ASX ANNOUNCEMENT

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The Manager
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ALE Increases Distributions to Securityholders

ALE Property Group (ASX: LEP), the owner of Australia's largest portfolio of freehold pub properties, increased distributions by around 2.0% for the year to 30 June 2018.

Highlights

- Distributable profit of $29.0 million
- Net profit after tax of $75.1 million includes increments to investment property and derivative values
- Full year distribution increased 2.0% to 20.80 cents per security and 100% tax deferred
- Weighted average adopted capitalisation rate reduced from 5.14% to 4.98%
- Directors' valuation of 86 properties increased by 5.0% to $1,136.3 million
- Market rent review of 80 properties has commenced for FY19 and is expected to deliver a positive result
- Capital position remains strong with gearing at historic low of 41.6%
- Debt maturities diversified over the next 5.4 years
- Net debt 100% hedged for next 7.4 years with current all up cash interest rate of 4.26%
- Review of distributions and capital management policy following 2018 rent review
- FY19 distribution to be at least 50% tax deferred
- 2003 investment of $1.00 in ALE has a current accumulated value of $18.33 or an annual total return of 22.0% p.a.

Results for Year Ending 30 June 2018

A summary of the results is provided in the table below:

Millions	June 18	June 17	Change
Revenue from Properties	**$58.1**	$57.0	$1.1
Other revenue	**$1.0**	$1.3	($0.3)
Borrowing expense	**($22.0)**	($21.8)	($0.2)
Management expense	**($5.7)**	($5.2)	($0.5)
Land tax expense	**($2.4)**	($2.2)	($0.2)
Distributable Profit [1]	**$29.0**	$29.1	($0.1)
Distributable Profit (cps)	**14.83c**	14.87c	(0.04c)
Distribution (cps)	**20.80c**	20.40c	0.40c

The difference between the distribution and distributable profit for the period was paid from capital and existing cash reserves. Distributable profit excludes non-cash accounting items.

Distributable Profit

A number of factors contributed to a distributable profit of $29.0 million for the year to 30 June 2018.

- Property income increased due to the annual CPI based increases in rent
- Borrowing expenses increased due to increased borrowings
- Management expenses were higher due to the additional costs of preparing for the FY19 rent reviews
- Land tax increased based on higher land value assessments in Queensland.

The distribution of 20.80 cents per security will be 100% tax deferred.

Accounting Result

ALE's reported net profit after tax (NPAT) of $75.1 million for the year to 30 June 2018 includes non-cash adjustments for the changes in the value of the properties and interest rate derivatives. The NPAT also includes other non-cash items including amortisation of pre-paid financing costs and CIB accumulating indexation. A full reconciliation of accounting profit to distributable profit has been provided in the Directors' Report.[1]

Statutory Property Valuations

During FY18 property revenue from ALE's 86 properties grew by 1.9% on the previous corresponding period (pcp) to $58.1 million. This increase in property revenue was driven by the annual CPI rent increases across the portfolio.

The statutory valuations of ALE's properties increased by 5.0% to $1,136.3 million at 30 June 2018 based on independent valuations of a representative sample of 35 of ALE's properties conducted by CBRE, Savills, Opteon and Herron Todd White. Consistent with the increase in valuations, ALE's weighted average capitalisation rate reduced from 5.14% to 4.98%.

Directors' valuations of the remaining 51 properties (also independently valued over the previous two years) are supported by advice from the valuers that it is reasonable to apply the same percentage movement in the weighted average capitalisation rates, on a like-for-like basis, that they determined would apply to the 35 properties they valued at June 2018.

The property valuations were positively impacted by the annual CPI based increases in rent. The land tax expense for the Queensland portfolio increased based on higher land value assessments.

The valuers applied both traditional capitalisation rate and discounted cash flow (DCF) methods in determining the valuations.

In making their assessments of the 35 properties, the valuers made an independent assessment of the tenant's current level of EBITDAR and also adopted industry standard market rental ratios. In calculating the DCF valuations, the valuers used a range of assumptions they deemed appropriate for each of the individual properties. The weighted averages of these assumptions were as follows:

- Tenant's EBITDAR Growth Rate: 1.4% p.a.
- 2028 Terminal Capitalisation Rate: 6.3%
- 10 Year Discount Rate: 7.7% p.a.

ALE noted in particular that the valuers' assumed EBITDAR growth rate of 1.4% represents a declining EBITDAR in real terms, which is significantly lower than the rates that have been historically achieved by the tenant. It was also noted that ALE's average capitalisation rates during most of the last 10 years have been materially lower than the terminal capitalisation rate of 6.3% assumed by the valuers.

Based upon the above assessments and assumptions for the 35 properties, the valuers' assessed DCF valuations totalled $513.19m. On the sample's current net rent, this value represents a weighted average capitalisation rate of 4.29%. This compares to the adopted value of $453.33 million and adopted capitalisation rate of 4.98% which was derived using a combination of the DCF and capitalisation rate methods.

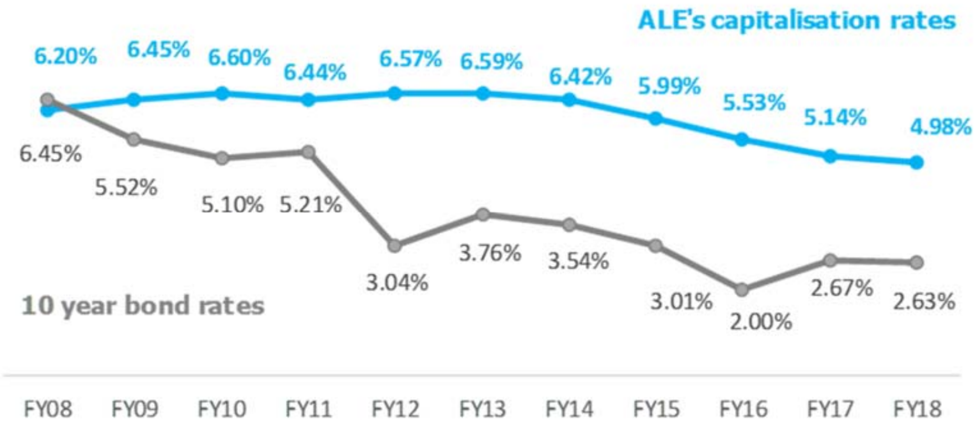
The statutory valuation results reflect the combination of these methods with a significant weighting towards the capitalisation rate method, as indicated below:

ALE believes that the DCF valuation method provides a comprehensive view of the quality of the lease and tenant as well as the short and longer term opportunities for reversion to market based levels of rent.

Capitalisation Rates and Bond Rates

Over past ten years ALE's capitalisation rates have reduced by around 1.2% compared to a 3.8% reduction in long term Australian government bond rates over the same period.

The chart below shows that, while the spread remains high, movements in ALE's average capitalisation rates are currently being driven by factors beyond movements in bond rates. Capital improvements that enhance operational earnings and shorter timeframes to rent reviews are both positive contributions to value of the properties.



Market Rent Reviews

ALE has enjoyed annual property rent increases at CPI over the past 14 years. A market rent review for 80 of the 86 properties will commence in the second half of 2018, with individual rent increases or decreases of up to 10%. Two properties have already been agreed at an increase of 10%.

A further three properties have review dates in later years and the final three properties are subject to non-standard leases.

The following table provides additional information around the types of leases and timing of the market rent reviews:

Hotel	Next Rent Review Date	Rent* ($m)	Next Renewal Date	Renewal Term (Years)	Lease Type, Review and Renewal Details **
Berwick, VIC	Jun 2018	1.20	Jun 2028	10	Standard lease. To be included with Nov 2018 reviews
Camp Hill, QLD	Nov 2018	0.30	Nov 2028	10	Standard lease. 10% increase already agreed
Gepps Cross, SA	Nov 2018	0.22	Nov 2028	10	Standard lease. 10% increase already agreed
74 Hotels	Nov 2018	50.04	Nov 2028	10	74 Standard leases
Pelican Waters, QLD	Dec 2018	0.50	Dec 2028	10	Standard lease
Four Mile Creek, QLD	Jun 2019	0.46	Jun 2029	10	Standard lease. Minimum ratchet and maximum 10%
Noosa Reef, QLD	Jun 2019	0.72	Jun 2029	10	Standard lease
Brass Monkey, WA	Jun 2020	0.58	Jun 2020	5	Review with minimum ratchet and maximum open
Pritchard's, NSW	Sep 2020	1.73	Sep 2020	10	Increase at fixed 3%
Balmoral, WA	Feb 2023	0.48	Feb 2023	5	2018 renewal agreed by ALH. CPI increase to apply
Burleigh Heads, QLD	Nov 2023	0.78	Nov 2033	10	Standard lease
Narrabeen Sands, NSW	Jun 2024	0.82	Jun 2034	10	Standard lease
Anglers Arms, QLD	Nov 2028	0.63	Nov 2028	10	Standard lease. Nov 2018 increase of 10% occurred June 2017
Total Rent		**58.46**			

* June 2018 rent amounts before deducting land tax for QLD properties.

** Standard leases review to market between Jun 2018 and Jun 2024 and may increase or decrease by up to 10% from preceding year's rent. The first of four 10 year options for ALH to renew standard leases occur between 2028 and 2034. The 3 non-standard leases are Balmoral, Brass Monkey and Pritchard's.

ALE has committed extensive time and resources to ensuring that we are well positioned for the rent review process. As previously foreshadowed, the difference between passing and market rents across the portfolio is not uniform. ALE is confident of a positive result across the properties under review but we do not necessarily expect that all of the properties will achieve the maximum 10% rental uplift.

Whilst the rent review process has commenced, it is too early to know the timing or the quantum of the rent review outcomes. The outcomes will be subject to commercial negotiation and/or formal determination.

ALE also holds the view that the current market rent review process as a positive indicator for the more significant uncapped or open market rent review in 2028, which will be an opportunity to realise the full value of rents at open market levels.

Property Developments by ALH

ALE and ALH have worked together closely to agree a range of developments at a number of ALE properties in recent years. These developments are expected to enhance business returns for ALH and positively underpin ALE's future market rent and property values. Recent examples include:

- Miami Hotel, Gold Coast – a refurbishment of the hotel and the addition of a new Dan Murphy's was completed in December 2017

- Gepps Cross Hotel, Adelaide – ALH created Adelaide's first Coopers Alehouse in May 2016 following a substantial reconstruction of the hotel. The addition of a new Dan Murphy's was completed in December 2017

- Reactivated Accommodation – 497 rooms are currently offered across 27 of ALE's properties, up from 428 last year. There has been a significant reactivation of accommodation in recent years. This includes a large number of renovated and reopened rooms. ALH currently operates around 2,000 rooms nationally, of mostly three or four star short stay accommodation. In April 2018 ALH launched "Nightcap Hotels" as the branding for the group's accommodation offering

- Young & Jackson Hotel, Melbourne – a major metro rail project (circa $6 billion) is being undertaken by the Victorian government alongside Cross Yarra Partnership (CYP). It will significantly add to CBD passenger rail capacity. A new Town Hall metro station will surround the hotel, with station access from both Flinders and Swanston Streets. Around 6,700 walking entries and exits are forecast in both AM and PM peaks once the project becomes operational in 2026. ALE has a continuing dialogue with CYP and Rail Projects Victoria.

Capital Management

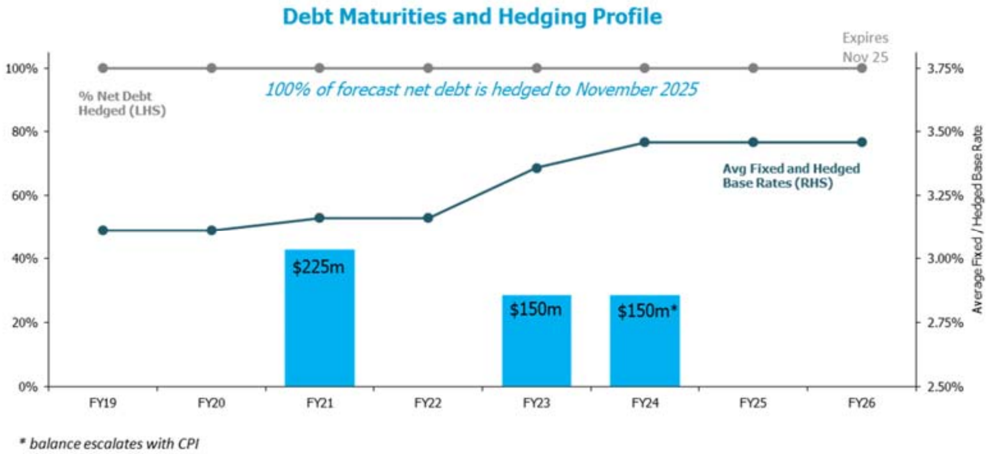
Since the refinancing in March 2017, which included the new issue of $150 million Australian Medium Term Note (AMTN), ALE has enjoyed competitive interest expenses at a weighted average cost of debt of 4.26% p.a.

In keeping with ALE's proactive policy of reducing refinancing risk and increasing the certainty of future distributions, forward start interest rate hedging on 100% of ALE's net debt to November 2025 remains in place.

ALE's debt capital structure is currently characterised by the following positive features:

- Investment grade credit rating of Baa2 (stable)
- Next debt maturity in August 2020
- Debt maturities diversified over the next 5.4 years
- 100% of forecast net debt hedged over the next 7.4 years
- All up cash interest rate of 4.26% fixed until August 2020
- Gearing at historical low of 41.6% (42.7% at June 2017)
- Interest cover ratio above covenant levels at 2.3 times

The chart below demonstrates the stability of ALE's debt capital structure. ALE has two types of fixed rate debt instruments, Capital Indexed Bonds (CIB) and Australian Medium Term Notes (AMTN).



ALE's debt facilities include a number of market standard covenants. ALE currently enjoys significant headroom to all of them. The total value of ALE's properties would need to fall in value by almost a third (around $350 million) before meeting the nearest covenant.

ALE’s Performance

A $1.00 investment in ALE at the time of the ASX listing nearly 15 years ago, with reinvested distributions, would have grown to $18.33 as at 30 June 2018. This is equivalent to 22.0% p.a. total return.

As indicated by the chart below, over the past one, three, five, 10 and 15 years to 30 June 2018, ALE has delivered total returns that have outperformed both the S&P/ASX 300 AREIT index and the S&P/ASX All Ordinaries Index.

1. Total return is the annual compound return (IRR) for the period shown
2. Includes equity market price of $5.59 as at 30 June 2018 and reinvestment of distributions and 2009 renunciation payment
3. ALE, All Ordinaries Accumulation Index and UBS S&P REIT 300 Index data sourced from ASX, UBS and ALE

Distribution Payment

The final distribution for the six months to 30 June 2018 of 10.45 cents per stapled security will be paid on 5 September 2018 to securityholders on ALE’s register as at 5.00pm on 29 June 2018.

This payment will result in distributions for the full year to 30 June 2018 totalling 20.80 cents per stapled security, representing a 2.0% increase over the previous corresponding period (pcp). The full year distributions will be 100% tax deferred.

Corporate Governance

Michael Triguboff joined as non-executive director in February 2018 as nominee director of Caledonia (Private) Investments, ALE’s largest securityholder.

James McNally retires 8 August 2018 having served as a Director since 2003 when ALE was first listed on the Australian Securities Exchange. The Board and management team acknowledge and thank James for his long standing service and very positive contribution. We wish him well.

FY18 Outlook

ALE's investors have received 100% tax deferred distributions for many years due to the progressive recovery of carried forward tax losses. While those losses have now been fully recovered, ongoing deductions are expected to result in the FY19 distribution being at least 50% tax deferred.

As previously flagged, following the completion of the rent review process, the Board will review distributions and capital management policy. The Board will take into account the results of the rent review, prevailing property and capital market conditions and importantly the preferences of a wide range of securityholders.

- Ends –

Further Notes

1. ALE has a policy of paying distributions which are subject to the minimum requirement to distribute taxable income of the trust under the Trust Deed. Distributable Profit is a non-IFRS measure that shows how free cash flow is calculated by ALE. Distributable Profit excludes items such as unrealised fair value (increments)/decrements arising from the effect of revaluing derivatives and investment property, non-cash expenses and non-cash financing costs. The reconciliation between Operating Profit before Tax and Distributable Profit has not been audited or reviewed by KPMG.
2. Gearing relates to AMTN covenant being (Net Finance Debt – Cash) / (Total Assets – Cash – Deferred Tax Assets) of ALE Direct Property Trust. This ratio is considered, in the opinion of the Directors, most relevant to securityholders as it is the debt covenant that is most relevant for assessing the headroom available.
3. Accumulated value includes security price of $5.59 at 30 June 2018 plus reinvestment of all distributions and renunciation payments since ALE's 2003 listing.
4. Forecast tax deferred component of FY19's distributions assumes that there are no material changes to the composition of the property portfolio or the capital structure of ALE.

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