ALE PROPERTY GROUP

ASX ANNOUNCEMENT

5 August 2015

Announcement No. 07/15
The Manager
Australian Securities Exchange

Results for Year Ended 30 June 2015

ALE Property Group (ASX: LEP), the owner of Australia's largest portfolio of freehold pub properties, is pleased to announce its results for the year ended 30 June 2015, which included an increased distribution to securityholders that exceeded guidance.

Key Points

- FY15 distributable profit of $29.1 million
- FY15 accounting profit of $99.4 million includes property revaluations
- FY15 distributions of 16.85 cps
  - 100% tax deferred
  - exceeded guidance
  - fully funded from current and accumulated distributable profits
- Statutory valuation of 86 properties increased by 9.59% to $900.47 million
- Weighted average capitalisation rates reduce from 6.42% to 5.99%
- Capital position remains strong
  - debt maturity dates diversified evenly across next eight years
  - all up interest rate fixed at 4.35% p.a. until August 2017 debt maturity
  - base interest rates hedged at low levels for around seven years
  - gearing moved from 51.7% to 48.0% and is now below target range
- Distribution guidance upgraded to restore gearing to target range
  - FY16 distribution of at least 20.00 cps
  - expected to be 100% tax deferred
  - increasing subsequent annual distributions by CPI
  - additional single capital payment is expected to be made following conclusion of the 2018 market rent review
- Continued to outperform other AREITs over the short and longer term
- 2003 investment of $1.00 in ALE has a current accumulated value of $10.58.

Results for Year Ending 30 June 2015

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

Year Ended ($ Millions)	**June 2015**	June 2014	Change
Revenue from properties	**55.2**	54.7	1.5
Other Revenue	**1.8**	2.2	(0.4)
Borrowing Expense	**(21.4)**	(19.0)	(2.4)
Management Expense	**(4.5)**	(4.6)	(0.1)
Land Tax Expense	**(2.1)**	(2.1)	-
Distributable Profit	**29.1**	31.2	(2.1)
Funds From Operations (FFO)	**29.1**	31.2	(2.1)
Securities on Issue (Millions)	**195.7**	195.7	-
Distributable Profit (cps)	**14.85**	15.96	(1.11)
Distribution per Security (cps)	**16.85**	16.45	0.40

The additional 2.00c of distribution paid was paid from 5.34c of prior period accumulated distributable profits. Distributable profit excludes non-cash accounting items.

Accounting Result

ALE's operating profit after tax of $99.4million for the year to 30 June 2015 includes non-cash adjustments for the increase in the value of the properties and a reduction in the interest rate derivatives' fair values. The profit 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]

Distributable Profit

There were several significant influences on distributable profit during the year to June 2015.

Property income increased given the annual CPI based rental escalations. Borrowing expenses were higher due to the reduced interest expense being exceeded by the counter hedge benefits that were fully amortised in FY14. Management expenses were slightly lower than the prior year and ALE's management expense ratio remains one of the lowest in the AREIT sector.
All the above factors led to ALE delivering a distributable profit of $29.1 million.

The full year distribution of 16.85 cents per security will be 100% tax deferred.

Statutory Property Valuations

As announced to the ASX on 17 July 2015, the statutory valuations of ALE's 86 properties were formally upgraded to $900.5 million at 30 June 2015, an increase of $78.8 million over the year. This was based upon independent valuations of 38 properties by CBRE. ALE's weighted average capitalisation rate reduced from 6.42% to 5.99%.

Directors' valuations of the remaining 48 properties (also independently valued over the previous two years) are supported by advice from CBRE 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 38 properties they independently valued at 30 June 2015.

All independent and directors' valuations excluded any portfolio premium or discount. Additionally, CBRE indicated that an investor's view of market rent prospects and value may be positively influenced by full disclosure of the tenant's operating profitability at each of the properties.

The property valuations were also positively impacted by the annual CPI based increase in rent. The land tax expense for the Queensland portfolio was largely unchanged due to a range of successful objections by ALE.

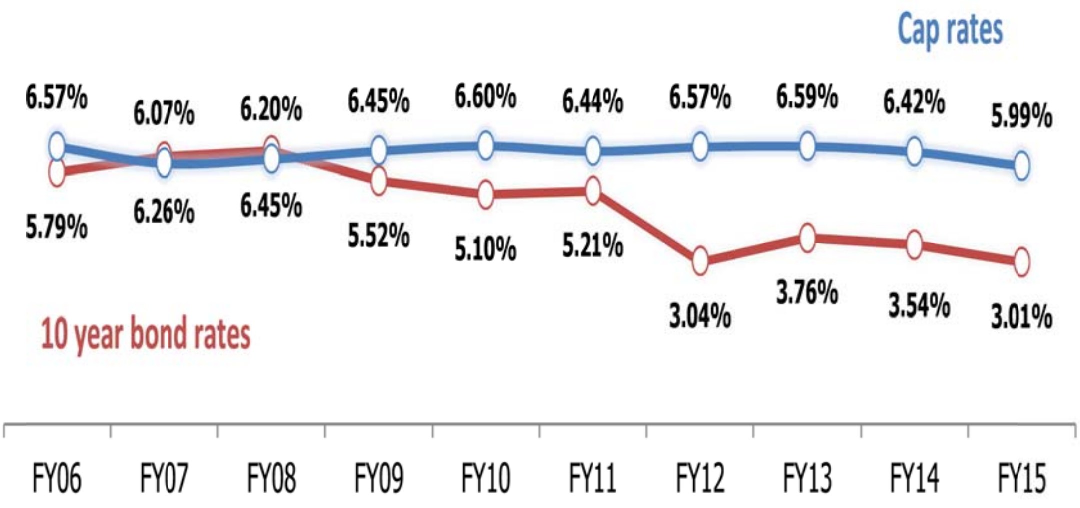
Following discussions, ALE and ALH agreed to restructure $1.1 million of rent (representing 2.0% of current net rent) over a limited number of properties. ALE's current net passing rent of $53.98 million will remain unchanged. At eight properties the combined annual rent will reduce by a total of $1.1 million, improving those properties' profitability. At five other properties the combined annual rent will increase by the same amount. CBRE has advised that the overall impact of the rent restructure was positive to ALE's statutory valuations.

The rent restructure increases the probability of improved future market rent review outcomes for ALE. ALE considers that for the five properties where the rent has increased, they will continue to be significantly under rented and continue to be likely to gain the full 10% benefit of the 2018 market rent review.

Over and above the existing portfolio, ALE continued to evaluate a wide range of both small and large scale investment opportunities with the appropriate level of discipline required in the current market.

Capitalisation Rates And Bond Rates

Over the past 10 years long term bond rates have fallen by around 280 basis points, compared to a fall of around 60 basis points in ALE's capitalisation rates. While it is generally accepted that the two markets will rarely be closely correlated, it is noteworthy that the difference in rate movements is highly material.



ALE considers that the current lower levels of long term bond rates will act as a positive influence on the stability of ALE's capitalisation rates in future years.

Further Development

ALE continues to work constructively with ALH towards agreeing a range of developments that are potentially value enhancing for the properties. One example is the Crows Nest Hotel in Sydney's lower North Shore, which is currently undergoing a significant refurbishment with ALH funding the works. Over the past 12 years ALH has funded and constructed at least 30,000 square metres of additional improvements on ALE's properties.

ALE's Unique and Favourable Lease Arrangements

In arriving at their assessments, CBRE paid due regard to the strength of ALE's unique and favourable lease arrangements. The particular terms of the leases that are notable include:

- Essentially triple net leases – for 83 of the 86 properties;
- Long term leases - weighted average lease expiry profile of around 13 years;
- Near term market rent reviews – next in 2018 for 79 of the 86 properties.
- The significant amounts of capital expenditure that ALH has funded at the properties and the positive impact that this expenditure is expected to continue to have on ALH's operating profitability at the properties;

- Strong assignment protections – following ALE approved assignments, ALE continues to enjoy the benefit of an effective guarantee from ALH of any new tenant's obligations for the remaining lease term of around 13 years, as ALH is not released on assignment; and
- Strong operating profit protections – subject to regulatory changes and requirements, ALH has provided undertakings that they will not reduce the number of gaming entitlements below 90% of the current numbers across ALE's properties.

It is notable that other ALH leases available to investors in the pub property market may not have the benefit of all the above positive attributes.

We again refer stapled securityholders to the portfolio valuation analysis announced by ALE in November 2013.

Capital Management

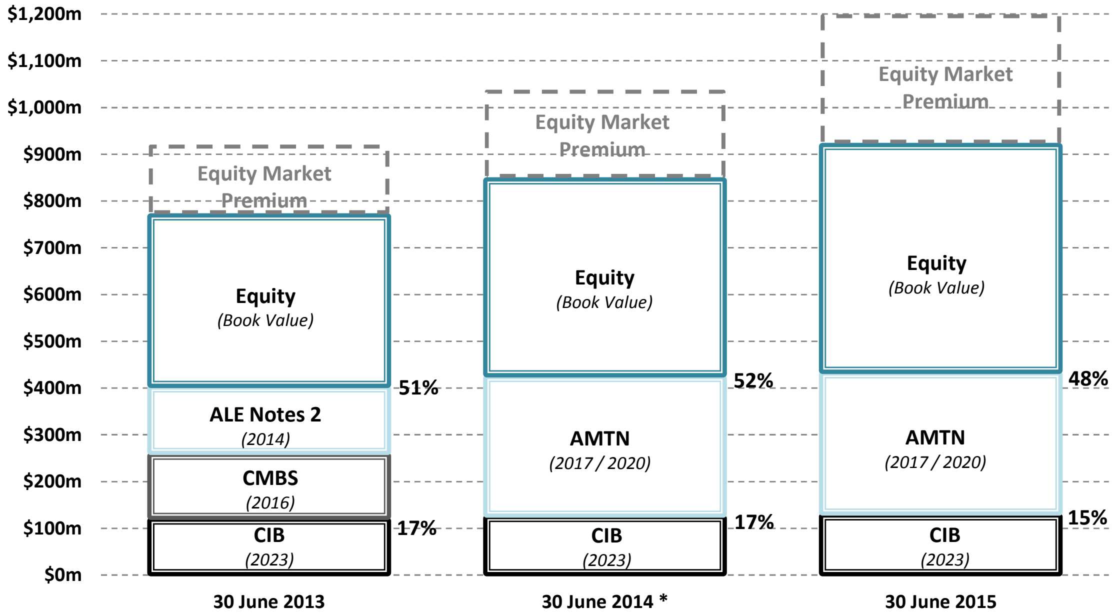
The refinancing completed in June 2014 reduced ALE's annual interest expense by around $7.0 million, substantially offsetting the benefits previously accruing from the counter hedges that fully amortised in FY14. Accordingly, for FY16 and FY17 the normalised interest expense on the current borrowings is expected to be fixed at $21.0 million.

During FY15 the Board and management continued to explore a range of debt funding solutions in both the domestic and offshore capital markets with a view to positioning ALE for future debt refinancings and implementation of any additional debt funded acquisitions. This included meetings with major equity and debt capital market investors throughout Asia and New Zealand. Meetings were also held with major US Private Placement investors who visited Australia during the year.

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

- a simplified debt structure with just two types of fixed rate bonds;
- maturity dates are spread across the next eight years;
- low base interest rates fully hedged for around 8 years; and
- total interest rate of 4.35% pa that is fixed until the next refinancing in FY18.

The chart below demonstrates the deliberate and constructive steps taken by ALE in recent years to simplify its capital structure. ALE now has two fixed rate debt instruments, Capital Indexed Bonds (CIB) and Australian Medium Term Notes (AMTN), with debt maturities are spread across the next two, five and eight years.



- Equity Market Premium represents the difference between the market capitalisation (or security price) based value and book value of ALE
- Covenant gearing percentage levels at both the secured and total net debt levels are indicated above

* CPI Hedge accumulated indexation. ** After ALE Notes 2 redemption (expected August 2014)

Finally, the AMTN issue includes a number of market standard covenants. ALE currently enjoys significant headroom to all of them. The value of ALE's properties would need to fall in value by around 20% or $180 million before the nearest covenant is met.

ALE's Performance

The value of ALE securityholders' $1.00 investment at the time of ALE's listing nearly 12 years ago, with reinvested distributions, grew to $10.58[2] by 30 June 2015. This has delivered a total securityholder return of 22.5% p.a. over that period.

Total returns over the past one, three, five and ten years to 30 June 2015 were 33.4%, 26.9%, 20.1% and 16.8% p.a. respectively. Over each of these time periods ALE has outperformed both Australia's real estate investment trust sector and the wider equity markets.

Distribution Payment and DRP

The distribution per stapled security of 8.45 cents will be paid on 5 September 2015 to stapled securityholders on ALE's register as at 5.00pm on 26 June 2015. The full year distributions are expected to be 100% tax deferred.

ALE announced on 19 June 2014 that the Distribution Reinvestment Plan (DRP) had been suspended until further notice. The suspension reflected ALE's strengthened capital and debt position. The decision will be regularly reviewed having regard to ALE's potential future capital needs and ALE will notify the market and securityholders if there is a move to reinstate the DRP.

Board Renewal

The process of Board renewal that has been outlined in previous announcements continues. John Henderson retired after the 2014 Annual General Meeting following Paul Say's appointment in September 2014. Nancy Milne joined the Board in February 2015 as Helen Wright has advised that she intends to retire following the 2015 Annual General Meeting. There will be further changes over coming years as the renewal process continues.

FY16 Outlook

The outlook for both the 2018 and 2028 rent reviews remains positive given the increase in ALH's operating profitability across a large number of ALE's properties.

The Board has previously advised that it was considering various capital management options to maintain appropriate levels of gearing for ALE in the years up to and beyond the 2018 market rent review. As at 30 June 2015 gearing was 48.0%, which is below the Board's target range.

Following consultation with larger and smaller securityholders, the Board has decided to restore gearing to the target range of 50-55% by:

- Increasing the current distribution guidance for FY16 to at least 20.00 cps;
- Continuing to grow subsequent annual distributions by CPI; and
- Making a single capital return payment following the conclusion of the 2018 market rent review.

It is anticipated that further distribution guidance will be provided by the Board at the Annual General Meeting later this year.

All the above guidance assumes the existing property holdings, hedging and capital structure remains unchanged.

In a market where low interest rates and strong equity prices prevail, ALE will continue to review acquisitions that align with our disciplined strategy and meet our criteria.

- 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. AMTN covenant gearing = (Net Finance Debt – Cash) / (Total Assets – Cash – Deferred Tax Assets). 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.
2. Accumulated value includes security price of $3.69 at 30 June 2015 plus reinvestment of all distributions and renunciation payments since ALE's 2003 listing. Total returns are sourced from UBS.

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