

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

ARSN: 121 832 086

**Interim Financial Report
31 December 2018**

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	3
Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income	4
Consolidated Interim Balance Sheet	5
Consolidated Interim Statement of Changes in Equity	6
Consolidated Interim Cash Flow Statement	7
Notes to the Consolidated Interim Financial Statements	8
1 Summary of significant accounting policies	8
2 Critical accounting estimates and judgements	11
3 Operating segments	11
4 Rent from Investment Properties	11
5 Non-current assets – Investment properties	12
6 Non-current assets – Other assets	13
7 Current liabilities – Trade and other payables	13
8 Interest-bearing loans and borrowings	13
9 Current – Other liabilities	14
10 Non-current – Other liabilities	14
11 Units on issue	14
12 Distributions to Unitholders	15
13 Reserves	15
14 Related parties	16
15 Contingent liabilities and contingent assets	18
16 Events subsequent to the end of the half year	18
Directors' Declaration	19
Independent Auditor's Report	20

This Interim 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 half year ended 31 December 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 Consolidated Interim 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 half year ended 31 December 2018, the state of the Consolidated Entity's affairs as at 31 December 2018 and the Independent Auditor's Review 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 the Responsible Entity of the Trust at any time during or since the end of the half year ("the Directors") are:

Name	Date of appointment/resignation
Non-Executive Directors	
Mr Barry Neil, Chairman ¹	Appointed 19 October 2010
Mr Stephen Newton ¹	Appointed 18 December 2017
Non-Executive Independent Director	
Mr Terry Williamson	Appointed 9 April 2018
Executive Directors	
Mr Mark Steinert ¹	Appointed 29 January 2013

¹ Mr Barry Neil, Mr Stephen Newton and Mr Mark Steinert are also Directors of Stockland Corporation Limited and Stockland Trust Management Limited, the Responsible Entity of Stockland Trust.

Principal activity

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

Review and results of operations

The Consolidated Entity recorded a loss of \$240,000 for the half year ended 31 December 2018 (31 December 2017: loss of \$548,000 which included a performance fee of \$3,337,197 which was reversed as at 30 June 2018 – refer note 14).

The Consolidated Entity declared distributions totalling \$1,338,000 (31 December 2017: \$1,468,000) to the Unitholders during the half year. As at 31 December 2018, a distribution of \$669,000 is payable to the Unitholders (30 June 2018: \$734,000) as set out in Note 12 of the Financial Statements.

Independent valuations were undertaken on all of the Consolidated Entity's investment properties as at 31 December 2018 resulting in a net revaluation decrement of \$2,115,000 (31 December 2017: \$954,000 increment) being recognised in the Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income. The total portfolio was revalued downwards to \$86,000,000. This represents a decrease of 1.94% on the 30 June 2018 total carrying value of \$87,700,000. Refer to Note 5 for individual property values.

The Net Tangible Assets per Unit (NTA) at 31 December 2018 was \$1.08 (30 June 2018: \$1.12).

Net tangible assets per unit does not allow for costs associated with any potential sale of the Trust's properties and winding up of the Trust. The net realisation that unitholders would receive if the Trust's properties are sold and the Trust wound up would depend on the sale prices achieved for the properties and the associated disposal and winding up costs, including where applicable, any performance fee.

Stockland Direct Retail Trust No. 1 and its controlled entities
Directors' Report
For the half year ended 31 December 2018

Loan facility

The Trust has a loan facility agreement with Commonwealth Bank of Australia providing maximum available funds of \$43,000,000. This loan facility, which was initially due to mature on 19 December 2019 (5 year term) was extended to 31 March 2020 on 19 December 2018. As at 31 December 2018, \$42,200,000 (30 June 2018: \$42,200,000) was drawn down. Refer to Note 8 for the loan facility.

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 (BBSY), consistent with the base rate of the loan facility.

Significant changes in the state of affairs

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

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. In accordance with the resolution passed by the members on 27 June 2014, the Responsible Entity is required to convene a unitholder meeting to consider the termination of the Trust by 30 June 2019. This unitholder meeting is anticipated to be held before 31 March 2019.

Events subsequent to the end of the half year

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

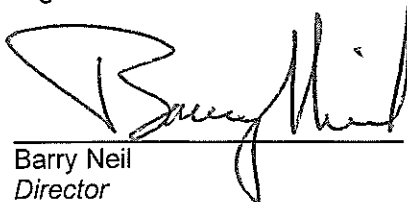
Auditor's Independence Declaration under Section 307C of the *Corporations Act 2001*

The external auditor's independence declaration is set out on page 3 and forms part of the Directors' Report for the half year ended 31 December 2018.

Rounding

The Consolidated Entity is an entity of the kind referred to in ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the directors' report and in accordance with that 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:



Barry Neil
Director

Dated at Sydney, 29 January 2019



Auditor's Independence Declaration

As lead auditor for the review of Stockland Direct Retail Trust No.1 for the half-year ended 31 December 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 review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.

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
29 January 2019

PricewaterhouseCoopers, ABN 52 780 433 757

One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001

T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124

T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.

Stockland Direct Retail Trust No. 1 and its controlled entities
Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income
For the half year ended 31 December 2018

		Consolidated	
	Notes	2018 \$'000	2017 \$'000
Revenue and other income			
Rent from Investment Properties	4	4,686	4,546
Net (loss)/gain from fair value adjustment of investment properties	5	(2,115)	954
Total revenue and other income		2,571	5,500
 Investment property expenses		 (1,528)	 (1,472)
Finance costs		(921)	(892)
Auditor's remuneration		(36)	(35)
Responsible Entity fees	14	(217)	(200)
Performance fees	14	-	(3,337)
Other expenses		(109)	(112)
Total expenses		(2,811)	(6,048)
 Loss for the half year		 (240)	 (548)
 Other Comprehensive Income			
Effective portion of changes in fair value of cash flow hedges	13	82	136
Other comprehensive income for the half year		82	136
Total comprehensive income for the half year		(158)	(412)

The above Consolidated Interim 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 Interim Balance Sheet
As at 31 December 2018

		Consolidated	
		31 Dec	30 June
	Notes	2018	2018
		\$'000	\$'000
Current assets			
Cash and cash equivalents		1,137	1,483
Trade and other receivables		440	226
Other assets		518	652
Total current assets		2,095	2,361
Non-current assets			
Investment properties	5	84,149	85,827
Trade and other receivables		691	680
Other assets	6	861	884
Total non-current assets		85,701	87,391
Total assets		87,796	89,752
Current liabilities			
Trade and other payables	7	1,889	2,237
Other liabilities	9	921	734
Total current liabilities		2,810	2,971
Non-current liabilities			
Interest-bearing loans and borrowings	8	42,100	42,065
Other liabilities	10	-	334
Total non-current liabilities		42,100	42,399
Total liabilities		44,910	45,370
Net assets		42,886	44,382
Unitholders' funds			
Units on issue	11	26,114	26,114
Other reserves	13	(252)	(334)
Undistributed profit		17,024	18,602
Total Unitholders' funds		42,886	44,382

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

Stockland Direct Retail Trust No. 1 and its controlled entities
Consolidated Interim Statement of Changes in Equity
For the half year ended 31 December 2018

	Notes	Units on issue		Undistributed (loss)/profit		Other Reserves		Total	
		2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000	2018 \$'000	2017 \$'000
Consolidated									
Opening balance		26,114	26,114	18,602	18,431	(334)	(592)	44,382	43,953
Effective portion of changes in fair value of cash flow hedges	13	-	-	-	-	82	136	82	136
Loss for the half year		-	-	(240)	(548)	-	-	(240)	(548)
Total comprehensive income for the half year		-	-	(240)	(548)	82	136	(158)	(412)
Transactions with Unitholders in their capacity as owners:									
Distributions paid/payable to Unitholders	12	-	-	(1,338)	(1,468)	-	-	(1,338)	(1,468)
Closing balance		26,114	26,114	17,024	16,415	(252)	(456)	42,886	42,073

The above Consolidated Interim 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 Interim Cash Flow Statement
For the half year ended 31 December 2018

	Notes	Consolidated 2018 \$'000	2017 \$'000
Cash flows from operating activities			
Cash receipts in the course of operations (including GST)		5,112	5,340
Cash payments in the course of operations (including GST)		(2,543)	(3,529)
Interest paid		(882)	(838)
Net cash inflow from operating activities		1,687	973
Cash flows from investing activities			
Payments for investment properties		(630)	(252)
Net cash utilised in investing activities		(630)	(252)
Cash flows from financing activities			
Draw down of borrowings		-	800
Distribution paid to Unitholders		(1,403)	(1,468)
Net cash utilised in financing activities		(1,403)	(668)
Net (decrease)/increase in cash and cash equivalents		(346)	53
Cash and cash equivalents at the beginning of the half year		1,483	1,616
Cash and cash equivalents at the end of the half year		1,137	1,669

The above Consolidated Interim 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 Interim Financial Statements
For the half year ended 31 December 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 Interim Financial Report as at and for the half year ended 31 December 2018 comprises the Interim Financial Report of the Trust and its controlled entities ("the Consolidated Entity").

The Interim Financial Report as at and for the half year ended 31 December 2018 was authorised for issue by the Directors of Stockland Capital Partners Limited ("SCPL"), the Responsible Entity for the Trust, on 29 January 2019.

(a) Statement of compliance

The Consolidated Interim Financial Report is a general purpose financial report which has been prepared in accordance with AASB 134 *"Interim Financial Reporting"* and the *Corporations Act 2001*.

This Consolidated Interim Financial Report does not include all of the information required for a full Annual Financial Report, and should be read in conjunction with the Consolidated Annual Financial Report of the Consolidated Entity as at 30 June 2018.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except the adoption of new and amended standards as set out in note 1(c), 1(d) and 1(e) below.

(b) Basis of preparation

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

The Directors have formed the view that the Consolidated Interim Financial Report for the half year ended 31 December 2018, can be prepared on a going concern basis.

The Consolidated Interim Financial Report has been prepared on a historical cost basis 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 \$715,000 as at 31 December 2018 (30 June 2018: \$610,000). As at 31 December 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 over the next 12 months.

The Trust and its controlled entities are entities of the kind referred to in ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the financial statements and in accordance with that Instrument, amounts in the Financial Report have been rounded to the nearest thousand dollars, unless otherwise stated.

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

(c) New and amended Accounting Standards

New and amended standards adopted by the Trust

The Trust has adopted AASB 9 and AASB 15 at 1 July 2018. AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. AASB 15 *Revenue from Contracts with Customers* contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time and over time.

There have been no significant changes to the Trust's financial performance and position as a result of the adoption of new and amended accounting standards and interpretations

The impact of the adoption of these standards are disclosed in Note 1(d) and the new accounting policies are disclosed in Note 1(e).

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Interim Financial Statements
For the half year ended 31 December 2018

1 Summary of significant accounting policies (continued)

(d) Changes in accounting policies

AASB 9 Financial Instruments

The Consolidated Entity has adopted AASB 9 as issued in December 2014. The accounting policies were updated to comply with AASB 9. AASB 9 replaces the provisions of AASB 139 *Financial Instruments: Recognition and Measurement* that relate to the recognition, classification and measurement of financial assets and financial liabilities; derecognition of financial instruments; impairment of financial assets and hedge accounting. AASB7 *Financial Instruments: Disclosures* was also amended to incorporate more extensive qualitative and quantitative disclosure requirement relating to AASB 9.

Adoption of AASB 9 has resulted in a change in accounting policies. The new accounting policies apply to the period commencing 1 July 2018 and the policies in the 30 June 2018 financial statements apply to the comparative periods.

Impact of first time adoption of AASB 9

The Group has adopted AASB 9 Financial Instruments using the modified retrospective approach. Comparatives for the 2018 financial year have therefore not been restated.

The adoption of AASB 9 resulted in the following classification changes on initial application at 1 July 2018:

	Former classification under AASB 139	New classification under AASB 9
Financial assets		
Trade receivables	Loans and receivables	Financial assets subsequently measured at amortised cost
Other receivables	Loans and receivables	Financial assets subsequently measured at amortised cost
Other assets	Loans and receivables	Financial assets subsequently measured at amortised cost

The adoption of AASB 9 did not result in any material adjustments to amounts recognised in the financial statements.

AASB 15 Revenue from Contracts with Customers

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.

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. The Group adopted AASB 15 with effect from 1 July 2018.

Adoption of AASB 15 has resulted in a change in accounting policies. The new accounting policies apply to the period commencing 1 July 2018 and the policies in the 30 June 2018 financial statements apply to the comparative periods.

Impact of first time adoption of AASB 15

There has been no change in the timing of recognition of revenue on adoption of this standard. Commercial Property rental income continue to meet the definition of a lease arrangement and fall outside of the scope of AASB 15.

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Interim Financial Statements
For the half year ended 31 December 2018

1 Summary of significant accounting policies (continued)

(d) Changes in accounting policies (continued)

In addition to revenue generated directly from leases, which are accounted for in accordance with AASB 117 Leases, rent from investment properties includes non-lease revenue earned from tenants, predominantly in relation to recovery of asset operating costs (known as 'outgoings'). This outgoing revenue is within the scope of AASB 15 and therefore recognised and measured under that accounting standard. The outgoings element of external segment revenue is disclosed in Note 4.

(e) Accounting Policies applied from 1 July 2018

Investments and other financial assets

From 1 July 2018, the Consolidated Entity classifies its financial assets in the following measurement categories:

- subsequently measured at fair value through Other Comprehensive Income (OCI);
- subsequently measured at fair value through profit or loss (FVPL); and
- subsequently measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

Measurement

At initial recognition, the Consolidated Entity measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Trade and other receivables

Trades and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest rate method less any allowance for expected credit loss.

The Consolidated Entity applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition.

Derivatives and hedging

Cash flow hedges that qualify for hedge accounting

The effective portion of changes in the fair value of derivatives that qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity with any gain or loss recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within other expenses.

For the effective portion of cash flow hedges, amounts accumulated in equity are reclassified to profit and loss in the periods when the hedged item affects profit or loss. Accordingly the gain or loss relating to the effective portion of the interest rate swaps hedging variable rate borrowings is recognised in profit or loss within finance cost at the same time as the interest expense on the hedged borrowings.

Revenue

Revenue from contracts with Customers

From 1 July 2018, the Consolidated Entity recognises revenue from contracts with customer over time if:

- the customer simultaneously receives and consumes the benefits as the entity performs;
- the customer controls the asset as the entity creates or enhances it; or
- the seller's performance does not create an asset for which the seller has an alternative use and there is a right to payment for performance to date.

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Interim Financial Statements
For the half year ended 31 December 2018

1 Summary of significant accounting policies (continued)

(e) Accounting policies applied from 1 July 2018 (continued)

Where the above criteria is not met, revenue is recognised at a point in time.

Outgoings recoveries

Rent from investment properties includes lease revenue and recovery of costs associated with general building and tenancy operation from lessees in accordance with specific clauses within lease agreements.

Lease revenue is recognised on a straight-line basis over the lease term, net of any incentives.

Revenue related to recovery of costs is recognised over time in the accounting period in which the related services are rendered.

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. In preparing this Consolidated Interim Financial Report the significant judgements made by the Directors in applying the Trust's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Annual Financial Report of the Trust as at and for the year ended 30 June 2018 with the exception of the adoption of AASB 9 Financial Instruments: Recognition and Measurement and AASB 15 Revenue from Contracts with Customers and other new and amended standards and interpretations commencing 1 July 2018 which have been adopted where applicable.

At 31 December 2018, independent valuations were obtained to determine the fair value of investment properties at the reporting date and the valuations reflect an estimate of the gross market value of the investment properties before the deduction of agent commissions and selling costs. At 31 December 2018, no provision has been made in the financial statements for the costs associated with any potential winding up of the Trust.

Pursuant to the Product Disclosure Statement ("PDS") and Trust Constitution, no provision for performance fee has been recognised in the financial statements as the Responsible Entity has not achieved the performance targets required to earn this fee based on the valuation at 31 December 2018.

Key sources of estimation uncertainty

Fair value measurement, valuation techniques and inputs

The valuation techniques used in measuring the fair value of investment properties, as well as significant unobservable inputs used are consistent with those disclosed in the 30 June 2018 Consolidated Annual Report.

3 Operating segments

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

4 Rent from Investment Properties

	Consolidated	
	31 Dec	31 Dec
	2018	2017
	\$'000	\$'000
Revenue and other income		
Lease revenue	3,968	3,604
Outgoings recoveries ¹	718	942
Rent from Investment Properties	4,686	4,546

¹ Revenue related to recovery of asset operating costs is recognised over time in the accounting period in which the related services are rendered.

5 Non-current-assets – Investment properties

¹Excluding acquisition costs.
²Weighted average lease term by area (number of years).
³Before deduction of agent commissions and selling costs

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Interim Financial Statements
For the half year ended 31 December 2018

		Consolidated	
		31 Dec	30 June
		2018	2018
		\$'000	\$'000
5	Non-current assets – Investment properties (continued)		
	Reconciliation – investment properties		
	<i>Direct investments and controlled entities¹</i>		
	Carrying amount at 1 July	85,827	84,854
	Net loss on fair value adjustments of investment properties	(2,115)	(481)
	Expenditure capitalised	437	1,454
	Carrying amount at the reporting date	84,149	85,827
¹ Current period represents movements during the six months to 31 December 2018. Prior period represents movements during the twelve months to 30 June 2018.			
6	Non-current assets – Other assets		
	Fit-out contributions (amortised)	805	820
	Lease incentives (deferred cost) (amortised)	56	64
		861	884
7	Current liabilities – Trade and other payables		
	Trade payables and accruals	1,682	2,016
	Amounts due to Responsible Entity	155	185
	Goods and services tax ("GST") payable	52	36
		1,889	2,237
8	Interest-bearing loans and borrowings		
	Non-current liabilities		
	Loan facility drawn	42,200	42,200
	Less: attributable transaction costs	(100)	(135)
	Carrying amount at the reporting date	42,100	42,065

Loan facility

On 23 February 2017, the Trust negotiated an increased loan facility agreement with Commonwealth Bank of Australia ("CBA") providing maximum available funds of \$43,000,000.

This banking facility, which was initially due to mature on 19 December 2019 (5 year term) was extended to 31 March 2020 on 19 December 2018.

The fees associated with this agreement 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%.

As at 31 December 2018, \$42,200,000 (30 June 2018: \$42,200,000) was drawn down on this loan facility.

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Interim Financial Statements
For the half year ended 31 December 2018

8 Interest-bearing loans and borrowings (continued)

Loan facility (continued)

The weighted average interest rate (including the margin and line fee) for the half year ended 31 December 2018 was approximately 4.20% p.a. (31 December 2017: 4.15% p.a.)

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 (BBSY), consistent with the base rate of the loan facility.

		Consolidated	
		31 Dec	30 June
		2018	2018
		\$'000	\$'000
9	Current – Other liabilities		
	Distribution payable	669	734
	Swap liability	252	-
		921	734
10	Non-current – Other liabilities		
	Swap liability	-	334
		-	334

11 Units on issue

	Consolidated		Consolidated	
	31 Dec 2018	30 Jun 2018	31 Dec 2018	30 Jun 2018
	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 2018	Opening Balance	39,600,000	26,114
31 December 2018	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.

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Interim Financial Statements
For the half year ended 31 December 2018

12 Distributions to Unitholders

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

	Distribution per unit	Total amount \$'000	Date of payment	Tax deferred ²
2018				
30 September 2018	1.6900¢	669	31 October 2018	0.00%
31 December 2018	1.6900¢	669	28 February 2019 ¹	0.00%
Total distributions		<u>1,338</u>		

¹ Proposed payment date.

² Tax deferred is calculated annually at the end of the financial year.

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

	Distribution per unit	Total amount \$'000	Date of payment	Tax deferred
2017				
30 September 2017	1.8540¢	734	31 October 2017	0.00%
31 December 2017	1.8540¢	734	28 February 2018	0.00%
Total distributions		<u>1,468</u>		

13 Reserves

	Consolidated	
	31 Dec	30 June
	2018	2018
	\$'000	\$'000
Cash flow hedge reserve		
Balance at 1 July	(334)	(592)
Effective portion of changes in the fair value of cash flow hedges during the period ¹	82	258
Balance at the reporting date	<u>(252)</u>	<u>(334)</u>

¹Current period represents movements during the six month period to 31 December 2018. Prior period represents movements during the twelve months to 30 June 2018.

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 Interim Financial Statements
For the half year ended 31 December 2018

14 Related parties

Stockland Capital Partners Limited ("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.

(in \$)

	Consolidated	
	31 Dec	31 Dec
Responsible Entity fees and other transactions	2018	2017

Responsible Entity fee

The Responsible Entity charged Responsible Entity fees calculated at 0.45% p.a. of the gross asset value of the Consolidated Entity and Trust.

216,846 200,261

Total Responsible Entity fees included in Current liabilities – Trade and other payables as at 31 December 2018 is \$113,598 (30 June 2018: \$104,568).

Performance fee

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:

- 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.

Based on the combined property valuations of \$88,300,000 at 31 December 2017 and in accordance with the methodology outlined in the PDS, 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 (the 30 June 2018 performance fee calculation indicated the combined property valuations needed to exceed \$88,285,000 for a performance fee to be payable). Based on the valuation at 31 December 2018 no performance fee is recognised (2017: \$3,337,197) as the Responsible Entity has not achieved the performance targets required to earn this fee.

- 3,337,197

Total performance fees included in Non-current liabilities as at 31 December 2018 is \$nil (30 June 2018: \$nil).

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Interim Financial Statements
For the half year ended 31 December 2018

14 Related Parties (continued)

(in \$)	Consolidated	
	31 Dec 2018	31 Dec 2017
Responsible Entity fees and other transactions (continued)		
Manager Expenses		
Other recoverable expenses including accounting, taxation and compliance service fees charged by the Responsible Entity.	40,849	38,287
Total manager expenses included in Current liabilities – Trade and other payables at 31 December 2018 are \$40,849 (30 June 2018: \$80,019).		
Total Responsible Entity fees and other transactions recognised in the Consolidated Interim Statement of Profit or Loss and Comprehensive Income	257,695	3,575,745

Other related party transactions

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 \$237,744 (31 December 2017: \$229,478) was charged by the property manager during the financial year. The Trust also reimbursed \$144,649 (31 December 2017: \$108,493) for 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 31 December 2018 is \$367,853 (30 June 2018: \$192,390).

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 \$53,331 (31 December 2017: \$56,166) were incurred by the Trust during the half year.

Total insurance premiums included in Current liabilities – Trade and other payables at 31 December 2018 are \$128,636 (30 June 2018: \$75,000).

Tenancy Design and Delivery Fees

During the half year, the Trust incurred \$115,520 (31 December 2017: \$79,603) in Tenancy Design Fees to Stockland Development Pty Limited. Total tenancy design fees included in Current liabilities – Trade and other payables as at 31 December 2018 is \$105,495 (30 June 2018: \$8,353)

Units held by Stockland Trust

As at 31 December 2018, Stockland Trust Management Limited, as Responsible Entity for Stockland Trust, a related party of the Trust, holds 7,877,500 units (30 June 2018: 7,877,500) in the Consolidated Entity.

Stockland Direct Retail Trust No. 1 and its controlled entities
Notes to the Consolidated Interim Financial Statements
For the half year ended 31 December 2018

14 Related Parties (continued)

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 Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income. During the half year, the Trust amortised \$10,334 (31 December 2017: \$10,334) of this fee. The un-amortised amount of this fee is included in Non current liabilities – Interest-bearing loans and borrowing as at 31 December 2018 is \$20,444 (30 June 2018:\$30,778).

15 Contingent liabilities and contingent assets

As at 31 December 2018, the Consolidated Entity has no contingent assets or liabilities (30 June 2018: \$nil).

16 Events subsequent to the end of the half year

There has not arisen, in the interval between the end of the current half 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.

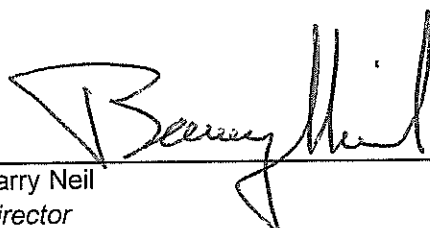
Stockland Direct Retail Trust No. 1 and its controlled entities
Directors' Declaration
For the half year ended 31 December 2018

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 Consolidated Interim Financial Statements and Notes, set out on pages 4 to 18, 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 31 December 2018 and of their performance for the half year ended on that date; and
 - (b) complying with Australian Accounting Standards AASB 134 "*Interim Financial Reporting*" and the *Corporations Regulations 2001*;
2. 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;
3. the Trust has operated during the half year ended 31 December 2018 in accordance with the provisions of the Trust Constitution as amended dated 26 August 2006; and
4. the Register of Unitholders has, during the half year ended 31 December 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:



Barry Neil
Director

Dated at Sydney, 29 January 2019



Independent auditor's review report to the unitholders of Stockland Direct Retail Trust No.1

Report on the Interim Financial Report

We have reviewed the accompanying interim financial report of Stockland Direct Retail Trust No.1 (the Registered Scheme), which comprises the Consolidated Interim Balance Sheet as at 31 December 2018, the Consolidated Interim Statement of Changes in Equity, Consolidated Interim Cash Flow Statement and Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income for the half-year ended on that date, selected other explanatory notes and the directors of the Responsible Entity's declaration for the Stockland Direct Retail Trust No.1 Group. The Group comprises the Registered Scheme and the entities it controlled during that half-year.

Directors of the Responsible Entity's responsibility for the interim financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the interim financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Stockland Direct Retail Trust No.1, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757

One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.




Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Stockland Direct Retail Trust No.1 is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



PricewaterhouseCoopers



N R McConnell
Partner

Sydney
29 January 2019

This page is intentionally left blank