Elanor RETAIL PROPERTY FUND

RETAIL PROPERTY FUND

ANNUAL REPORT 2018

ELANOR RETAIL PROPERTY FUND

ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2018


Tweed Mall, Tweed Heads, NSW

Contents

Financial Calendar

December 2018	Estimated interim distribution announcement and securities trade ex-distribution
February 2019	Interim results announcement
March 2019	Interim distribution payment
June 2019	Estimated final distribution announcement and securities trade ex-distribution
August 2019	Full-year results announcement
September 2019	Final distribution payment
September 2019	Annual tax statements

Responsible Entity

Elanor Funds Management Limited ABN 39 125 903 031.
AFSL 398196

Highlights

CORE EARNINGS
for the financial year 2018

$14.0m — 61.1% ↑
listed 9 November 2016

DISTRIBUTIONS (per security)
for the financial year 2018

10.31c — 61.1% ↑
listed 9 November 2016

SECURITY PRICE
as at 30 June 2018

$1.29 — 5.8% ↓

PORTFOLIO VALUE
as at 30 June 2018

$317.7m — 21.8% ↑

NET ASSET VALUE (per security)
as at 30 June 2018

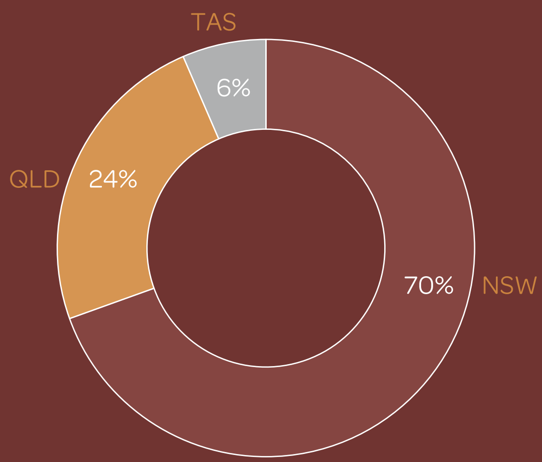
$1.50 — 5.6% ↑

GEARING
as at 30 June 2018

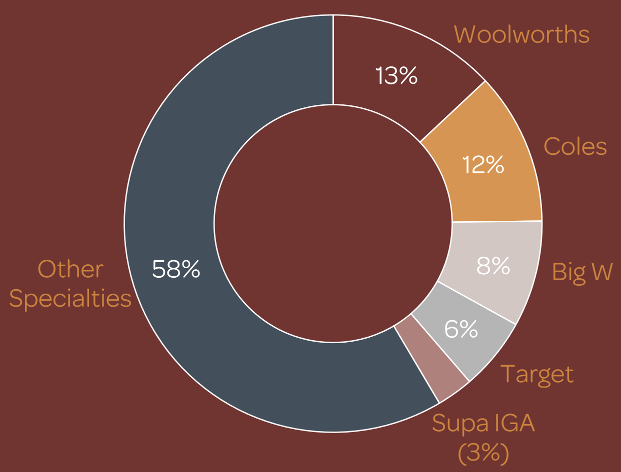
38.2% — from 29.3% ↑

Elanor Retail Property Fund's assets are located in urban and regional areas across Australia

Geographic Diversification[1]



Key Tenants[2]



1. By asset value
2. By base rent

Message from the Chairman

On behalf of the Board, I am pleased to present Elanor Retail Property Fund's Annual Report, including its Financial Statements for the year ended 30 June 2018.

The Fund is an externally managed real estate investment fund investing in Australian retail property focusing on high investment quality neighbourhood and sub-regional shopping centres. The Fund's objective is to provide investors with strong, stable and growing income returns and capital growth in the asset portfolio, and in other retail properties that may be acquired in the future.

It has been another successful year for the Fund in terms of achieving our financial objectives and executing the Fund's strategy. The Fund has delivered Core Earnings of $14.0 million for the year and has distributed $13.3 million, or 10.31 cents per security.

Achievements

During the year, the value of the portfolio grew from $260.8 million to $317.7 million, an increase of 21.8%. The portfolio value as at 30 June 2018 represents a weighted average capitalisation rate of 6.8%.

In July 2017, the Fund acquired the Gladstone Square Shopping Centre for $31.5 million and in January 2018 it acquired the Moranbah Fair Shopping Centre for $25.0 million. These acquisitions increased the Fund's distribution yield, and improved the geographic diversification, portfolio WALE, occupancy and debt maturity of the Fund.

The Fund has maintained its conservative capital structure. As at 30 June 2018, ERF's gearing level was 38.2%, within the Fund's stated target range of 30% to 40%.

As at 30 June 2018, the Fund's Net Tangible Assets per security was $1.50, reflecting the ongoing execution of initiatives to deliver the operational and strategic upside across the investment portfolio.

Outlook

The Fund's strategy will remain focused on actively managing and growing earnings from its investment portfolio and acquiring additional high investment quality retail properties. With this focus, the Fund is strongly positioned to enhance value for security holders.

I wish to thank my fellow Board members, our executive leadership team and the Fund team led by Michael Baliva, for their hard work, dedication and enthusiasm.

Finally, thank you to all Elanor Retail Property Fund security holders for their continued support and confidence.

Yours sincerely,

Paul Bedbrook
Chairman

CEO's Message

We have continued to deliver on the Fund's strategy over the year.

I am pleased to present Elanor Retail Property Fund's Annual Report for financial year ended 30 June 2018.

We have continued to deliver on the Fund's strategy over the year. Core Earnings for the year ended 30 June 2018 were $14.0 million, or 10.86 cents per security. Furthermore, by the ongoing execution of initiatives to deliver the operational and strategic upside across the portfolio, NTA per security increased to $1.50 per security as at 30 June 2018. We remain firmly of the view that the Fund is a low risk retail REIT that represents strong value and provides a sector leading yield to security holders with significant upside potential in NTA per security.

Strategy

The Fund's objective is to provide investors with strong and growing income returns, and capital growth. To achieve this objective, the Fund's strategy is to:

- Invest in non-discretionary focused retail properties that provide quality earnings from rental income across a diversified retail tenant mix;
- Implement leasing and other asset management initiatives to grow the income and value of the retail properties;
- Acquire additional high investment quality retail properties with a significant component of non-discretionary retailers;
- Implement development and repositioning strategies within the Portfolio; and to
- Optimise the capital structure of the Fund based on a conservative approach to gearing.

The successful execution of the Fund's strategy over the course of the year has delivered strong results for the Fund.

Key Results

- Core Earnings for the period of $14.0 million, or 10.86 cents per security
- Distributions for the Period were $13.3 million, or 10.31 cents per security, reflecting a payout ratio of 95% of Core Earnings
- Net Tangible Assets per security of $1.50 as at 30 June 2018, reflecting a 20% increase since listing

Investment Portfolio

The Fund has delivered on its strategy to grow and enhance the value of the portfolio. In particular, our active asset management approach has grown both the income and the value of the portfolio. Some of the key initiatives included:

- Completing the accretive acquisitions of the Gladstone Square and Moranbah Fair assets;
- Substantially completing the divestment of the non-core podium strata tenancies at Auburn Central, with sales reflecting an average capitalisation rate of 6.05%;
- Executing an Agreement for Lease with ALDI at Tweed Mall, for a 15 year term with 2 five year options (ALDI is scheduled to open in mid-2019); and
- Execution of various energy and other operating cost efficiency initiatives.

This has resulted in:

- Strong revaluation gains for Auburn Central and Tweed Mall;
- An increase in portfolio valuation to $317.7 million at 30 June 2018, reflecting a weighted average capitalisation rate of 6.8%;
- NTA per security increasing by 20% since listing from $1.25 to $1.50; and
- Portfolio occupancy remaining strong at 98.5%.

Capital Management

The Fund is focused on maintaining a conservative capital structure with a target gearing range of between 30% and 40%. At 30 June 2018, the Funds gearing was 38.2%.

During the year ending 30 June 2019, we will continue to explore capital management opportunities to deliver value to security holders.

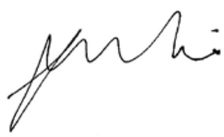
Outlook

The Fund's core strategy will remain focused on actively managing and growing Core Earnings and capital value from its investment portfolio. Furthermore, we will continue to focus on acquiring additional high investment quality retail properties.

The Fund's properties present strong operational and strategic opportunities to further increase value. We are focused on executing initiatives to extract value, consistent with our highly active and results orientated approach to asset management.

I wish to thank my fellow Board members, my executive leadership team and the Fund's management team, led by Michael Baliva, for their hard work, dedication and successful execution of the Fund's strategy.

Yours sincerely,



Glenn Willis
Managing Director and Chief Executive Officer

Financial Report

for the year ended 30 June 2018

Contents

Directors' Report

Directors' Report

The Directors of Elanor Funds Management Limited (Responsible Entity or Manager), as responsible entity of the Elanor Retail Property Fund I and Elanor Retail Property Fund II, present their report together with the consolidated financial report of Elanor Retail Property Fund (Group, Consolidated Group or Fund) and the consolidated financial report of the Elanor Retail Property Fund I (ERPF I Group) for the year ended 30 June 2018.

The financial report of the Consolidated Group comprises Elanor Retail Property Fund II (ERPF II) and its controlled entities, including Elanor Retail Property Fund I (ERPF I) and its controlled entities. The financial report of the ERPF I Group comprises Elanor Retail Property Fund I and its controlled entities.

The Responsible Entity is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is Level 38, 259 George Street, Sydney NSW 2000.

ERPF I and ERPF II were registered as managed investments schemes on 13 October 2016. The units of ERPF I and the units of ERPF II are combined and issued as stapled securities in the Group. The Group's securities are traded on the Australian Securities Exchange (ASX: ERF), having listed on 9 November 2016. The units of each scheme cannot be traded separately and can only be traded as stapled securities. Although there is no ownership interest between ERPF I and ERPF II, ERPF II is deemed to be the parent entity of the Group in accordance with the Australian Accounting Standards.

The Directors' report is a combined Directors' report that covers both schemes. The financial information for the Group is taken from the consolidated financial reports and notes.

1. Directors

The following persons have held office as Directors of the Responsible Entity during the period and up to the date of this report:

- Paul Bedbrook (Chair)
- Glenn Willis (Managing Director and Chief Executive Officer)
- Nigel Ampherlaw
- William (Bill) Moss AO

2. Principal activities

The principal activities of the Fund are the investment in Australian retail properties, with the focus predominantly on quality, high yielding neighbourhood and sub-regional shopping centres.

3. Distributions

Distributions relating to the year ended 30 June 2018 comprise:

Distributions	Year Ended 30 June 2018
Interim Distribution	
Amount payable (cents per stapled security)	5.15
Payment Date	2 March 2018
Final Distribution	
Amount payable (cents per stapled security)	5.16
Payment Date	4 September 2018

A provision for the Final Distribution has not been recognised in the financial statements for the period as the distribution had not been declared at the reporting date.

4. Operating and financial review

OVERVIEW AND STRATEGY

The Fund is an externally managed real estate investment fund investing in Australian retail property, focusing on high investment quality neighbourhood and sub-regional shopping centres.

The Fund's objective is to provide investors with strong and growing income returns, and capital growth. To achieve this objective, the Fund's strategy is to:

- Invest in non-discretionary focused retail properties that provide quality earnings from rental income across a diversified retail tenant mix;
- Implement leasing and other asset management initiatives to grow the income and value of the retail properties;
- Acquire additional high investment quality retail properties with a significant component of non-discretionary retailers;
- Implement development and repositioning strategies in the Portfolio; and
- Optimise the capital structure of the Fund based on a conservative approach to gearing.

INVESTMENT PORTFOLIO

The following table shows the Group's investment portfolio as at balance date:

Property	Location	Type	Carrying Value $'m
Tweed Mall	Tweed Heads, NSW	Sub-regional shopping centre	93.5
Auburn Central Shopping Centre	Auburn, NSW	Sub-regional shopping centre	82.2
Auburn Central Podium[1]	Auburn, NSW	N/A	5.5
Manning Mall	Taree, NSW	Sub-regional shopping centre	43.4
Gladstone Square	Gladstone, QLD	Neighbourhood shopping centre	31.7
Moranbah Fair	Moranbah, QLD	Neighbourhood shopping centre	25.0
Glenorchy Plaza	Glenorchy, TAS	Neighbourhood shopping centre	19.8
Northway Plaza	Bundaberg, QLD	Neighbourhood shopping centre	16.6
Total investment portfolio			**317.7**

Note 1: The Auburn Central Podium asset comprised 19 podium strata lots. The Fund commenced disposal of these non-core strata lots in August 2017. As at 30 June 2018, 17 strata lots have been sold for total net proceeds of $15.8 million.

On 19 January 2018, the Fund completed the acquisition of the Moranbah Fair Shopping Centre at a purchase price of $25.0 million.

Moranbah Fair is located within the regional township of Moranbah, Queensland, anchored by a strong performing 3,921 square metre Coles supermarket leased to 2028 with further renewal options.

The acquisition of Moranbah Fair has improved the Fund's geographic diversification, Portfolio weighted average lease expiry and occupancy.

The acquisition of Moranbah Fair is consistent with the Fund's strategy of achieving accretive growth through the acquisition of high investment quality neighbourhood and sub-regional shopping centres with a significant component of non-discretionary retailers.

4. Operating and financial review (continued)

FINANCIAL RESULTS

The Fund recorded a statutory profit of $23.0 million for the year ended 30 June 2018.

Core Earnings for the year ended 30 June 2018 were $14.0 million or 10.86 cents per stapled security. A Final Distribution of 5.16 cents per stapled security has been declared for the six month period ended 30 June 2018 (95% pay-out ratio on Core Earnings). Core Earnings is considered more relevant than statutory profit as it represents an estimate of the underlying recurring cash earnings of the Fund, and has been determined in accordance with ASIC Regulatory Guide 230.

A summary of the Group and ERPF I Group's results for the year ended 30 June 2018 is set out below:

	Consolidated Group	ERPF I Group
Key financial results	**30 June 2018**	**30 June 2018**
Net profit / (loss) ($'000)	22,956	9,957
Core Earnings ($'000)	13,974	8,118
Distributions payable to security holders ($'000)	13,276	7,713
Core Earnings per stapled security (cents)	10.86	6.31
Core Earnings per weighted average stapled security (cents)	10.86	6.31
Distributions (cents per stapled security)	10.31	5.99
Net tangible assets ($ per stapled security)	1.50	0.61
Gearing (net debt / total assets less cash) (%)	38.2%	34.8%

The table below provides a reconciliation from statutory net profit / (loss) to distributable Core Earnings:

	Consolidated Group	ERPF I Group
	30 June 2018 $'000	**30 June 2018 $'000**
Statutory net profit / (loss)	**22,956**	**9,957**
Adjustments for items included in statutory profit / (loss):		
Fair value adjustments on investment property	(10,293)	(2,600)
Release of rental guarantee amounts not included in profit / (loss)	213	213
Straight lining of rental income[2]	(261)	(246)
Amortisation expense[3]	1,359	794
Core Earnings[1]	**13,974**	**8,118**

Note 1: Core Earnings has been determined in accordance with ASIC RG 230 and represents the Directors' view of underlying earnings from ongoing operating activities for the period, being net profit / (loss), adjusted for one-off realised items (being formation or other transaction costs that occur infrequently or are outside the course of ongoing business activities), and non-cash items (being fair value movements, amortisation and lease straight-lining).

Note 2: Straight lining of rental income is a non-cash accounting adjustment recognised in rental income in the Statement of Profit or Loss.

Note 3: Amortisation expense includes the amortisation of capitalised leasing costs and debt establishment costs, recognised in rates, taxes and other outgoings, other expenses and borrowing costs in the Statement of Profit or Loss.

4. Operating and financial review (continued)

SUMMARY AND OUTLOOK

The Fund's core strategy will remain focused on actively managing and growing earnings from its investment portfolio, realising value-add opportunities across the portfolio, and acquiring additional high investment quality retail properties.

Risks to the Fund in the coming year primarily comprise potential earnings variability associated with general economic and market conditions, including retailer demand, domestic retail spending, the availability of capital for acquisition opportunities, movement in property valuations and possible weather related events. These risks are mitigated through actively managing the investment portfolio, continuing to focus on broadening the Fund's tenant mix, insurance arrangements and active management of the Fund's capital structure.

During the coming months, the Fund anticipates completing the disposal of the remaining non-core podium strata lots at Auburn Central as well as introducing Aldi as a tenant at Tweed Mall. Other asset recycling opportunities in the investment portfolio are currently being considered.

The Fund is committed to growing its investment portfolio and continues to evaluate further high investment quality shopping centre acquisition opportunities.

The Fund is strongly positioned to enhance value for security holders. The active asset management of the portfolio is generating improved operational performance and returns. Furthermore, targeted strategic initiatives to increase the capital value of the Fund are in progress.

5. Value of assets

	Consolidated Group	ERPF I Group
	30 June 2018 $'000	30 June 2018 $'000
Value of total assets	326,193	237,968
Value of net assets	193,155	78,053

Directors' Report

continued

6. Directors

The following persons have held office as Directors of the Responsible Entity during the period and up to the date of this report:

Name	Particulars
Paul Bedbrook	Independent Non-Executive Chairman Paul was appointed a Director of the Responsible Entity and Elanor Investors Limited in June 2014. Paul has had a career of over 30 years in financial services, originally as an analyst, fund manager and then the GM & Chief Investment Officer for Mercantile Mutual Investment Management Ltd (ING owned) from 1987 to 1995. Paul was an executive for 26 years with the Dutch global banking, insurance and investment group, ING, retiring in 2010. Paul's career included the roles of: President and CEO of ING Direct Bank, Canada (2000 – 2003), CEO of the ING Australia/ANZ Bank Wealth JV (2003-2008) and Regional CEO, ING Asia Pacific, Hong Kong (2008 – 2010). Paul is currently the Chairman of Zurich Financial Services Australia and its Life, General and Investment Companies, a non-executive director of Credit Union Australia and the National Blood Authority. Former listed directorships in the last three years: None Interest in stapled securities: None Qualifications: B.Sc, F FIN, FAICD
Glenn Willis	Managing Director and Chief Executive Officer Glenn was appointed a Director of the Responsible Entity and Elanor Investors Limited in June 2014. Glenn has extensive industry knowledge with over 25 years' experience in the Australian and international capital markets. Glenn was most recently co-founder and Chief Executive Officer of Moss Capital. Prior to Moss Capital, Glenn co-founded Grange Securities and led the team in his role as Managing Director and CEO. Grange Securities was a pre-eminent Australian owned investment bank with businesses in fixed income, equities, corporate finance and funds management. Grange Securities grew to be Australia's major independent fixed income house. After 12 years of growth, Grange Securities, a business with approximately 150 personnel, was acquired by Lehman Brothers International in 2007, as the platform for Lehman's Australian investment banking and funds management operations. Glenn was appointed Managing Director and Country Head in March 2007. In 2008, Glenn was appointed executive Vice Chairman of Lehman Brothers Australia. Glenn previously held senior positions at Fay Richwhite and Challenge Bank. Former listed directorships in the last three years: None Interest in stapled securities: 278,775 Qualifications: B.Bus (Econ & Fin)

6. Directors (continued)

Name	Particulars
Nigel Ampherlaw	Independent Non-Executive Director Chairman, Audit and Risk Committee Nigel was appointed a Director of the Responsible Entity and Elanor Investors Limited in June 2014. Nigel was a Partner of PricewaterhouseCoopers for 22 years where he held a number of leadership positions, including heading the financial services audit, business advisory services and consulting businesses. He also held a number of senior client Lead Partner roles. Nigel has extensive experience in risk management, technology, consulting and auditing in Australia and the Asia-Pacific region. Nigel's current Directorships include Chairman of Credit Union Australia and non-executive Director of the Australia Red Cross Blood Service, where he is a member of the Finance and Audit Committee and a member of the Risk Committee. Former listed directorships in the last three years: Quickstep Holdings Ltd Interest in stapled securities: 109,630 Qualifications: B.Com, FCA, MAICD
William (Bill) Moss AO	Non-Executive Director Bill was appointed a Director of the Responsible Entity and Elanor Investors Limited in June 2014. Bill is an Australian businessman and philanthropist with expertise in real estate, banking, funds and asset management. Bill spent 23 years as a senior executive and Executive Director with Macquarie Group, the pre-eminent Australian investment bank, where Bill managed the Global Banking and Real Estate businesses. Bill founded, grew and led Macquarie Real Estate Group to a point where it managed over $23 billion worth of investments around the world. Bill is Chairman of Moss Capital, Boston Global Group, and Non-Executive Director of Northern Territory Infrastructure Development Fund. He is also Chairman and Founder of The FSHD Global Research Foundation. Bill is a commentator on the Australian finance and banking sectors, the global economy and the ongoing need for Australia to do more to advance the interests of the country's disabled and disadvantaged. In 2015, Bill was awarded one of Australia's highest honours, Office of the Order of Australia (AO), for services to the banking, charity, and finance sectors. Former listed directorships in the last three years: None Interest in stapled securities: 903,704 Qualifications: B.Ec

7. Directors' relevant interests

	Securities at the date of this report
Paul Bedbrook	–
Glenn Willis	278,775
Nigel Ampherlaw	109,630
William (Bill) Moss	903,704

Other than as disclosed in the Annual Financial Report, no contracts exist where a director is entitled to a benefit.

8. Meetings of Directors

The attendance at meetings of Directors of the Responsible Entity and the Audit and Risk Committee of the Group during the year is set out in the following table:

Name		Board of Directors		Audit and Risk Committee
	Held	Attended	Held	Attended
Paul Bedbrook	11	11	5	5
Glenn Willis	11	11	5	5
Nigel Ampherlaw	11	11	5	5
William (Bill) Moss	11	11	N/A	N/A

9. Company Secretary

Symon Simmons held the position of Company Secretary of the Responsible Entity during the period. Symon is the Chief Financial Officer of the Group, and has extensive experience as a company secretary, is a Justice of the Peace in NSW and is a Responsible Manager on the Australian Financial Services Licence held by the Responsible Entity.

10. Indemnification and insurance of officers and auditors

During the financial year, the Responsible Entity paid a premium in respect of a contract insuring the Directors of the Responsible Entity (as named above), the company secretary, and all executive officers of the Responsible Entity and of any related body corporate against a liability incurred in their capacity as Directors and officers of the Responsible Entity to the extent permitted by the Corporations Act 2001 (Cth). The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Responsible Entity has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer of the Responsible Entity or of any related body corporate against a liability incurred in their capacity as an officer.

The auditor of the Fund is not indemnified out of the assets of the Fund.

11. Environmental regulation

To the best of their knowledge and belief after making due enquiry, the Directors have determined that the Fund has complied with all significant environmental regulations applicable to its operations in the jurisdictions in which it operates.

12. Significant changes in state of affairs

There was no significant change in the state of affairs of the Fund during the year.

13. Auditor's independence declaration

A copy of the auditor's independence declaration, as required under section 307C of the Corporations Act 2001 (Cth), is included on the page following the Directors' Report.

14. Non-audit services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in Note 17 to the financial statements.

The Directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001 (Cth).

The Directors are of the opinion that the services as disclosed in Note 17 to the financial statements do not compromise the external auditor's independence, based on advice received from the Audit and Risk Committee, for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 'Code of Ethics for Professional Accountants' issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Fund, acting as advocate for the Fund or jointly sharing economic risks and rewards.

15. Likely developments and expected results of operations

The financial statements have been prepared on the basis of the current known market conditions. The extent of any potential deterioration in either the capital or physical property markets on the future results of the Fund is unknown. Such results could include property market valuations, the ability of the Fund to raise or refinance debt, and the cost of such debt and the ability to raise equity.

At the date of this report and to the best of the Directors' knowledge and belief, there are no other anticipated changes in the operations of the Fund which would have a material impact on the future results of the Fund.

16. Events occurring after reporting date

Subsequent to year end, a distribution of 5.16 cents per stapled security has been declared by the Board of Directors.

The Fund has agreed with its bank to extend the $10.4 million facility, originally due to expire in July 2018, for three years to July 2021.

Other than the above, the Directors of the Responsible Entity are not aware of any other matter since the end of the period that has or may significantly affect the operations of the Group, the result of those operations, or the state of the Group's affairs in future financial periods that are not otherwise referred to in this Directors' Report.

17. Rounding of amounts to the nearest thousand dollars

In accordance with Legislative Instrument 2016/191 issued by the Australian Securities and Investments Commission, amounts in the financial statements have been rounded to the nearest thousand dollar, unless otherwise indicated.

Directors' Report

continued

This report is made in accordance with a resolution of the Board of Directors of the Responsible Entity.

Signed in accordance with a resolution of the Directors pursuant to section 298(2) of the Corporations Act 2001 (Cth).

Paul Bedbrook
Chairman

Glenn Willis
CEO and Managing Director

Sydney, 17 August 2018

Auditor’s Independence Declaration

Deloitte.

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia

DX 10307SSE
Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001
www.deloitte.com.au

The Directors
Elanor Funds Management Limited
(as responsible entity for Elanor Retail Property
Fund I and Elanor Retail Property Fund II)
Level 38, 259 George Street
Sydney NSW 2000

17 August 2018

Dear Directors,

Elanor Retail Property Fund I and Elanor Retail Property Fund II

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Elanor Funds Management Limited in its capacity as responsible entity for Elanor Retail Property Fund I and Elanor Retail Property Fund II.

As lead audit partner for the audit of the financial statements of Elanor Retail Property Fund I and Elanor Retail Property Fund II for the year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully,

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU

AG Collinson
Partner
Chartered Accountants

Consolidated Statements of Profit or Loss

for the year ended 30 June 2018

	Note	Consolidated Group 30 June 2018 $'000	Consolidated Group 30 June 2017 $'000	ERPF I Group 30 June 2018 $'000	ERPF I Group 30 June 2017 $'000
Income					
Rental income	2	30,467	20,062	21,943	13,715
Interest income		55	31	44	22
Fair value increment on investment properties	6	10,293	15,022	2,601	7,738
Total income		**40,815**	**35,115**	**24,588**	**21,475**
Expenses					
Rates, taxes and other outgoings		9,049	5,724	6,406	3,736
Borrowing costs		5,530	3,129	6,000	3,312
Investment management fees	13	1,993	3,626	1,379	901
Other expenses		1,287	610	845	540
Transaction costs	20	–	10,294	–	8,629
Total expenses		**17,859**	**23,383**	**14,631**	**17,118**
Net profit / (loss) for the period		**22,956**	**11,732**	**9,957**	**4,357**
Attributable to security holders of:					
- Elanor Retail Property Fund II		12,999	7,777	–	–
- Elanor Retail Property Fund I (Non-controlling interest)		9,957	3,955	9,957	4,357
Net profit / (loss) for the period		**22,956**	**11,732**	**9,957**	**4,357**
Basic earnings per stapled security (cents)		17.83	12.42	7.73	4.78
Diluted earnings per stapled security (cents)		17.83	12.34	7.73	4.75

The above Consolidated Statements of Profit or Loss should be read in conjunction with the accompanying notes

Consolidated Statements of Comprehensive Income

for the year ended 30 June 2018

	Consolidated Group 30 June 2018 $'000	Consolidated Group 30 June 2017 $'000	ERPF I Group 30 June 2018 $'000	ERPF I Group 30 June 2017 $'000
Net profit / (loss) for the period	**22,956**	**11,732**	**9,957**	**4,357**
Other comprehensive income				
Items that may be reclassified to profit and loss				
Gain / (loss) on revaluation of cash flow hedge	386	717	170	511
Other comprehensive income / (loss) for the period	386	717	170	511
Total comprehensive income / (loss) for the period	**23,342**	**12,449**	**10,127**	**4,868**
Attributable to security holders of:				
- Elanor Retail Property Fund II	13,216	8,086	–	–
- Elanor Retail Property Fund I (Non-controlling interest)	10,126	4,363	10,127	4,868
Total comprehensive income / (loss) for the period	**23,342**	**12,449**	**10,127**	**4,868**

The above Consolidated Statements of Comprehensive Income should be read in conjunction with the accompanying notes

Consolidated Statements of Financial Position

as at 30 June 2018

	Note	Consolidated Group 30 June 2018 $'000	Consolidated Group 30 June 2017 $'000	ERPF I Group 30 June 2018 $'000	ERPF I Group 30 June 2017 $'000
Current assets					
Cash and cash equivalents		6,965	4,448	6,766	2,808
Receivables	10	716	659	695	308
Other current assets		55	1,805	–	1,748
Prepayments		525	243	370	36
Derivative financial instruments	8	99	–	17	–
Total current assets		**8,360**	**7,155**	**7,848**	**4,900**
Non-current assets					
Investment properties	6	317,729	260,750	230,077	165,750
Derivative financial instruments	8	104	–	43	–
Total non-current assets		**317,833**	**260,750**	**230,120**	**165,750**
Total assets		**326,193**	**267,905**	**237,968**	**170,650**
Current liabilities					
Interest bearing liabilities	7	53,316	–	53,316	–
Payables	11	3,028	2,445	2,472	2,027
Rent received in advance		533	385	384	257
Derivative financial instruments	8	236	245	236	459
Total current liabilities		**57,113**	**3,075**	**56,408**	**2,743**
Non-current liabilities					
Interest bearing liabilities	7	75,632	81,740	34,006	40,825
Interest bearing cross-staple loan		–	–	69,208	51,706
Derivative financial instruments	8	293	235	293	181
Total non-current liabilities		**75,925**	**81,975**	**103,507**	**92,712**
Total liabilities		**133,038**	**85,050**	**159,915**	**95,455**
Net assets		**193,155**	**182,855**	**78,053**	**75,195**
Equity					
Equity Holders of Parent Entity					
Contributed equity	9	90,421	90,421	66,116	66,116
Reserves		(268)	(499)	(451)	(632)
Retained profits / (accumulated losses)		24,949	17,738	12,388	9,711
Parent entity interest		**115,102**	**107,660**	**78,053**	**75,195**
Equity Holders of Non-Controlling Interest					
Contributed equity	9	66,116	66,116	–	–
Reserves		(451)	(735)	–	–
Retained profits / (accumulated losses)		12,388	9,814	–	–
Non-controlling interest		**78,053**	**75,195**	**–**	**–**
Total equity attributable to stapled security holders:					
- Elanor Retail Property Fund II		115,102	107,660	–	–
- Elanor Retail Property Fund I		78,053	75,195	78,053	75,195
Total equity		**193,155**	**182,855**	**78,053**	**75,195**

The above Consolidated Statements of Financial Position should be read in conjunction with the accompanying notes

Consolidated Statements of Changes in Equity

for the year ended 30 June 2018

	Contributed Equity	Cash flow Hedge Reserve	Security Based Payment Reserve	Retained Profits/ (Accumulated Losses)	Parent Entity Total Equity	Non-Controlling Interests	Total Equity
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Consolidated Group							
Total equity at 1 July 2017	90,421	(509)	10	17,738	107,660	75,195	182,855
Profit / (loss) for the period	–	–	–	12,999	12,999	9,957	22,956
Other comprehensive income / (expense) for the period	–	216	–	–	216	170	386
Total comprehensive income / (expense) for the period	**–**	**216**	**–**	**12,999**	**13,215**	**10,127**	**23,342**
Transactions with owners in their capacity as owners:							
Security-based payments	–	–	15	–	15	11	26
Distributions paid	–	–	–	(5,788)	(5,788)	(7,280)	(13,068)
Total equity at 30 June 2018	**90,421**	**(293)**	**25**	**24,949**	**115,102**	**78,053**	**193,155**
Consolidated Group							
Total equity at 1 July 2016	32,818	(818)	–	11,713	43,714	–	43,714
Profit / (loss) for the period	–	–	–	7,777	7,777	3,955	11,732
Other comprehensive income / (expense) for the period	–	309	–	–	309	408	717
Total comprehensive income / (expense) for the period	**–**	**309**	**–**	**7,777**	**8,086**	**4,363**	**12,449**
Transactions with owners in their capacity as owners:							
Acquisition from business combination	–	–	–	–	–	25,998	25,998
Redemptions	(3,738)	–	–	–	(3,738)	–	(3,738)
Contributions of equity, net of issue costs	61,340	–	–	–	61,340	45,829	107,169
Security-based payments	–	–	10	–	10	8	18
Distributions paid	–	–	–	(1,752)	(1,752)	(1,003)	(2,755)
Total equity at 30 June 2017	**90,421**	**(509)**	**10**	**17,738**	**107,660**	**75,195**	**182,855**

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

Consolidated Statements of Changes in Equity

for the year ended 30 June 2018

	Contributed Equity	Cash flow Hedge Reserve	Security Based Payment Reserve	Retained Profits/ (Accumulated Losses)	Total Equity
	$'000	$'000	$'000	$'000	$'000
ERPF I Group					
Total equity at 1 July 2017	66,116	(640)	8	9,711	75,195
Profit / (loss) for the period	–	–	–	9,957	9,957
Other comprehensive income / (expense) for the period	–	170	–	–	170
Total comprehensive income / (expense) for the period	**–**	**170**	**–**	**9,957**	**10,127**
Transactions with owners in their capacity as owners:					
Security-based payments	–	–	11	–	11
Distributions paid	–	–	–	(7,280)	(7,280)
Total equity at 30 June 2018	**66,116**	**(470)**	**19**	**12,388**	**78,053**

	Contributed Equity	Cash flow Hedge Reserve	Security Based Payment Reserve	Retained Profits/ (Accumulated Losses)	Total Equity
ERPF I Group					
Total equity at 1 July 2016	22,000	(1,152)	–	7,169	28,017
Profit / (loss) for the period	–	–	–	4,357	4,357
Other comprehensive income / (expense) for the period	–	511	–	–	511
Total comprehensive income / (expense) for the period	**–**	**511**	**–**	**4,357**	**4,868**
Transactions with owners in their capacity as owners:					
Redemptions	(1,713)	–	–	–	(1,713)
Contributions of equity, net of issue costs	45,829	–	–	–	45,829
Security-based payments	–	–	8	–	8
Distributions paid	–	–	–	(1,815)	(1,815)
Total equity at 30 June 2017	**66,116**	**(640)**	**8**	**9,711**	**75,195**

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

Consolidated Statements of Cash Flows

for the year ended 30 June 2018

	Note	Consolidated Group 30 June 2018 $'000	Consolidated Group 30 June 2017 $'000	ERPF I Group 30 June 2018 $'000	ERPF I Group 30 June 2017 $'000
Cash flows from operating activities					
Rental and other property income received		31,959	21,102	22,212	14,353
Payments to suppliers and the Responsible Entity		(14,050)	(10,283)	(10,228)	(4,820)
Interest received		55	32	44	21
Finance costs paid		(4,775)	(2,653)	(3,290)	(3,007)
Net cash flows from operating activities	5(a)	**13,189**	**8,198**	**8,738**	**6,547**
Cash flows from investing activities					
Payments for additions to investment properties		(61,175)	(97,873)	(59,758)	(95,852)
Receipts from disposals of investment properties		15,841	(11,275)	–	(9,482)
Net cash flows from investing activities		**(45,334)**	**(109,148)**	**(59,758)**	**(105,334)**
Cash flows from financing activities					
Net proceeds from interest bearing liabilities	5(b)	47,730	6,471	62,258	58,772
Net proceeds from equity raising		–	107,169	–	45,829
Redemptions paid		–	(5,450)	–	(1,713)
Distributions paid		(13,068)	(3,566)	(7,280)	(1,814)
Net cash flows from financing activities		**34,662**	**104,624**	**54,978**	**101,074**
Net increase in cash and cash equivalents		2,517	3,674	3,958	2,288
Cash and cash equivalents at the beginning of the period		4,448	774	2,808	520
Cash at the end of the period		**6,965**	**4,448**	**6,766**	**2,808**

The above Consolidated Statements of Cash Flows should be read in conjunction with the accompanying notes

Notes to the Consolidated Financial Statements

About this Report

Elanor Retail Property Fund (the Fund, Group or Consolidated Group) is a 'stapled' entity comprising of Elanor Retail Property Fund I (formerly Elanor Retail Property Fund) (ERPF I) and its controlled entities, and Elanor Retail Property Fund II (formerly Auburn Central Syndicate) (ERPF II) and its controlled entities. The units in ERPF I are stapled to units in ERPF II. The stapled securities cannot be traded or dealt with separately. The stapled securities of the Fund were listed on the Australian Securities Exchange (ASX:ERF) on 9 November 2016.

For the purposes of the consolidated financial report, ERPF II has been deemed the parent entity of ERPF I in the stapled structure. The Directors applied judgement in the determination of the parent entity of the Fund and considered various factors including asset size and capital structure. The financial report of the Fund comprises the consolidated financial report of Elanor Retail Property Fund II and its controlled entities, including Elanor Retail Property Fund I and its controlled entities (ERPF I Group). As permitted by Class Order 05/642 issued by the Australian Securities and Investments Commission (ASIC), this report is a combined report that presents the consolidated financial statements and accompanying notes of both the Fund and ERPF I Group.

These general purpose financial statements have been prepared in accordance with the Corporations Act 2001, the Scheme Constitutions and Australian Accounting Standards. Compliance with Australian Accounting Standards ensures compliance with International Financial Reporting Standards (‘IFRS’).

Basis of consolidation

The consolidated financial report of the Fund incorporates the assets and liabilities of ERPF II (the Parent) and all of its subsidiaries, including ERPF I and its subsidiaries as at 30 June 2018. ERPF II is the parent entity in relation to the stapling. The results and equity of ERPF I (which is not directly owned by ERPF II) have been treated and disclosed as a non-controlling interest. Whilst the results and equity of ERPF I are disclosed as a non-controlling interest, the stapled security holders of ERPF I are the same as the stapled security holders of ERPF II.

This consolidated financial report also includes a separate column representing the financial report of ERPF I, incorporating the assets and liabilities of ERPF I and all of its subsidiaries, as at 30 June 2018.

For the purpose of preparing the financial statements, the Fund is a for-profit entity. The financial report is presented in Australian Dollars.

Going Concern

As at 30 June 2018, the Group is in a net current liability position of $48.8 million (ERPF I: $48.6 million), due to the maturity of ERPF I’s debt facility of $10.4m in July 2018 and $42.9 million in December 2018. The Group has $326.2 million (ERPF I: $238.0 million) of total assets and a net asset position of $193.2 million (ERPF I: $78.1 million) at balance date.

Subsequent to year end, the Fund has agreed with its bank to extend the $10.4 million facility, originally due to expire in July 2018, for three years to July 2021.

Given the conservative gearing level below 40% of asset value and strong cash flow for servicing of financing facilities, Management are confident that the refinancing of the $42.9 million debt facility will be completed prior to its maturity, and that the Group will be able to pay its liabilities in the next 12 months as and when they fall due.

Notes to the Consolidated Financial Statements

for the year ended 30 June 2018

The notes to the consolidated financial statements have been organised into the following sections:

Results

This section focuses on the operating results and financial performance of the Fund. It includes disclosures of revenue, distributions and cash flow including the relevant accounting policies adopted in each area.

1. Segment information

OVERVIEW

The Fund only operates in one business segment, being the investment in retail shopping centres in Australia.

2. Revenue

OVERVIEW

The Fund's main source of revenue is rental income from its investment in retail shopping centres.

(a) Rental income

	Consolidated Group 30 June 2018 $'000	Consolidated Group 30 June 2017 $'000	ERPF I Group 30 June 2018 $'000	ERPF I Group 30 June 2017 $'000
Tweed Mall	9,921	6,509	9,921	6,509
Auburn Central	8,525	8,548	–	–
Manning Mall	4,251	2,775	4,251	4,271
Gladstone Square	2,962	–	2,962	–
Moranbah Fair	1,468	–	1,468	–
Glenorchy Plaza	1,848	1,265	1,849	1,970
Northway Plaza	1,492	965	1,492	965
Total revenue from operating activities	**30,467**	**20,062**	**21,943**	**13,715**

ACCOUNTING POLICY

Rental income

The Fund is the lessor of operating leases. Rental income arising from operating leases is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the term of the lease on the same basis as the lease income.

Lease incentives

Lease incentives (including rent free periods, fit out and other payments) are accounted for on a straight-line basis over the lease term and offset against rental income in the statement of profit or loss. The lease term is the non-cancellable period of the lease together with any further term for which the tenant has the option to continue the lease, where, at the inception of the lease, it is reasonably certain that the tenant will exercise that option.

3. Distributions

OVERVIEW

In accordance with the Fund's Constitutions, the Responsible Entity determines Core Earnings attributable to the security holders as the net profit for the year, excluding certain non-recurring and non-cash items.

The Fund aims to distribute between 90% and 100% of Core Earnings each year.

(a) Distributions during the year

Consolidated Group

The following distributions were declared by the Consolidated Group either during the year or post balance date:

	Distribution cents per stapled security	Total amount $'000
Distribution for the period ended 30 June 2018 [1]	5.16	6,645
Distribution for the period ended 31 December 2017	5.15	6,631
Total	**10.31**	**13,276**

(1) The distribution of 5.16 cents per stapled security for the half-year ended 30 June 2018 was not declared prior to 30 June 2018. The distribution was declared on 17 August 2018. Please refer to the Director's Report for the calculation of Core Earnings and the Distribution.

ERPF I Group

The following distributions were declared by the ERPF I Group either during the year or post balance date:

	Distribution cents per unit	Total amount $'000
Distribution for the period ended 30 June 2018 [1]	3.05	3,930
Distribution for the period ended 31 December 2017	2.94	3,782
Total	**5.99**	**7,712**

(1) The distribution of 3.05 cents per unit for the half-year ended 30 June 2018 was not declared prior to 30 June 2018. The distribution was declared on 17 August 2018. Please refer to the Director's Report for the calculation of Core Earnings and the Distribution.

ACCOUNTING POLICY

Distributions are recognised when declared. Distributions paid and payable are recognised as distributions within equity. A liability is recognised where distributions have been declared but not been paid. Distributions paid are included in cash flows from financing activities in the statement of cash flows.

4. Earnings / (losses) per stapled security

OVERVIEW

Basic earnings per stapled security is calculated as net profit or loss attributable to security holders divided by the weighted average number of ordinary stapled securities issued.

Diluted earnings per stapled security is calculated as profit or loss attributable to security holders adjusted for any profit or loss recognised in the period in relation to dilutive potential stapled securities divided by the weighted average number of stapled securities and dilutive stapled securities.

4. Earnings / (losses) per stapled security (continued)

Earnings used in the calculation of basic and diluted earnings per stapled security reconciles to the net profit or loss in the consolidated statements of comprehensive income as follows:

	Consolidated Group 30 June 2018	Consolidated Group 30 June 2017	ERPF I Group 30 June 2018	ERPF I Group 30 June 2017
The earnings / (losses) per stapled security measure shown below is based upon the profit / (loss) attributable to securityholders:				
Basic earnings per stapled security (cents)	17.83	12.42	7.73	4.78
Diluted earnings per stapled security (cents)	17.83	12.34	7.73	4.75
Profit / (loss) attributable to security holders used in calculating basic and diluted earnings per stapled security ($'000)	22,956	11,732	9,957	4,357
Weighted average number of stapled securities used as denominator in calculating basic earnings per stapled security	128,729,755	94,425,788	128,729,755	91,110,926
Weighted average number of stapled securities used as denominator in calculating diluted earnings per stapled security	128,729,755	95,066,884	128,729,755	91,752,022

5. Cash flow information

OVERVIEW

This note provides further information on the consolidated cash flow statements of the Fund. It reconciles profit for the year to cash flows from operating activities, reconciles liabilities arising from financing activities and provides information about non-cash transactions.

(a) Reconciliation of profit for the year to net cash provided by operating activities

	Consolidated Group 30 June 2018 $'000	Consolidated Group 30 June 2017 $'000	ERPF I Group 30 June 2018 $'000	ERPF I Group 30 June 2017 $'000
Profit / (loss) for the period	**22,956**	**11,732**	**9,958**	**4,357**
Fair value adjustment on revaluation of investment property	(10,013)	(15,022)	(2,601)	(7,738)
Amortisation	1,358	638	792	377
Other non cash items	–	–	2,225	–
Transaction and IPO costs through profit and loss	–	10,294	–	8,629
Straight-lining of rental income and rental guarantee	(1,506)	(964)	(1,490)	(883)
Net cash provided by operating activities before changes in working capital	**12,795**	**6,678**	**8,884**	**4,742**
Movement in working capital				
Decrease / (increase) in trade and other receivable	(57)	(207)	(387)	(20)
Decrease / (increase) in prepayments	(282)	(171)	(334)	59
Increase / (decrease) in trade and other payables	583	1,605	445	1,530
Increase / (decrease) in amounts received in advance	150	293	130	236
Net cash from operating activities	**13,189**	**8,198**	**8,738**	**6,547**

5. Cash flow information (continued)

(b) Reconciliation of liabilities arising from financing activities

Consolidated Group

		Cash flows	Non-cash items	
	30 June 2017	Debt drawdowns	Amortisation of borrowing costs	30 June 2018
	$'000	$'000	$'000	$'000
Interest bearing loans	81,740	47,730	(522)	128,948
Total liabilities from financing activities	**81,740**	**47,730**	**(522)**	**128,948**

ERPF I Group

		Cash flows	Non-cash items		
	30 June 2017	Debt drawdowns	Amortisation of borrowing costs	Accumulated interest expense	30 June 2018
	$'000	$'000	$'000	$'000	$'000
Interest bearing loans	40,825	46,982	(485)	–	87,322
Cross-staple loan	51,706	15,276	–	2,226	69,208
Total liabilities from financing activities	**92,531**	**62,258**	**(485)**	**2,226**	**156,530**

Operating Assets

This section includes information about the assets used by the Fund to generate profits and revenue, specifically information relating to its investment properties.

6. Investment properties

OVERVIEW

Investment properties are held solely for the purpose of earning rental income and / or for capital appreciation. At balance date, the Fund's investment property portfolio comprises 7 retail shopping centres in Australia.

(a) Carrying values of investment properties

	Valuation	Date	Consolidated Group 30 June 2018 $'000	Consolidated Group 30 June 2017 $'000	ERPF I Group 30 June 2018 $'000	ERPF I Group 30 June 2017 $'000
Tweed Mall	Independent	Jun-18	93,500	86,500	93,500	86,500
Auburn Central Shopping Centre	Internal	Jun-18	82,192	74,000	–	–
Auburn Central Podium [1]	Internal	Jun-18	5,460	21,000	–	–
Manning Mall	Internal	Jun-18	43,420	43,000	43,420	43,000
Gladstone Square	Internal	Jun-18	31,769	–	31,769	–
Moranbah Fair	Internal	Jun-18	25,035	–	25,035	–
Glenorchy Plaza	Internal	Jun-18	19,760	19,750	19,760	19,750
Northway Plaza	Internal	Jun-18	16,593	16,500	16,593	16,500
Total investment properties			**317,729**	**260,750**	**230,077**	**165,750**

Note 1: The Auburn Central podium asset comprised of 19 podium strata lots. The Fund commenced disposal of these non-core strata lots in August 2017. As at 30 June 2018, 2 strata lots remained.

(b) Movement in investment properties

	Consolidated Group 30 June 2018 $'000	Consolidated Group 30 June 2017 $'000	ERPF I Group 30 June 2018 $'000	ERPF I Group 30 June 2017 $'000
Opening balance	**260,750**	**85,190**	**165,750**	**63,116**
Acquisitions and business combinations	59,855	156,823	59,855	94,073
Disposals	(15,840)	–	–	–
Capital expenditure	2,410	3,488	1,626	742
Straightlining of rental income	261	227	245	81
Net fair value adjustments	10,293	15,022	2,601	7,738
Total investment properties	**317,729**	**260,750**	**230,077**	**165,750**

(c) Fair value measurement

Highest and best use

For all investment properties, the current use equates to the highest and best use.

Fair value hierarchy and valuation techniques

The fair value measurement for investment properties has been categorised as Level 3 fair value based on the key inputs to the valuation techniques used below:

6. Investment properties (continued)

(c) Fair value measurement (continued)

Valuation Techniques	Significant unobservable inputs	Range	Relationship with fair value
Discounted cash flows – involves the projection of a series of inflows and outflows to which a market-derived discount rate is applied to establish an indication of the present value of the income stream associated with the property.	Adopted discount Rate[1]	7.25% - 8.75%	The higher/lower the rate, the lower/higher the fair value.
	Adopted terminal yield[2]	6.25% - 8.75%	The higher/lower the rate, the lower/higher the fair value.
Capitalisation method – involves determining the net market income of the investment property. This net market income is then capitalised at the adopted capitalisation rate to derive a core value.	Adopted capitalisation rate[3]	6.50% - 7.75%	The higher/lower the rate, the lower/higher the fair value.

(1) Adopted discount rate: The rate of return used to convert cash flows, payable or receivable in the future, into present value. It reflects the opportunity cost of capital, that is the rate of return the cash can earn if put to other uses having similar risk. The rate is determined with regard to market evidence.

(2) Adopted terminal yield: The capitalisation rate used to convert the future net market rental revenue 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 regard to market evidence.

(3) Adopted capitalisation rate: The rate at which net market rental revenue is capitalised to determine the value of a property. The rate is determined with regard to market evidence.

ACCOUNTING POLICY

Recognition and measurement

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in the fair value of investment properties are included in the statement of profit or loss in the year in which they arise.

Fair value is defined as the price at which an asset or liability could be exchanged in an arm's length transaction between knowledgeable, willing parties, other than in a forced or liquidation sale.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss in the year in which the property is derecognised.

Valuation process

In reaching estimates of fair value, management judgment needs to be exercised. The level of management judgment required in establishing fair value of the investments for which there is no quoted price in an active market is reduced through the use of external valuations.

The aim of the valuation process is to ensure that assets are held at fair value and that the Fund is compliant with applicable Australian Accounting Standards, regulations, and the Fund's Constitutions.

6. Investment properties (continued)

(c) Fair value measurement (continued)

All properties are required to be internally valued every six months with the exception of those independently valued during that six month period. The internal valuations are performed by utilising the information from a combination of asset plans and forecasting tools prepared by the asset management team. Appropriate capitalisation rate, terminal yield and discount rates based on comparable market evidence and recent external valuation parameters are used to produce a capitalisation based valuation and a discounted cash flow valuation.

The Fund's valuation policy requires that each property in the portfolio is valued by an independent valuer at least every three years. In practice, properties may be valued more frequently than every three years primarily where there may have been a material movement in the market and where there is a significant variation between the carrying value and the internal valuation.

Independent valuations are performed by independent and external valuers who hold a recognised relevant professional qualification and have specialised expertise in the types of investment properties valued.

Finance and Capital Structure

This section provides further information on the Fund's equity and debt structure, and also in relation to financial risk management for its exposure to credit, liquidity and market risks.

7. Interest bearing liabilities

OVERVIEW

The Fund has access to a combined $134.5 million facility. The drawn amount at 30 June 2018 is $129.5 million, and the interest rate risk of drawn facilities is hedged to 83.8%.

	Consolidated Group 30 June 2018 $'000	Consolidated Group 30 June 2017 $'000	ERPF I Group 30 June 2018 $'000	ERPF I Group 30 June 2017 $'000
Current				
Bank loan - term debt	53,630	–	53,630	–
Borrowing costs less amortisation	(314)	–	(314)	–
Total current interest bearing liabilities	**53,316**	**–**	**53,316**	**–**
Non-current				
Bank loan - term debt	75,850	82,547	34,150	41,525
Borrowing costs less amortisation	(218)	(807)	(144)	(700)
Total non-current interest bearing liabilities	**75,632**	**81,740**	**34,006**	**40,825**
Cross-staple loan	–	–	69,208	51,706
Total interest bearing liabilities	**128,948**	**81,740**	**156,530**	**92,531**

ACCOUNTING POLICY

Interest bearing liabilities are recognised initially at cost, being the fair value of the consideration received net of transaction costs associated with the borrowing. Subsequent to initial recognition, interest bearing liabilities are recognised at amortised cost using the effective interest method. Under the effective interest method, any transaction fees, costs, discounts and premiums directly related to the borrowings are recognised in the statement of profit or loss over the expected life of the borrowings.

Interest bearing liabilities are classified as current liabilities where the liability has been drawn under a financing facility which expires within one year. Amounts drawn under financial facilities which expire after one year are classified as non-current.

8. Derivative financial instruments

OVERVIEW

The Fund's derivative financial instruments consist of interest rate swap contracts to hedge its exposure to movements in variable interest rates. The interest rate swap agreements allow the Fund to raise long term borrowings at a floating rate and effectively swap them into a fixed rate.

	Consolidated Group 30 June 2018 $'000	Consolidated Group 30 June 2017 $'000	ERPF I Group 30 June 2018 $'000	ERPF I Group 30 June 2017 $'000
Current assets				
Interest rate swaps	99	–	17	–
Non-current assets				
Interest rate swaps	104	–	43	–
Current liabilities				
Interest rate swaps	236	245	236	459
Non-current liabilities				
Interest rate swaps	293	235	293	181
Total derivative financial instruments	**732**	**480**	**589**	**640**

(a) Valuation

Specific valuation techniques used to value financial instruments include:

- The use of quoted market prices or dealer quotes for similar instruments (level 1); and
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves (level 2).

All of the resulting fair value estimates are included in Level 2. The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

ACCOUNTING POLICY

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Hedge Accounting

The Fund designates its hedging instruments, which include derivatives, as cash flow hedges.

At the inception of the hedge relationship, the entity documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Fund documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Cash flow hedges

Hedge accounting is discontinued when the Fund revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

9. Contributed equity

OVERVIEW

The Fund is a 'stapled' entity comprising of ERPF I and its controlled entities, and ERPF II and its controlled entities. The units in ERPF I are stapled to units in ERPF II. The stapled securities cannot be traded or dealt with separately.

(a) Parent entity

	Note	No. of securities 30 June 2018 '000	No. of securities 30 June 2017 '000	Parent Entity 30 June 2018 $'000	Parent Entity 30 June 2017 $'000
Opening balance		128,730	33,150	90,421	32,819
Redemptions		–	(3,039)	–	(3,738)
Capital restructure		–	17,666	–	–
Capital raised (net of capital raise costs)	19	–	80,953	–	61,340
Total contributed equity		**128,730**	**128,730**	**90,421**	**90,421**

(b) ERPF I Group

	Note	No. of securities 30 June 2018 '000	No. of securities 30 June 2017 '000	ERPF I Group 30 June 2018 $'000	ERPF I Group 30 June 2017 $'000
Opening balance		128,730	23,914	66,116	22,000
Redemptions		–	(1,404)	–	(1,713)
Capital restructure		–	25,267	–	–
Capital raised (net of capital raise costs)	19	–	80,953	–	45,829
Total contributed equity		**128,730**	**128,730**	**66,116**	**66,116**

10. Financial risk management

OVERVIEW

The Fund's principal financial instruments comprise cash, receivables, interest bearing loans and derivatives. The Fund's activities are exposed to a variety of financial risks: market risk (including interest rate risk), credit risk and liquidity risk.

This note presents information about the Fund's exposure to each of the above risks, the Fund's objectives, policies and processes for measuring and managing risk and the Fund's management of capital. Further quantitative disclosures are included through these financial statements.

The Board of Directors (Board) of Responsible Entity of the Fund has overall responsibility for the establishment and oversight of the Fund's risk management framework. The Board is responsible for monitoring the identification and management of key risks to the business.

The Board has established Treasury Guidelines outlining principles for overall risk management and policies covering specific areas, such as mitigating foreign exchange, interest rate and liquidity risks.

The Fund's Treasury Guidelines provide a framework for managing the financial risks of the Fund with a key philosophy of risk mitigation. Derivatives are exclusively used for hedging purposes, not as trading or other speculative instruments. The Fund uses derivative financial instruments such as interest rate swaps where possible to hedge certain risk exposures.

The Fund uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate risk, ageing analysis for credit risk and cash flow forecasting for liquidity risk.

There have been no other significant changes in the types of financial risks or the Fund's risk management program (including methods used to measure the risks).

10. Financial risk management (continued)

(a) Market risk

Market risk refers to the potential for changes in the value of the Fund's financial instruments or revenue streams from changes in market prices, being interest rate risk.

(b) Interest rate risk

Interest rate risk refers to the potential fluctuations in the fair value or future cash flows of a financial instrument because of changes in market interest rates.

As at reporting date, the Fund had the following undiscounted (including future interest payable) interest bearing assets and liabilities:

Consolidated Group 30 June 2018	Floating interest rate $'000	Fixed interest Maturity < 1 yr $'000	Fixed interest Maturity 1 - 5 yrs $'000	Fixed interest Maturity > 5 yrs $'000	Total $'000
Assets					
Cash and cash equivalents	6,965	–	–	–	6,965
Derivative financial instruments	–	99	104	–	203
Total assets	**6,965**	**99**	**104**	**–**	**7,168**
Weighted average interest rate					**1.78%**
Liabilities					
Interest bearing loans	21,043	34,489	83,290	–	138,823
Derivative financial instruments	–	236	293	–	529
Total liabilities	**21,043**	**34,725**	**83,583**	**–**	**139,352**
Weighted average interest rate					**4.01%**

Consolidated Group 30 June 2017	Floating interest rate $'000	Fixed interest Maturity < 1 yr $'000	Fixed interest Maturity 1 - 5 yrs $'000	Fixed interest Maturity > 5 yrs $'000	Total $'000
Assets					
Cash and cash equivalents	4,448	–	–	–	4,448
Total assets	**4,448**	**–**	**–**	**–**	**4,448**
Weighted average interest rate					**0.69%**
Liabilities					
Interest bearing loans	7,700	–	80,186	–	87,886
Derivative financial instruments	–	245	275	–	520
Total liabilities	**7,700**	**245**	**80,461**	**–**	**88,406**
Weighted average interest rate					**3.83%**

10. Financial risk management (continued)

(b) Interest rate risk (continued)

ERPF I Group 30 June 2018	Floating interest rate $'000	Fixed interest Maturity < 1 yr $'000	Fixed interest Maturity 1 - 5 yrs $'000	Fixed interest Maturity > 5 yrs $'000	Total $'000
Assets					
Cash and cash equivalents	6,766	–	–	–	6,766
Derivative financial instruments	–	17	43	–	60
Total assets	**6,766**	**17**	**43**	**–**	**6,826**
Weighted average interest rate					**1.80%**
Liabilities					
Interest bearing loans	20,521	34,489	40,055	–	95,065
Interest bearing cross-staple loan	–	–	–	91,379	91,379
Derivative financial instruments	–	236	293	–	529
Total liabilities	**20,521**	**34,725**	**40,348**	**91,379**	**186,973**
Weighted average interest rate					**4.20%**

ERPF I Group 30 June 2017	Floating interest rate $'000	Fixed interest Maturity < 1 yr $'000	Fixed interest Maturity 1 - 5 yrs $'000	Fixed interest Maturity > 5 yrs $'000	Total $'000
Assets					
Cash and cash equivalents	2,808	–	–	–	2,808
Total assets	**2,808**	**–**	**–**	**–**	**2,808**
Weighted average interest rate					**0.52%**
Liabilities					
Interest bearing loans	7,700	–	34,350	–	42,050
Interest bearing cross-staple loan	–	–	–	73,526	73,526
Derivative financial instruments	–	459	220	–	679
Total liabilities	**7,700**	**459**	**34,570**	**73,526**	**116,255**
Weighted average interest rate					**4.03%**

(c) Credit risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted.

The Fund manages credit risk on receivables by performing credit reviews of prospective debtors, obtaining collateral where appropriate and performing detailed reviews on any debtor arrears. Credit risk on derivatives is managed through limiting transactions to investment grade counterparties.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Consolidated Group 30 June 2018 $'000	Consolidated Group 30 June 2017 $'000	ERPF I Group 30 June 2018 $'000	ERPF I Group 30 June 2017 $'000
Cash and other cash equivalents	6,965	4,448	6,766	2,808
Trade and other receivables	716	659	695	308
Total	**7,681**	**5,107**	**7,461**	**3,116**

Where entities have a right of set-off and intend to settle on a net basis under netting arrangements, this set-off has been recognised in the consolidated financial statements on a net basis. Details of the Fund's contingent liabilities are disclosed in Notes 15 and 16.

10. Financial risk management (continued)

(c) Credit risk (continued)

At balance date there were no other significant concentrations of credit risk.

No allowance has been recognised for the GST from the taxation authorities. Based on historical experience, there is no evidence of default from these counterparties which would indicate that an allowance was necessary.

The ageing profile of the trade and other receivables balance as at 30 June 2018 is as follows:

	Consolidated Group 30 June 2018 $'000	Consolidated Group 30 June 2017 $'000	ERPF I Group 30 June 2018 $'000	ERPF I Group 30 June 2017 $'000
Current	271	417	250	217
Past due 31-60 days	103	56	103	52
Past due 61+ days	342	186	342	39
Total	**716**	**659**	**695**	**308**

(d) Capital risk management

The Fund maintains its capital structure with the objective to safeguard its ability to continue as a going concern, to increase the returns for security holders and to maintain an optimal capital structure. The capital structure of the Fund consists of equity as listed in Note 9.

The Fund assesses its capital management approach as a key part of the Fund's overall strategy and it is continuously reviewed by management and the Directors of the Responsible Entity.

To achieve the optimal capital structure, the Board may use the following strategies: amend the distribution policy of the Fund; issue new units through a private placement; conduct a buyback of units; acquire debt; or dispose of investment properties.

Other Items

This section provides information that is not directly related to the specific line items in the financial statements, including information about contingent liabilities, related parties, events after the end of the reporting period, remuneration of auditors and changes in accounting policies and disclosures.

11. Other assets and liabilities

OVERVIEW

This note provides further information about assets and liabilities that are incidental to the Fund's trading activities, being trade and other payables.

(a) Trade and other payables

	Consolidated Group 30 June 2018 $'000	Consolidated Group 30 June 2017 $'000	ERPF I Group 30 June 2018 $'000	ERPF I Group 30 June 2017 $'000
Trade creditors	1,161	1,456	1,106	1,454
Related party payables	305	24	236	22
Accrued expenses	1,146	643	820	315
GST payable	416	322	310	236
Total payables	**3,028**	**2,445**	**2,472**	**2,027**

ACCOUNTING POLICY

Payables represent liabilities and accrued expenses owing by the Fund at period end which are unpaid. The amounts are unsecured and usually paid within 30 days of recognition. Payables are recognised at amortised cost and normal commercial terms and conditions apply to payables.

12. Net tangible assets

OVERVIEW

This note sets out the net tangible assets of the Fund and the ERPF I Group.

	Consolidated Group 30 June 2018 $'000	Consolidated Group 30 June 2017 $'000	ERPF I Group 30 June 2018 $'000	ERPF I Group 30 June 2017 $'000
Net tangible assets are calculated as follows:				
Total assets	326,193	267,905	237,968	170,650
Less: total liabilities	(133,038)	(85,050)	(159,915)	(95,455)
Net tangible assets	**193,155**	**182,855**	**78,053**	**75,195**
Total number of stapled securities on issue	128,729,755	128,729,755	128,729,755	128,729,755
Net tangible asset backing per stapled security / unit ($)	1.50	1.42	0.61	0.58

13. Related parties

OVERVIEW

Related parties are persons or entities that are related to the Fund as defined by AASB 124 Related Party Disclosures. This note provides information about transactions with related parties during the year.

13. Related parties (continued)

(a) Key management personnel

Responsible Entity

Elanor Funds Management Limited is the Responsible Entity of the Fund, and is the key management personnel (KMP) of the Fund.

Directors of the Responsible Entity

The Directors of Elanor Funds Management Limited are:

Paul Bedbrook (Chair)
Glenn Willis (Managing Director and Chief Executive Officer)
Nigel Ampherlaw
William (Bill) Moss AO

Other Management Personnel

In addition to the directors, the following persons were Management Personnel of the Responsible Entity with the authority for the strategic direction of the Fund:

Michael Baliva – Fund Manager
Symon Simmons – Chief Financial Officer
Paul Siviour – Chief Operating Officer

Remuneration of Management Personnel

Compensation is paid to the Responsible Entity in the form of fees and is disclosed below. No other amounts are paid by the Fund directly or indirectly to the Management Personnel for services provided to the Fund.

The Directors of the Responsible Entity and other management personnel are paid by the Responsible Entity. Payment made from the Fund to the Responsible Entity do not include any amounts attributable to the compensation of key management personnel.

Consequently, no compensation as defined in AASB 124 Related Party Disclosures is paid by the Fund to its Management Personnel, other than that paid to the Responsible Entity.

Michael Baliva, the Fund Manager, participates in the Fund's executive loan security plan.

Related party disclosure

During the period, fees were paid by the Fund to Elanor Investors Group and its controlled entities, in accordance with the Constitution of each Scheme, including investment management fees (management and performance fees), acquisition fees and cost recoveries.

Fees paid to Elanor Investors Group and its controlled entities:	Consolidated Group 30 June 2018 $'000	Consolidated Group 30 June 2017 $'000	ERPF I Group 30 June 2018 $'000	ERPF I Group 30 June 2017 $'000
Pre-IPO				
Investment management fees	–	2,590	–	230
Post-IPO				
Investment management fees	1,993	1,036	1,379	671
Total investment management fees	1,993	3,626	1,379	901
Other fees (including IPO transaction costs in prior year)	896	2,289	830	2,141
Total	**2,889**	**5,915**	**2,209**	**3,042**

13. Related parties (continued)

(a) Key management personnel (continued)

Related party holdings

Key Management Personnel and other Management Personnel of the Responsible Entity and of its related entities may hold investments in the Fund. Such investments were purchased on normal commercial terms and were at arm's length. The number of securities held by Key Management Personnel and other Management Personnel are as follows:

	Stapled Securities 30 June 2018
Investments held by Elanor Investment Trust	23,026,082
Investments held by Directors and other Management Personnel	1,641,095
Total	**24,667,177**

Cross-Staple Loan

On 9 November 2016, as part of the internal funding structure on listing of the Fund, ERPF I entered into a 10 year interest-bearing loan with ERPF II at arm's length commercial terms. As at 30 June 2018, the outstanding loan balance payable to ERPF II was $69.2 million.

14. Non-cancellable operating lease receivables

OVERVIEW

This note sets out the non-cancellable operating lease receivables of the Fund and the ERPF I Group.

	Consolidated Group 30 June 2018 $'000	Consolidated Group 30 June 2017 $'000	ERPF I Group 30 June 2018 $'000	ERPF I Group 30 June 2017 $'000
Not later than 1 year	22,884	22,778	16,508	15,447
Later than 1 year and not longer than 5 years	60,900	62,328	41,498	39,269
Later than 5 years	31,703	35,953	27,683	27,814
Total	**115,487**	**121,059**	**85,689**	**82,530**

15. Unrecognised items

OVERVIEW

Items that have not been recognised on the Fund's balance sheet include contractual commitments for future expenditure and contingent liabilities which are not sufficiently certain to qualify for recognition as a liability on the balance sheet. This note provides details of any such items.

(a) Contingent liabilities

The Directors are not aware of any material contingent liabilities of the Fund (2017: nil).

(b) Commitments

The Fund has no capital commitments (2017: nil) in respect of capital expenditures contracted for at the date of the statement of financial position. The ERPF I Group has no capital commitments (2017: nil) in respect of capital expenditures contracted for at the date of the statement of financial position.

16. Parent entity disclosure

OVERVIEW

The financial information below on Elanor Retail Property Fund's parent entity, ERPF II, and ERPF I Group's parent entity, ERPF I, as stand-alone entity has been provided in accordance with the requirements of the Corporations Act 2001.

(a) Summarised financial information

Financial Position	ERPF II 30 June 2018 $'000	ERPF II 30 June 2017 $'000	ERPF I 30 June 2018 $'000	ERPF I 30 June 2017 $'000
Current assets	529	2,384	4,091	3,451
Non - current assets	156,859	146,706	156,895	156,476
Total Assets	**157,388**	**149,090**	**160,986**	**159,927**
Current liabilities	804	675	955	8,692
Non - current liabilities	41,484	40,755	105,195	85,872
Total Liabilities	**42,288**	**41,430**	**106,150**	**94,564**
Contributed equity	90,421	90,421	66,212	75,348
Reserves	(269)	(499)	(513)	(2,683)
Retained profits / (accumulated losses)	24,948	17,738	(10,863)	(7,302)
Total Equity	**115,100**	**107,660**	**54,836**	**65,363**
Financial performance				
Profit / (loss) for the period	12,999	7,777	(3,368)	(5,170)
Other comprehensive income for the year	215	160	170	511
Total comprehensive income for the year	**13,214**	**7,937**	**(3,198)**	**(4,659)**

As at 30 June 2018, ERPF II is in a net current asset deficiency of $0.3 million, as a result of the accounting treatment of intercompany balances with its subsidiaries. The Directors believe that ERPF I will be able to pay its debts as and when they become due.

(b) Commitments

At the balance date ERPF I and ERPF II had no commitments (2017: none) in relation to capital expenditure contracted for but not recognised as liabilities.

(c) Guarantees provided

At balance date ERPF I and ERPF II had no outstanding guarantees (2017: none).

(d) Contingent liabilities

At balance date ERPF I and ERPF II has no contingent liabilities (2017: none).

ACCOUNTING POLICY

With the exception of consolidation, the financial information of the parent entities of Elanor Retail Property Fund and ERPF I Group have been prepared on the same basis as the consolidated financial statements.

17. Auditors' remuneration

OVERVIEW

During the year the following fees were paid or payable for services provided by the auditor of the Fund:

	Consolidated Group 30 June 2018 $	Consolidated Group 30 June 2017 $	ERPF I Group 30 June 2018 $	ERPF I Group 30 June 2017 $
Deloitte Touche Tohmatsu Australia				
Audit and other assurance services				
Audit and review of financial statements	95,125	85,000	81,536	68,000
Other services				
Transaction services	–	135,000	–	87,750
Taxation services	25,200	118,000	21,600	79,400
Total auditor's remuneration	**120,325**	**338,000**	**103,136**	**235,150**

18. Subsequent events

Subsequent to year end, a distribution of 5.16 cents per stapled security has been declared by the Board of Directors.

The Fund has agreed with its bank to extend the $10.4 million facility, originally due to expire in July 2018, for three years to July 2021.

Other than the above, since the end of the period, the Directors are not aware of any other matter or circumstance not otherwise dealt with in the financial reports or the Directors' Report that has significantly affected or may significantly affect the operations of the Fund, the results of those operations or the state of affairs of the Fund in financial periods subsequent to the year ended 30 June 2018.

19. Accounting policies

OVERVIEW

This note provides an overview of the Fund's accounting policies that relate to the preparation of the financial report as a whole and do not relate to specific items. Accounting policies for specific items in the balance sheet or statement of comprehensive income have been included in the respective note.

(a) Interest Income

Interest income is recognised as it accrues using the effective interest rate method.

(b) Expenses

All expenses, including the responsible entity's fees and custodian fees, are recognised in profit or loss on an accruals basis.

(c) Income Taxation

Under current legislation, the Fund is not subject to income tax as security holders are presently entitled to the income of the Fund.

19. Accounting policies (continued)

(d) New accounting standards and interpretations

New standards and interpretations not yet adopted

Certain new Accounting Standards and Interpretations have been published that are not mandatory for the financial year ended 30 June 2018 but are available for early adoption. They have not been applied in preparing this financial report. The Responsible Entity's assessment of the impact of these new standards and interpretations is set out below.

Reference	Description	Impact on the Fund's financial statements
AASB 15 *Revenue from Contracts with Customers* (Applicable 1 January 2018)	AASB 15 introduces a five-step model for recognising revenue earned from a contract with a customer and will replace the existing AASB 118 *Revenue* and AASB 111 *Construction Contracts*. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. It applies to all contracts with customers except leases, financial instruments and insurance contracts.	The Fund's main sources of income are rental income, fair value gains on investment properties and fair value gains on financial instruments. These sources of income are outside the scope of the new revenue standard. An assessment has been performed on the Fund's lease contracts. It was noted that there are no non-lease services included in these contracts that would otherwise be in scope of AASB 15. Based upon the assessment, it is expected that AASB 15 will not have a material impact to the Funds financial statements. The Fund will adopt the standard in the financial year beginning 1 July 2018.
AASB 16 *Leases* (Applicable 1 January 2019 – early adoption allowed if AASB 15 is adopted at the same time)	AASB 16 introduces new requirements in relation to lease classification and recognition, measurement and presentation and disclosure of leases for lessees and lessors. For lessees a (right-of-use) asset and a lease liability will be recognised on the balance sheet in respect of all leases subject to limited exceptions. The accounting for lessors will not significantly change.	Given that the Fund is not a party to any significant lease agreements as lessee, and on the basis that this remains the same, the new standard is not expected to have a material impact on the recognition and measurement of lease-related revenues, assets or liabilities. The Fund will adopt the standard in the financial year beginning 1 July 2019.

Several other amendments to standards and interpretations will apply on or after 1 July 2018, and have not yet been applied, however they are not expected to impact the Fund's consolidated financial statements.

19. Accounting policies (continued)

(e) Critical accounting judgments and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements is provided in:

- Note 6 Investment properties; and
- Note 10 Financial risk management (Financial Instruments)

20. Business Combinations

Refer to the Fund's Consolidated Financial Statements for the year ended 30 June 2017 for further information on the business combination that occurred in the prior year.

Directors' Declaration to Stapled Security Holders

In the opinion of the Directors of Elanor Funds Management Limited as responsible entity for Elanor Retail Property Fund I and Elanor Retail Property Fund II:

(a) the financial statements and notes set out on pages 19 to 46 are in accordance with the Corporations Act 2001 (Cth), including:

   i. complying with Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

   ii. giving a true and fair view of the Consolidated Group's and ERPF I Group's financial position as at 30 June 2018 and of their performance, for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the Consolidated Group and the ERPF I Group will be able to pay their debts as and when they become due and payable; and

(c) the financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board; and

(d) the Directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by Section 295A of the *Corporations Act 2001* (Cth).

This declaration is made in accordance with a resolution of the Board of Directors in accordance with Section 295(5) of the *Corporations Act 2001* (Cth).

Glenn Willis
CEO and Managing Director

Sydney, 17 August 2018

Deloitte.

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia

DX 10307SSE
Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001
www.deloitte.com.au

Independent Auditor's Report to the Stapled Security Holders of Elanor Retail Property Fund and the Unitholders of ERPF I Group

Opinion

We have audited the accompanying financial report of:

- The consolidated balance sheet as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity Elanor Retail Property Fund, being the consolidated stapled entity ("Elanor Retail Property Fund") as set out on pages 13 to 41. The consolidated stapled entity comprises Elanor Retail Property Fund II ("ERPF II") and the entities it controlled at the year's end or from time to time during the year, including Elanor Retail Property Fund I ("ERPF I") and the entities it controlled at year's end or from time to time during the financial year end;

- The consolidated balance sheet as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity ERPF I, being the consolidated entity ("ERPF I Group") as set out on pages 13 to 41. The consolidated entity comprises ERPF I and the entities it controlled at the year's end or from time to time during the year.

In our opinion, the accompanying financial report of Elanor Retail Property Fund and ERPF I Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of Elanor Retail Property Fund and ERPF I Group's financial positions as at 30 June 2018 and of their financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

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 are independent of Elanor Retail Property Fund and ERPF I 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.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Elanor Funds Management Limited (the "Responsible Entity"), would be in the same terms if given to the directors as at the time of this auditor's report.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Investment property valuation	

At 30 June 2018, Elanor Retail Property Fund recognised investment properties valued at $317.7 million as disclosed in Note 6.
 	
Note 6 outlines two valuation methodologies used by Elanor Retail Property Fund. The capitalisation of net income method applies a capitalisation rate to normalised market net operating income. The discounted cash flow method uses a 10 year cash flow forecast and terminal value calculation discounted to present value.
 	
The valuation process requires significant judgment in the following key areas:
• forecast cash flows,
• capitalisation rates, and
• discount rates.
 	
Accordingly, internal and external valuers apply professional judgement concerning market conditions and factors impacting individual properties.
 	
The internal and external valuations are reviewed by management who recommends each property's valuation to the Audit and Risk Committee and the Board of the Responsible Entity in accordance with Elanor Retail Property Fund's valuation protocol.
	Our procedures included, but were not limited to:
	• Assessing management's process over the property valuations and the oversight applied by the directors;
	• Assessing the independence, competence and objectivity of the external and internal valuers;
	• Performing an analytical review and risk assessment of the portfolio, analysing the key inputs and assumptions;
	• Assessing the assumptions used in the portfolio, focusing on the capitalisation rate and discount rate with reference to external market trends and transactions and challenging those assumptions where appropriate;
	• Holding discussions with management to obtain an understanding of portfolio movements and their identification of any additional property specific matters; and
	• Testing on a risk basis of properties, both externally and internally valued, the following:
	  ○ The integrity of the information in the valuation by agreeing key inputs such as net operating income to underlying records and source evidence;
	  ○ The forecasts used in the valuations with reference to current financial results such as revenues and expenses, capital expenditure requirements, vacancy rates and lease renewals; and
	  ○ The mathematical accuracy of the models.
	
	We also assessed the appropriateness of the disclosures included in Note 6 to the financial statements.

Other Information

The directors of the Responsible Entity (the "Directors") are responsible for the other information. The other information comprises the Directors' Report, which we obtained prior to the date of this auditor's report. The other information also includes the following information which will be included in the Annual Report (but does not include the financial report and our auditor's report thereon): the Message from the Chairman, Message from the CEO and other documents which are expected to be made available to us after that date.

Our opinion on the financial report does not cover the other information and 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 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 that we 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.

When we read the Message from the Chairman, Message from the CEO and other documents in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action.

Responsibilities of the Directors for the Financial Report

The directors are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors 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 are responsible for assessing Elanor Retail Property Fund and ERPF I Group's ability 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 either intend to liquidate the fund/s or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

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

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Elanor Retail Property Fund's and ERPF I Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Elanor Retail Property Fund's and ERPF I Group's ability to continue as going concerns. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Elanor Retail Property Fund and ERPF I Group to cease to continue as going concerns.

Independent Auditor's Report

continued

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU

AG Collinson
Partner
Chartered Accountants
Sydney, 17 August 2018

Corporate Governance

The Board of Directors of Elanor Funds Management Limited as responsible entity of the Elanor Retail Property Fund I and Elanor Retail Property Fund II (Fund) have approved the Fund's Corporate Governance Statement as at 30 June 2018. In accordance with ASX Listing Rule 4.10.3, the Fund's Corporate Governance Statement can be found on its website at: www.elanorinvestors.com/ERF

The Board of Directors is responsible for the overall corporate governance of the Fund, including establishing and monitoring key strategy and performance goals. The Board monitors the operational and financial position and performance of the Fund, and oversees its business strategy, including approving the Fund's strategic goals.

The Board seeks to ensure that the Fund is properly managed to protect and enhance securityholder interests, and that the Fund, its Directors, officers and personnel operate in an appropriate environment of corporate governance.

Accordingly, the Board has created a framework for managing the Fund, including Board and Committee Charters and various corporate governance policies designed to promote the responsible management and conduct of the Fund.

Security Holder Analysis

(as at 24 August 2018)

Stapled Securities

The units of the Trusts are combined and issued as stapled securities in the Fund. The Fund's securities are traded on the Australian Securities Exchange (ASX: ERF), having listed on 9 November 2016. The units of the Trusts cannot be traded separately and can only be traded as stapled securities. In accordance with the ASX's requirements for stapled securities, the ASX reserves the right (but without limiting its absolute discretion) to remove a Trust from the ASX Official List if any of the units cease to be stapled together or any equity securities issued by the Trusts are not stapled to equivalent securities in the other entity.

Top 20 Security Holders

Number	Security Holder	No. of Securities	%
1	Elanor Investment Nominees Pty Limited <Elanor Investment A/C>	23,026,082	17.89
2	Pershing Australia Nominees Pty Ltd <Ynominee A/C>	17,785,087	13.82
3	HSBC Custody Nominees (Australia) Limited - A/C 2	11,224,400	8.72
4	Citicorp Nominees Pty Limited	6,430,000	4.99
5	HSBC Custody Nominees (Australia) Limited	5,278,118	4.10
6	Kenxue Pty Ltd <Susan Investment A/C>	4,848,518	3.77
7	JP Morgan Nominees Australia Limited	3,561,468	2.77
8	The Trust Company (Australia) Limited <Moelis Aus Prop Visa Fd A/C>	2,610,000	2.03
9	Armada Investments Pty Ltd	1,822,222	1.42
10	B & J Investment Nominees Pty Ltd	1,504,148	1.17
11	Berg Family Foundation Pty Ltd <Berg Family Foundation A/C>	1,366,667	1.06
12	Pinwillow Pty Ltd <ARB Personal Super Fund A/C>	1,366,667	1.06
13	Kindol Pty Ltd <The Veale Superannuation A/C>	1,308,960	1.02
14	BNP Paribas Noms Pty Ltd <Drp>	975,484	0.76
15	Yarramalong Management Services Pty Limited <Yarramalong Mge p/l s/f A/C>	940,119	0.73
16	National Nominees Limited	849,739	0.66
17	Oksar Pty Ltd <Raskos A/C>	827,779	0.64
18	Basapa Pty Ltd <Kehoe Family A/C>	825,927	0.64
19	Bond Street Custodians Limited <Jh1 - v01845 A/C>	822,223	0.64
20	Carwoola Pty Ltd <Drinnan Directors s/f 2 A/C>	755,408	0.59
Total		**88,129,016**	**68.46**
Balance of Register		**40,600,739**	**31.54**
Grand Total		**128,729,755**	**100.00**

Security Holder Analysis

(as at 24 August 2018) continued

Range Report

Range	No. of Securities	%	No. of Holders	%
100,001 and over	114,250,965	88.75	131	21.16
10,001 to 100,000	13,939,617	10.83	374	60.42
5,001 to 10,000	415,772	0.32	52	8.40
1,001 to 5,000	118,887	0.09	41	6.62
1 to 1,000	4,514	0.00	21	3.39
Total	**128,729,755**	**100.00**	**619**	**100.00**

The total number of security holders with an unmarketable parcel of securities was 16.

Substantial Security Holders

Security Holder	No. of Securities	%
Elanor Investment Nominees Pty Ltd ATF Elanor Investment Trust	23,026,082	17.89
Moelis Australia Asset Management Limited	20,395,087	15.84
Ellerston Capital	11,357,276	8.82

Voting rights

On a poll, each security holder has, in relation to resolutions of the Trusts, one vote for each dollar value of their total units held in the Trust.

On-Market Buy-back

There is no current on-market buy-back program in place.

Corporate Directory

Elanor Investors Group (ASX Code: ERF)

Elanor Funds Management Limited (ACN 125 903 031) is the Responsible Entity of Elanor Retail Property Fund I (ARSN 615 291 220) (ERPF I) and Elanor Retail Property Fund II (ARSN 615 291 284) (ERPF II) each a Trust and together the Elanor Retail Property Fund.

Level 38,
259 George Street
Sydney NSW 2000

T: +61 2 9239 8400

Directors of the Responsible Entity

Paul Bedbrook (Chair)
Glenn Willis (Managing Director and CEO)
Nigel Ampherlaw
William (Bill) Moss AO

Company Secretary of the Responsible Entity

Symon Simmons

Security Registry

Computershare Investor Services Pty Limited
Level 4, 60 Carrington Street
Sydney NSW 2000

Auditors

Deloitte Touche Tohmatsu
Grosvenor Place
225 George Street
Sydney NSW 2000

Custodian

The Trust Company (Australia) Limited
Level 18,
123 Pitt Street,
Sydney NSW 2000

Website

www.elanorinvestors.com/ERF

Elanor | RETAIL PROPERTY FUND

Level 38, 259 George Street
Sydney NSW 2000
T: +61 2 9239 8400

www.elanorinvestors.com/ERF