,000) to the Unitholders during the financial year. As at 30 June 2018, a distribution of \$734,000 is payable to the Unitholders (2017: \$734,000) as 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 2018 resulting in a downwards net fair value adjustment totalling \$481,000 (2017: \$1,610,000 upward) being recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income. The total portfolio was valued at \$87,700,000. This represents an increase of 1.04% on the 30 June 2017 total carrying value of \$86,800,000. Refer to Note 8 for individual property values.

**Loan facility**

The Trust has a loan facility agreement with Commonwealth Bank of Australia providing maximum available funds of \$43,000,000. As at 30 June 2018, \$42,200,000 (30 June 2017: \$41,400,000) was drawn down. Refer to Note 12 of the Financial Statements.

The Trust 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, consistent with the base rate of the loan facility.

**Significant changes in the state of affairs**

There have been no significant changes in the state of the affairs of the Consolidated Entity during the financial year.

**Events subsequent to the end of the year**

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

**Likely developments**

The Responsible Entity will continue to review investment management strategies with a view to optimising both the income and capital return over the investment term. The Responsible Entity must convene a unitholders meeting to consider the termination of the Trust by 30 June 2019.

**Stockland Direct Retail Trust No. 1 and its controlled entities  
Directors' Report  
For the year ended 30 June 2018**

**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 Capital Partners Limited as the Responsible Entity has not held any units in the Consolidated Entity either directly or indirectly during the financial year (2017: nil).

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 2018 (2017: 7,877,500).

*Responsible Entity's remuneration*

The Responsible Entity charged a responsible entity fee of 0.46% p.a. (inclusive of GST net of reduced input tax credits) 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 Consolidated Entity 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*

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

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

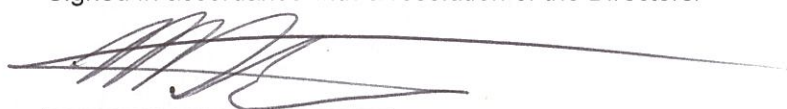
**Auditor's Independence Declaration under Section 307C of the Corporations Act 2001**

The external auditor's independence declaration is set out on page 5 and forms part of the Directors' Report for the year ended 30 June 2018.

**Rounding**

The Consolidated Entity is an entity of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that Corporations Instrument, amounts in the Financial Report and Directors' Report have been rounded to the nearest thousand dollars, unless otherwise stated.

Signed in accordance with a resolution of the Directors:



Mark Steinert  
Director

Dated at Sydney, 31 August 2018





## *Auditor's Independence Declaration*

As lead auditor for the audit of Stockland Direct Retail Trust No.1 for the year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Stockland Direct Retail Trust No.1 and the entities it controlled during the period.

A handwritten signature in blue ink, appearing to read 'N R McConnell', written over a horizontal line.

N R McConnell  
Partner  
PricewaterhouseCoopers

Sydney  
31 August 2018

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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 2018**

		<b>Consolidated</b>	
	<b>Notes</b>	<b>2018</b>	<b>2017</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Revenue and other income</b>			
Rent from investment properties		<b>9,121</b>	9,162
Interest income		<b>1</b>	1
Net (loss)/gain from fair value adjustment of investment properties	<b>8</b>	<b>(481)</b>	1,610
<b>Total revenue and other income</b>		<b>8,641</b>	10,773
 Investment property expenses		<b>(3,036)</b>	(2,796)
Finance expense relating to interest-bearing liabilities at amortised cost		<b>(1,790)</b>	(1,779)
Auditor's remuneration	<b>4</b>	<b>(73)</b>	(68)
Responsible Entity fees	<b>20</b>	<b>(413)</b>	(393)
Other expenses		<b>(222)</b>	(155)
<b>Total expenses</b>		<b>(5,534)</b>	(5,191)
 <b>Profit for the financial year</b>		<b>3,107</b>	5,582
 <b>Other comprehensive income</b>			
Effective portion of changes in fair value of cash flow hedges	<b>16</b>	<b>258</b>	346
<b>Other comprehensive income for the financial year</b>		<b>258</b>	346
<b>Total comprehensive income for the financial year</b>		<b>3,365</b>	5,928

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



**Stockland Direct Retail Trust No. 1 and its controlled entities**  
**Consolidated Balance Sheet**  
**As at 30 June 2018**

		<b>Consolidated</b>	
	<b>Notes</b>	<b>2018 \$'000</b>	<b>2017 \$'000</b>
<b>Current assets</b>			
Cash and cash equivalents	5	1,483	1,616
Trade and other receivables	6	226	226
Other assets	7	652	670
<b>Total current assets</b>		<b>2,361</b>	<b>2,512</b>
<b>Non-current assets</b>			
Investment properties	8	85,827	84,854
Trade and other receivables	9	680	678
Other assets	10	884	914
<b>Total non-current assets</b>		<b>87,391</b>	<b>86,446</b>
<b>Total assets</b>		<b>89,752</b>	<b>88,958</b>
<b>Current liabilities</b>			
Trade and other payables	11	2,237	2,506
Other liabilities	13	734	734
<b>Total current liabilities</b>		<b>2,971</b>	<b>3,240</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	12	42,065	41,173
Other liabilities	14	334	592
<b>Total non-current liabilities</b>		<b>42,399</b>	<b>41,765</b>
<b>Total liabilities</b>		<b>45,370</b>	<b>45,005</b>
<b>Net assets</b>		<b>44,382</b>	<b>43,953</b>
<b>Unitholders' funds</b>			
Units on issue	15	26,114	26,114
Reserves	16	(334)	(592)
Undistributed profit		18,602	18,431
<b>Total Unitholders' funds</b>		<b>44,382</b>	<b>43,953</b>

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 2018**

	Note	Unitholders' funds						
		Units on issue		Undistributed profit		Reserves		Total
		2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000
<b>Consolidated</b>		<b>26,114</b>	<b>26,114</b>	<b>18,431</b>	<b>15,785</b>	<b>(592)</b>	<b>(938)</b>	<b>43,953</b>
Opening balance								40,961
Profit for the financial year		-	-	3,107	5,582	-	-	3,107
Effective portion of changes in fair value of cash flow hedges	16	-	-	-	-	258	346	258
<b>Total comprehensive income for the financial year</b>		<b>-</b>	<b>-</b>	<b>3,107</b>	<b>5,582</b>	<b>258</b>	<b>346</b>	<b>3,365</b>
								5,928
<b>Transactions with Unitholders in their capacity as owners:</b>								
Distributions paid/payable to Unitholders	17	-	-	(2,936)	(2,936)	-	-	(2,936)
<b>Closing balance</b>		<b>26,114</b>	<b>26,114</b>	<b>18,602</b>	<b>18,431</b>	<b>(334)</b>	<b>(592)</b>	<b>44,382</b>
								43,953

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



**Stockland Direct Retail Trust No. 1 and its controlled entities**  
**Consolidated Cash Flow Statement**  
**For the year ended 30 June 2018**

		<b>Consolidated</b>	
		<b>2018</b>	<b>2017</b>
	<b>Notes</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Cash flows from operating activities</b>			
Cash receipts in the course of operations		<b>10,498</b>	10,449
Cash payments in the course of operations		<b>(5,647)</b>	(4,157)
Interest received		<b>1</b>	1
Interest and borrowing costs paid		<b>(1,696)</b>	(1,687)
<b>Net cash inflow from operating activities</b>	<b>18</b>	<b>3,156</b>	4,606
<b>Cash flows from investing activities</b>			
Payments for investment properties		<b>(1,153)</b>	(1,065)
<b>Net cash outflow from investing activities</b>		<b>(1,153)</b>	(1,065)
<b>Cash flows from financing activities</b>			
Increase in borrowings		<b>800</b>	-
Distribution paid to Unitholders	<b>17</b>	<b>(2,936)</b>	(2,936)
<b>Net cash outflow from financing activities</b>		<b>(2,136)</b>	(2,936)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(133)</b>	605
Cash and cash equivalents at the beginning of the financial year		<b>1,616</b>	1,011
<b>Cash and cash equivalents at the end of the financial year</b>	<b>5</b>	<b>1,483</b>	1,616

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

**Stockland Direct Retail Trust No. 1 and its controlled entities**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2018**

**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 2018 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 2018 was authorised for issue by the Directors of Stockland Capital Partners Limited ("SCPL"), the Responsible Entity for the Trust, on 31 August 2018.

**(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 and interpretations adopted by the International Accounting Standards Board.

**(b) New and amended Accounting Standards**

**Mandatory in future years**

Certain new accounting standards and interpretations have been published that are not mandatory for the year ended 30 June 2018 and where allowed have not been early adopted by the Trust. The Trust's assessment of the impact of these new standards and interpretations is set out below:

- *AASB 9 Financial Instruments (effective for annual reporting periods beginning on or after 1 January 2018)*

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The key changes to the standard are the classification and measurement of financial assets, the introduction of an expected credit loss model for impairment of financial assets and amended rules for hedge accounting. Based on an assessment performed during the year, no material impact is expected from the application of 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 core principle of AASB 15 is that an entity recognises revenue related to the transfer of promised goods or services when control of the goods or service passes to the customer. It requires the identification of discrete performance obligations within a transaction and allocating an associated transaction price to these obligations. Rental income received by the Trust is outside the scope of this standard and is covered under AASB 16 *Leases*.

- *AASB 16 Leases (effective for annual reporting periods beginning on or after 1 January 2019)*

AASB 16 *Leases* replaces existing guidance, including AASB 117 *Leases* and IFRIC 4 *Determining whether an Arrangement contains a Lease*. AASB 16 is effective for annual reporting periods beginning on or after 1 January 2019, with early adoption permitted. The Trust does not intend to early adopt this standard. The revised lease standard sets out a comprehensive model for identifying lease arrangements and subsequent measurement. Under the new standard, the lessee is required to recognize all right-of-use assets and corresponding lease liabilities on the balance sheet, with the exception of short term and low value leases. The right-of-use asset reflects the lease liability, direct costs and any adjustments for lease incentives or restoration. Lessor accounting remains largely unchanged, and hence there is no material impact expected from the adoption of this standard.



**Stockland Direct Retail Trust No. 1 and its controlled entities**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2018**

**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 Directors have formed the view that the Consolidated Financial Report for the financial year ended 30 June 2018, can be prepared on a going concern.

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

The Consolidated Entity is in a net current deficiency position of \$610,000 as at 30 June 2018 (2017: \$728,000) primarily due to the distribution provision of \$734,000 relating to the final quarter of 2018. As at 30 June 2018, there remains \$800,000 of undrawn debt available and the Trust's cash flow forecast indicates resources will be available to meet its obligations as and when they fall due.

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 Trust and its controlled entities are entities of the kind referred to in Australian Securities and Investment Commission ("ASIC") Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and in accordance with that Corporations Instrument, amounts in the Financial Report have been rounded to the nearest thousand dollars, unless otherwise stated.

The 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 or Loss on a straight-line basis over the lease term. Rent not received at balance date is reflected in the Consolidated Balance Sheet as a receivable or if paid in advance, as a liability for 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 or Loss within the Consolidated Statement of Profit or Loss and Other Comprehensive Income as it accrues using the effective interest method and if not received at balance date, is reflected in the Consolidated Balance Sheet as a receivable.

***Distributions***

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



**Stockland Direct Retail Trust No. 1 and its controlled entities**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2018**

**1 Summary of significant accounting policies (continued)**

**(e) Goods and services tax**

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

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

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

**(f) Income tax**

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

**(g) Derivative financial instruments**

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

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

**(h) Hedging**

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

***Cash flow hedge***

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

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in Other Comprehensive Income within the Consolidated Statement of Profit or Loss and Other Comprehensive Income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in Profit and Loss within the Consolidated Statement of Profit or Loss and Other Comprehensive Income as other income or other expenses.

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



**Stockland Direct Retail Trust No. 1 and its controlled entities**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2018**

**1 Summary of significant accounting policies (continued)**

**(h) Hedging (continued)**

***Cash flow hedge (continued)***

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

**(i) Finance costs**

***Finance costs to external parties***

Finance costs to external parties include interest 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 Consolidated Statement of Profit or Loss and Other Comprehensive Income on an accruals basis, and if not paid at balance date are reflected in the Consolidated Balance Sheet as a liability.

**(j) Cash and cash equivalents**

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

**(k) Trade and other receivables**

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less an allowance for impairment. Collectability of trade receivables is reviewed on an ongoing basis and at balance date, specific impairment losses are recorded for any doubtful accounts.

**(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 or 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 or Loss.

***Calculation of recoverable amount***

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

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



**Stockland Direct Retail Trust No. 1 and its controlled entities**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2018**

**1 Summary of significant accounting policies (continued)**

**(m) Trade and other payables**

Trade and other payables are stated at amortised cost.

**(n) Other liabilities**

***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.

**(o) 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 or 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 or Loss.

**(p) 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 or Loss within the Consolidated Statement of Profit or Loss and Other Comprehensive Income on an accrual basis. The performance fee is calculated in accordance with the Product Disclosure Statement ("PDS") and 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 balance 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 or Loss in the current financial year.

**(q) 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.

**(r) Investments**

***Controlled entities***

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

**(s) 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 or Loss in the period.



**Stockland Direct Retail Trust No. 1 and its controlled entities**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2018**

**1 Summary of significant accounting policies (continued)**

**(s) 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 or 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 or Loss in the financial year of disposal.

**(t) 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.

**(u) 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. The Responsible Entity must convene a unitholders meeting to consider the termination of the Trust by 30 June 2019.

**(v) Comparatives**

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

**Stockland Direct Retail Trust No. 1 and its controlled entities**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2018**

**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.

		Fair Value 30 June 2018 \$'000	Valuation Technique	Inputs used to Measure Fair Value	Range of Unobservable Inputs 30 June 2018	Range of Unobservable Inputs 30 June 2017
Class of property	Fair Value Hierarchy					
Retail	Level 3	87,700	DCF, income capitalisation method	Net passing rent (per sqm p.a.)	\$135 - \$584	\$131 – \$565
				Net market rent (per sqm p.a.)	\$130 - \$554	\$127 – \$559
				10 year average market rental growth	1.00% - 2.36%	2.61% - 3.70%
				Adopted capitalisation rate	6.25% - 8.25%	6.25% - 8.25%
				Adopted terminal yield	6.50% - 8.50%	6.25% - 8.50%
				Adopted discount rate	7.00% - 8.50%	7.75% - 8.50%
Total		87,700				

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

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

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



**Stockland Direct Retail Trust No. 1 and its controlled entities**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2018**

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

**Sensitivity information**

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

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



**Stockland Direct Retail Trust No. 1 and its controlled entities**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2018**

**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.

***Estimate of performance fee expense***

The Responsible Entity may be entitled to charge a performance fee in accordance with the PDS section 7 Fees and the Trust Constitution, subject to the Unitholders receiving at least the return of their subscribed equity. In the event a performance fee is applicable, the Responsible Entity is entitled to a performance fee calculated for each property (including GST less any reduced input tax credits) as the sum of:

- a base performance fee equal to 2.56% of the sale price; plus
- a tier 1 fee equal to 10.25% of the net sale proceeds (the sale price of the property less agent commissions and selling costs) if the net sale proceeds exceed the property acquisition price after subtracting the base performance and tier 1 fees; plus
- a tier 2 fee equal to 10.25% of the net sale proceeds if the net sale proceeds exceed the property acquisition price by more than 20% after subtracting the base performance and tier 1 fees.

The Responsible Entity determines the value of the performance fee to be provided in the Financial Statements based on the property valuation at the reporting date and estimates regarding the likely sales proceeds on disposal of the Consolidated Entity's property.

***Assumptions underlying the Responsible Entity's estimate of performance fee expense***

The performance fee, if any, is recognised in the Profit or Loss on an accruals basis. It is calculated in accordance with the PDS and Constitution. This involves the assumptions set out below relating directly to the value of investment properties of the Consolidated Entity.

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.



**Stockland Direct Retail Trust No. 1 and its controlled entities**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2018**

**2 Critical accounting estimates and judgements (continued)**

If a performance fee is payable, it is assumed payment of the performance fee will occur in accordance with the PDS and 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.

**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.

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
<b>4 Auditor's remuneration</b>		
<b>Audit services</b>		
Audit and review of the Financial Report		
<i>PwC Australia</i>	<b>57,809</b>	53,710
Compliance audit services		
<i>PwC Australia</i>	<b>15,657</b>	14,547
<b>Total remuneration</b>	<b>73,466</b>	<b>68,257</b>

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>

**5 Current assets – Cash and cash equivalents**

Cash at bank and in hand	<b>1,483</b>	1,616
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The weighted average interest rate for cash at bank and on hand as at 30 June 2018 was 1.30% p.a. (2017: 1.24% p.a.).

**6 Current assets – Trade and other receivables**

Trade debtors	<b>157</b>	54
Provision for impairment	<b>(62)</b>	-
Straight lining of rental income	<b>30</b>	54
Other receivables	<b>101</b>	118
	<b>226</b>	226

**7 Current assets – Other assets**

Prepayments	<b>95</b>	102
Lease incentives (deferred cost)	<b>40</b>	49
Fit-out contributions	<b>239</b>	252
Other assets	<b>278</b>	267
	<b>652</b>	670

**Stockland Direct Retail Trust No. 1 and its controlled entities**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2018**

**8 Non-current assets – Investment properties**

Description	Title	Acquisition date	Original purchase price <sup>1</sup> \$'000	Independent Valuation date	Independent Valuation \$'000	Capitalisation rate		Weighted average lease term <sup>2</sup>		Consolidated <sup>3</sup>	
						30 June 2018	30 June 2017	30 June 2018	30 June 2017	Book value 2018 \$'000	Book value 2017 \$'000
Benowa Gardens Shopping Centre, Benowa, Qld	Freehold	Dec 2006	25,198	June 2018	41,300	7.0	7.0	3.5	3.2	41,300	40,700
Pacific Pines Shopping Centre, Pacific Pines, Qld	Freehold	Dec 2006	16,347	June 2018	28,300	6.25	6.25	8.2	5.6	28,300	28,000
Tamworth Homespace, Tamworth, NSW	Freehold	Dec 2006	21,150	June 2018	18,100	8.25	8.25	2.4	2.8	18,100	18,100
<b>Total Investment properties (including amounts classified in Trade and other receivables and Other assets)</b>											
Less amounts classified as:											
- Trade and other receivables (straight lining of rental income)										(710)	(732)
- Other assets (fitout and lease incentives)										(279)	(300)
- non-current										(884)	(914)
<b>Total Investment properties</b>										<b>85,827</b>	<b>84,854</b>

<sup>1</sup>Excluding acquisition costs.

<sup>2</sup>Weighted average lease term by area (number of years).

<sup>3</sup>Before deduction of agent commissions and selling costs

**+Non-cancellable operating lease receivable from investment property tenants**

	Consolidated	
	2018	2017
Non-cancellable operating lease commitments receivable:	\$'000	\$'000
Within one year	7,211	7,165
Later than one year but not later than five years	18,330	18,064
Later than five years	9,278	3,745
	<b>34,819</b>	<b>28,974</b>



**Stockland Direct Retail Trust No. 1 and its controlled entities**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2018**

**8 Non-current assets – Investment properties (continued)**

	<b>Consolidated</b>	
	<b>2018</b>	2017
	<b>\$'000</b>	\$'000
<b>Reconciliation – Investment properties</b>		
Carrying amount at the beginning of the financial year	<b>84,854</b>	82,200
Net (loss)/gain on fair value adjustments of investment properties	<b>(481)</b>	1,610
Expenditure capitalised	<b>1,454</b>	1,044
Carrying amount at the end of the financial year	<b>85,827</b>	84,854

**9 Non-current assets – Trade and other receivables**

Trade debtors – straight-lining of rental income	<b>680</b>	678
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**10 Non-current assets – Other assets**

Fit-out contributions	<b>820</b>	836
Lease incentives (deferred cost)	<b>64</b>	78
	<b>884</b>	914

**11 Current liabilities – Trade and other payables**

Trade payables and accruals	<b>2,016</b>	2,312
Amounts due to Responsible Entity	<b>185</b>	182
GST payable	<b>36</b>	12
	<b>2,237</b>	2,506

**12 Non-current liabilities – Interest-bearing loans and borrowings**

Loan facility drawn	<b>42,200</b>	41,400
Less: attributable transaction costs	<b>(135)</b>	(227)
Carrying amount at the end of the financial year	<b>42,065</b>	41,173

**Loan facility**

On 23 February 2016, the Trust negotiated an increased loan facility agreement with Commonwealth Bank of Australia ("CBA") providing maximum available funds of \$43,000,000. As at 30 June 2018, \$42,200,000 was drawn down.

The banking facility matures on 19 December 2019 and the fees associated with the agreements are:

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

The weighted average interest rate on the Trust's loan facility for the year to 30 June 2018 was 4.16% p.a. (2017: 4.18% p.a.).

**Stockland Direct Retail Trust No. 1 and its controlled entities**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2018**

		<b>Consolidated</b>	
		<b>2018</b>	<b>2017</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>13</b>	<b>Current liabilities – Other Liabilities</b>		
	Distribution payable	<b>734</b>	734
		<b>734</b>	734
<b>14</b>	<b>Non-current other liabilities</b>		
	Cash flow hedge – interest rate swap liability	<b>334</b>	592
		<b>334</b>	592

**15 Units on issue**

	<b>Consolidated</b>		<b>Consolidated</b>
	<b>2018</b>	<b>2017</b>	<b>2018</b>
	<b>No. of units</b>	<b>No. of units</b>	<b>\$'000</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Units on issue	<b>39,600,000</b>	39,600,000	<b>26,114</b>
			26,114

<b>Date</b>	<b>Details</b>	<b>No. of units</b>	<b>\$'000</b>
<b>Movement in units</b>			
1 July 2017	Opening Balance	<b>39,600,000</b>	<b>26,114</b>
30 June 2018	Closing Balance	<b>39,600,000</b>	<b>26,114</b>

*Rights and restrictions over units*

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

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>16 Reserves</b>		
<b>Cash flow hedge reserve</b>		
Balance at the beginning of the financial year	<b>(592)</b>	(938)
Effective portion of changes in the fair value of cash flow hedges during the Financial year	<b>258</b>	346
Balance at the end of the financial year	<b>(334)</b>	(592)

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



**Stockland Direct Retail Trust No. 1 and its controlled entities**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2018**

**17 Distributions to Unitholders**

Distributions to Unitholders recognised in the financial year by the Consolidated Entity are:

Quarter Ended	Distribution per unit	Total amount \$'000	Date of payment	Tax deferred
<b>2018</b>				
30 September 2017	1.8540¢	<b>734</b>	31 October 2017	<b>0.00%</b>
31 December 2017	1.8540¢	<b>734</b>	28 February 2018	<b>0.00%</b>
31 March 2018	1.8540¢	<b>734</b>	28 April 2018	<b>0.00%</b>
30 June 2018	1.8540¢	<b>734</b>	31 August 2018 <sup>1</sup>	<b>0.00%</b>
Total distributions		<b>2,936</b>		

<sup>1</sup> Proposed payment date.

Distributions to Unitholders recognised in the comparative financial year by the Consolidated Entity are:

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

**18 Notes to the Consolidated Cash Flow Statement**

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

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit for the financial year	<b>3,107</b>	5,582
Amortisation of borrowing costs	<b>92</b>	92
Net loss/(gain) from fair value adjustment of investment properties	<b>481</b>	(1,610)
Straight line rent	<b>22</b>	(33)
<b>Net cash inflow from operating activities before change in assets and liabilities</b>	<b>3,702</b>	4,031
Decrease/(increase) in trade and other receivables and other assets	<b>24</b>	(190)
(Decrease)/increase in trade and other payables and other liabilities	<b>(570)</b>	765
<b>Net cash inflow from operating activities</b>	<b>3,156</b>	4,606

**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,

**Stockland Direct Retail Trust No. 1 and its controlled entities**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2018**

**19 Financial instruments (continued)**

**(a) Financial risk and capital management (continued)**

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 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 2018 is 48.1% (2017: 47.7%) which is in compliance with the LVR covenant requirement of 65% (2017: 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 2018, for the Consolidated Entity, the ageing analysis of total trade receivables is as follows:

	Trade receivables \$'000	2018 Impairment \$'000	Net receivables \$'000
Not past due	-	-	-
0-30 days past due	60	(2)	58
31-60 days past due	36	(14)	22
61-90 days past due	25	(14)	11
+91 days past due	36	(32)	4
	<b>157</b>	<b>(62)</b>	<b>95</b>

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

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



**Stockland Direct Retail Trust No. 1 and its controlled entities**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2018**

**19 Financial instruments (continued)**

**(a) Financial risk and capital management (continued)**

***Credit risk (continued)***

As at 30 June 2018, \$62,000 of trade receivables are impaired for Cargo tenant due to uncertainty of the payment plan in place will recover the disputed debt (2017: nil). There were no other 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 Consolidated Balance Sheet represents the Consolidated Entity's maximum exposure to credit risk in relation to these assets. Refer to Notes 5 (Cash and cash equivalents), Notes 6 (Trade and other receivables) and Notes 7 (Other assets) for a breakdown of these financial assets.

***Liquidity risk***

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

The Consolidated Entity manages liquidity risk through monitoring the maturity of its debt portfolio. As at 30 June 2018, the current weighted average debt maturity is 1.5 years (2017: 2.5 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 Consolidated Balance Sheet.

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

	<b>2018</b>				
	<b>Contractual cash flows</b>	<b>1 year or less</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>5+ years</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Consolidated</b>					
Trade payables and accruals	2,237	2,237	-	-	-
Distribution payable	734	734	-	-	-
Loan facility <sup>1</sup>	44,458	1,497	42,961	-	-
Interest rate swap <sup>1</sup>	340	232	108	-	-
	<b>47,769</b>	<b>4,700</b>	<b>43,069</b>	<b>-</b>	<b>-</b>

<sup>1</sup> The banking facility matures on 19 Dec 2019

	<b>2017</b>				
	<b>Contractual cash flows</b>	<b>1 year or less</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>5+ years</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Consolidated</b>					
Trade payables and accruals	2,506	2,506	-	-	-
Distribution payable	734	734	-	-	-
Loan facility <sup>1</sup>	43,629	1,331	42,298	-	-
Interest rate swap <sup>1</sup>	597	302	295	-	-
	<b>47,466</b>	<b>4,873</b>	<b>42,593</b>	<b>-</b>	<b>-</b>

<sup>1</sup> The banking facility matures on 19 Dec 2019

**Stockland Direct Retail Trust No. 1 and its controlled entities**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2018**

**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 or Loss and Unitholders' funds if market interest rates at balance date had been 100 basis points higher/lower (2017: 100 basis points) with all other variables held constant.

	2018		2017	
	Interest rates 100bp higher \$000	Interest rates 100bp lower \$000	Interest rates 100bp higher \$000	Interest rates 100bp lower \$000
<b>Market interest rate movement</b>				
Statement of Comprehensive Income	(107)	107	(98)	98
Equity	368	(374)	656	(673)

**(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 Consolidated Balance Sheet reflect the fair value of these financial assets and liabilities as at 30 June 2018.

**(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 the Trust'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 2018 and 30 June 2017.

	2018 \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
<b>Financial liabilities</b>				
Interest rate swap	334	-	334	-
	2017 \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
<b>Financial liabilities</b>				
Interest rate swap	592	-	592	-



**Stockland Direct Retail Trust No. 1 and its controlled entities**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2018**

**20 Related parties**

SCPL is the Responsible Entity of the Trust. SCPL has also been appointed as the Trustee for the controlled entities. The Key Management Personnel of the Consolidated Entity have 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.

	<b>Consolidated</b>	
	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
<b>Responsible Entity fees and other transactions</b>		
<b><i>Responsible Entity fee</i></b>		
The Responsible Entity charged Responsible Entity fees calculated at 0.46% p.a. (inclusive of GST net of reduced input tax credits) of the gross assets of the Consolidated Entity and Trust.	<b>412,665</b>	392,988
Total Responsible Entity fees included in Current liabilities – Trade and other payables as at 30 June 2018 is \$104,568 (2017: \$99,465).		
<b><i>Performance fee</i></b>		
As detailed on Note 2 (Estimate of performance fee expense), 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 for each property (including GST less any reduced input tax credits) as the sum of:		
<ul style="list-style-type: none"> <li>a base performance fee equal to 2.56% of the sale price; plus</li> <li>a tier 1 fee equal to 10.25% of the net sale proceeds (the sale price of the property less agent commissions and selling costs) if the net sale proceeds exceed the property acquisition price after subtracting the base performance and tier 1 fees; plus</li> <li>a tier 2 fee equal to 10.25% of the net sale proceeds if the net sale proceeds exceed the property acquisition price by more than 20% after subtracting the base performance and tier 1 fees.</li> </ul>	-	-
Based on the combined property valuations of \$88,300,000 at 31 December 2017 the performance fee for outperformance was achieved and a performance fee of \$3,337,197 was recognised. However, as the combined property valuations fell to \$87,700,000 at 30 June 2018, the outperformance criteria was no longer met and the fee was reversed. At 30 June 2018 no performance fee is recognised (2017: \$nil) as the Responsible Entity has not achieved the performance targets required to earn this fee based on the valuation at 30 June 2018.		
<b><i>Manager Expenses</i></b>		
Other recoverable expenses including accounting, taxation and compliance service fees charged by the Responsible Entity.	<b>80,019</b>	75,072
Total manager expenses included in Current liabilities – Trade and other payables as at 30 June 2018 is \$80,019 (2017: \$83,073).		
<b>Total Responsible Entity fees and other transactions recognised in the Consolidated Statement of Profit or Loss and Other Comprehensive Income</b>	<b>492,684</b>	468,060

**Stockland Direct Retail Trust No. 1 and its controlled entities**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2018**

**20 Related Parties (continued)**

**Other related party transactions**

***Insurance Premiums***

Insurance premium amounts are paid by the Trust to Stockland Singapore Pte Ltd, an insurance company, which is a related party of the Trust. Insurance premiums of \$145,700 (2017: \$147,824) were incurred by the Trust during the financial year.

Total insurance premiums included in Current liabilities – Trade and other payables at 30 June 2018 are \$75,000 (2017: \$248,851).

***Property Management fee***

Stockland Property Management Pty Limited, a related party of the Trust, has been appointed as the property manager to undertake the ongoing property management and leasing of the properties. A fee of \$473,319 (2017: \$479,048) was charged by the property manager during the financial year. The Trust also reimbursed \$157,851 (2017: \$147,090) for on-site staff costs incurred by the property manager in accordance with the property management agreement. Total property management fees and cost reimbursement payable by the Consolidated Entity included in Current liabilities – Trade and other payables as at 30 June 2018 is \$192,390 (2017: \$671,803).

***Tenancy Design Fees***

During the financial year, the Trust incurred \$170,257 (2017: \$143,224) in Tenancy Design Fees to Stockland Development Pty Limited. Total tenancy design fees included in Current liabilities – Trade and other payables as at 30 June 2018 is \$8,353 (2017: 6,806)

***Units held by Stockland Trust***

As at 30 June 2018, Stockland Trust Management Limited, as Responsible Entity for Stockland Trust, a related party of the Responsible Entity, holds 7,877,500 units (2017: 7,877,500) in the Consolidated Entity.

***Finance Negotiation Fee***

SCPL as Responsible Entity of the Trust negotiated a loan facility with CBA. For this service, \$102,500 (equivalent to 0.25% of the facility limit) was charged to the Trust in 2014 and was paid 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 within the Consolidated Statement of Profit or Loss and Other Comprehensive Income. During the financial year, the Trust amortised these borrowing transaction costs in the amount of \$20,500 (2017: \$20,500). Total remaining borrowing transaction costs relating to this fee included in Non-current liabilities – Interest-bearing loans and borrowing as at 30 June 2018 is \$30,778 (2017: \$51,278).



**Stockland Direct Retail Trust No. 1 and its controlled entities**  
**Notes to the Consolidated Financial Statements**  
**For the year ended 30 June 2018**

**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 2018, the Consolidated Entity has \$50,000 commitments (2017: \$nil)

**23 Contingent liabilities and contingent assets**

As at 30 June 2018, the Consolidated Entity has no contingent assets or liabilities (2017: \$nil)

**24 Parent Entity Disclosures**

As at, and throughout, the financial year ended 30 June 2018 the parent entity of the Consolidated Entity was Stockland Direct Retail Trust No. 1.

	<b>Trust 2018 \$'000</b>	2017 \$'000
<b>Results of the parent entity</b>		
Profit for the financial year	<b>3,679</b>	3,979
Other comprehensive income	<b>258</b>	346
Total comprehensive income for the financial year	<b>3,937</b>	4,325
<b>Financial position of the parent entity at the end of the financial year</b>		
Current assets	<b>1,337</b>	1,776
Total assets	<b>61,391</b>	60,566
Current liabilities	<b>1,571</b>	1,516
Total liabilities	<b>43,636</b>	42,690
<b>Net assets</b>	<b>17,755</b>	17,876
<b>Total Unitholders funds of the parent entity comprising of:</b>		
Units on issue	<b>26,114</b>	26,114
Reserves	<b>(334)</b>	(592)
Undistributed loss	<b>(8,025)</b>	(7,646)
<b>Total Unitholder's funds</b>	<b>17,755</b>	17,876

**Parent entity contingencies**

There are no contingencies with the parent entity as at 30 June 2018 (2017: \$nil).

**Parent entity capital commitments**

The parent entity has not entered into any capital commitments as at 30 June 2018 (2017: \$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.

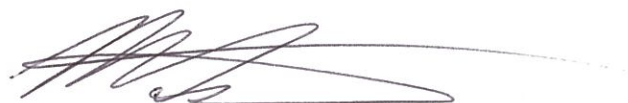
**Stockland Direct Retail Trust No. 1 and its controlled entities**  
**Directors' Declaration**  
**For the year ended 30 June 2018**

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 2018 and of their performance for the financial year ended on that date; and
  - (b) complying with Australian Accounting Standards and the Corporations Regulations 2001.
2. the Financial Report also complies with International Financial Reporting Standards as disclosed in Note 1(a);
3. at the date of this declaration, there are reasonable grounds to believe that the Trust and the Consolidated Entity will be able to pay their debts as and when they become due and payable;
4. the Trust has operated during the financial year ended 30 June 2018 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 2018, 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, 31 August 2018





## *Independent auditor's report*

To the unitholders of Stockland Direct Retail Trust No.1

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### *Our opinion*

In our opinion:

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

- (a) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

### ***What we have audited***

The Group financial report comprises:

- the Consolidated Balance Sheet as at 30 June 2018
- the Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year then ended
- the Consolidated Statement of Changes in Equity for the year then ended
- the Consolidated Cash Flow Statement for the year then ended
- the Notes to the Consolidated Financial Statements, which include a summary of significant accounting policies
- the Directors' Declaration.

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### *Basis for opinion*

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

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

### ***Independence***

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

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### *Other information*

The Directors of Stockland Capital Partners Limited (the Responsible Entity) are responsible for the other information. The other information comprises the information included in the Annual Financial Report for the year ended 30 June 2018, including the Directors' Report, but does not include the financial report and our auditor's report thereon.



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

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

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

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

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

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

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### *Auditor's responsibilities for the audit of the financial report*

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar3.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf). This description forms part of our auditor's report.

A handwritten signature in blue ink, appearing to read 'PricewaterhouseCoopers', with a stylized flourish at the end.

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'N R McConnell', with a stylized flourish at the end.

N R McConnell  
Partner

Sydney  
31 August 2018