



Australian Leisure and Entertainment
Property Management Limited

ALE PROPERTY GROUP
ANNUAL GENERAL MEETING 2017
CHAIRMAN'S ADDRESS

I will now make a brief introductory address after which our Managing Director, Andrew Wilkinson, will provide his report on the operations of ALE during FY17 and on our outlook for the current financial year.

We will then move to the matters for decision by securityholders as set out in the Notice of Meeting.

Board and Governance

As this is my first opportunity to meet with a number of securityholders it may be helpful to provide a brief outline of my background and other current responsibilities. I began my professional career as a chartered accountant and have subsequently had more than 25 years in the investment banking industry providing capital markets and M&A advice to corporate clients. In addition to my role with ALE, I am also currently the Non-Executive Chairman of ASX listed WPP AUNZ Limited, Australia's largest marketing and communications services group and I am a consultant to the investment bank, UBS AG. I also served for ten years until January this year as a non-executive Director of NASDAQ listed Melco Resorts and Entertainment Limited, a developer and operator of integrated casino resorts in Macau and The Philippines.

I am honoured to have been invited to succeed Peter Warne as Chairman of ALE. Peter chaired the Board since the group's inception and our ASX listing in 2003 and it is fitting that we pay tribute today to the Group's achievements under his leadership.

During the 14 years of Peter's tenure as ALE Chairman, our market capitalisation grew from \$91 million to more than \$930 million. Over that time the value of ALE securityholders' \$1.00 initial investment, with reinvested distributions, has grown to around \$14.50. This has delivered a total return of around 22% per annum over that period. We are very grateful for Peter's significant financial and commercial wisdom, the value he has consistently added over the years and importantly the measured and considered manner in which he led the Board. Unfortunately due to prior commitments, Peter was unable to attend today's meeting so that securityholders could personally acknowledge and thank him.

The Board wishes Peter well, noting his continuing and significant responsibilities with a range of other large Australian corporate and financial organisations.

Your Board has, through its Nominations Committee, continued to execute a plan of Board renewal, by which new directors are identified, selected and appointed to your Board as existing directors retire.

In addition to the retirement of Peter and my appointment to the Board this year, over the past four years, ALE has also appointed Pippa Downes, Paul Say and Nancy Milne to the Board.

We will continue to facilitate Board renewal in a measured way and ensure that we retain appropriate experience and institutional knowledge on the Board at all times.

ALE's Strategic Priorities

ALE's first fourteen years have been characterised by clear and consistent strategic priorities. These priorities remain the focus for your board and management.

Whilst ALE's priorities have been outlined at previous Annual Meetings, lest anyone be concerned that under my stewardship that there will be any change to our focus and our commitment to maximise securityholder value, let me again repeat our priorities for ALE. These are to:

- Deliver predictable and growing distributions;
- Review our portfolio to ensure properties are well-maintained and, to the extent we are able, ensure value is maintained or enhanced;
- Maintain our costs below those of our peers;

- Ensure a sustainable capital management position with an efficient and cost effective debt structure;
- Tightly manage risk to preserve value for all stapled securityholders;
- Undertake property acquisitions or divestments where it is value-accretive to do so; and
- Adopt and execute best practice in all regulatory and compliance matters to ensure all our obligations under the law, ASX rules and regulatory and property lease obligations are fully met.

Market

Turning now to ALE's market environment. Australian long term government bond rates, after falling for the past 10 years, have started to increase moderately but still remain well below long-term historical levels. The last financial year saw ALE generate a positive total return of 7.5% which again outperformed the UBS S&P AREIT index which recorded a negative total return of 5.6%.

While there has been a significant volume of transactions in 'going concern' hotels during the year, we have noted a continuing low level of freehold-only pub property transactions, as existing owners elect to retain what continues to be an investment class in high demand. These conditions of limited supply and strong investor demand are consistent with the increasing valuation of ALE's properties during the year. In a world unfortunately dominated by negative headlines about North Korea, Trump tweets, Brexit, terrorism and on and on we still have every reason to think that quality Australian pub assets will continue to be a highly sought after, low risk, safe haven, asset class.

Notwithstanding this low level of market activity, ALE has remained alert to acquisition opportunities that would enhance securityholder value but we continue to be disciplined in our assessment.

Review of ALE's 2017 Year

Turning now to the results for the 2017 financial year. While Andrew will provide more detail in his presentation I would like to briefly call out a number of highlights. Firstly to point to a material increase in the value of ALE's properties to more than A\$1.0 billion driven mostly by further compression in capitalisation rates. This

reduction in cap rates was against the backdrop of the increase in Australian long term government bond rates during the year, a growing recognition of the future market rent prospects and, as we have said already, strong market evidence of high demand for quality metropolitan pub assets.

In March this year ALE completed a refinancing in the Australian Corporate Bond market at a very competitive rate. Since that time credit market pricing or margins have been stable but we believe that through our early refinancing, ALE achieved a better outcome than would have been the case had we waited until closer to the scheduled maturity in August this year.

Consistent with our guidance and importantly for our securityholders there was an increase in distributions for the 2017 year to 20.4 cents per security, approximating the increase in CPI for the year. The distributions last year were again 100% tax deferred.

As we have done in prior years, in FY17 the Board inspected and met the management of a number of our interstate properties in both Brisbane and the Gold Coast. As part of these site visits we also received presentations on the outlook for development opportunities across a small number of our properties.

In addition, since joining the Board, I have also inspected a large number of ALE's properties in each of the five mainland capital cities. I am very encouraged by the general quality of the locations, the range and quality of entertainment offerings and in some cases their development potential. I was greatly impressed by the professionalism of the management who showed me around each of the venues.

ALH, as the tenant at each of our properties, continues to perform strongly and this year has again committed material development expenditure across the portfolio. ALE continues to work actively and constructively with ALH to explore ways in which we may be able to enhance our relationship to our mutual benefit and further protect and increase the value of both ALE's portfolio and ALH's business. Building on the relationship with the Board and management of ALH is a key objective of mine in coming into the role of Chairman.

We are partners with ALH until at least 2028 and I note that ALH has four options of 10 years to extend the leases. This is a good reason for ALE to have the strongest possible commercial relationship with ALH. We are also conscious that ALE's properties are strategically important to the operations of ALH and its major shareholder Woolworths.

ALE has a small, dedicated and effective management team which works effectively with the Board to implement ALE's consistent, long term strategy. On behalf of the Board and all our stakeholders, I thank the management team, ably led by our CEO Andrew Wilkinson, for its dedication and commitment in the past year.

I also express thanks to David Lawler, and to Graeme MacLaren, for the skill, experience, independence and diligence they each bring to their respective roles.

ALE's Capital Structure

Turning now to ALE's capital structure.

ALE's capital structure remains sound. This was evidenced by a steady reduction in gearing and the maintenance of our investment grade credit rating. Gearing is now at an historic low, providing us with significant financial flexibility and our market capitalisation has again increased this year.

Following the refinancing this year, ALE's debt maturities remain evenly spread with the next maturity not until 2020 and interest rates are hedged for an extended period.

ALE's Outlook

ALE is well-advanced in preparations for the November 2018 market rent reviews and we look forward to working with ALH toward the completion of that process.

We continue to be positive about the likely outcome, and while it is too early to be definitive, we expect that a combination of continuing increases in ALH's operating profitability and the ongoing development of the properties provides a solid foundation for a positive market rent outlook across a large number of ALE's properties. Whilst the gap between our current rental income and the current estimated fair market rent of our properties is not spread evenly across the portfolio we expect that a significant proportion of the 74 properties subject to the November 2018 rent review process will increase by the full and capped 10% increase.

As the reviewed rents are dependent on factors that will emerge over the next 12 months we are presently not in a position to provide more specific rent or earnings guidance to the market.

In addition, given the profitability of each of the individual properties and the continued significant difference between passing and market rent across the properties in totality, we also continue to remain very positive about the open market rent reviews due in 2028.

It is expected that ALE's future distributions will continue to grow at least in line with increases in the CPI although beyond FY18 we do not expect that they will continue to be 100% tax deferred. As previously announced, the Board will also give consideration to our distribution policy or other capital management initiatives following the conclusion of the 2018 rent review process and its implications for the uncapped 2028 review.

This distribution guidance assumes that the existing property holdings, hedging and capital structure remains unchanged and will, of course, be reviewed regularly in light of the then prevailing circumstances.

Closing Remarks

In closing, I again thank my fellow directors and all of our management team for their dedication and hard work during the year.

I also thank you, our Securityholders, for your continuing support and constructive engagement this past year. Your long standing support for ALE is important and very much valued by the Board.

Robert Mactier

Chairman

31 October 2017