



Australian Leisure and Entertainment Property Management Limited

ALE PROPERTY GROUP

ANNUAL GENERAL MEETING 2018

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 FY18 and on our outlook for the current financial year.

2018 Highlights

I will let Andrew talk in more detail about the 2018 results but in brief:

- The distributable profit of \$29 million for the past financial year was in line with expectations.
- The full year distribution was in line with guidance at 20.8 cents per security, representing an increase of 2% on the previous year. The distribution was 100% tax deferred.
- The Directors' valuations of 86 properties increased by 5% to more than \$1.13 billion.
- ALE's capital position remains strong with gearing at historic lows. Debt maturities are diversified and long-term hedging is in place.

2018 Rent Review Update

Turning now to the 2018 rent review process. I will make some limited comments but I do not intend to elaborate further as the rent review process is currently underway with our tenant ALH.

ALE has received annual property rent increases based on CPI over the past 14 years.

A contractual rent review for 80 of ALE's 86 properties is now required under the lease whereby rents of these properties will increase or decrease by up to 10%. Two of these 80 properties' rents were agreed in advance at an increase of 10%. 78 properties' rents are currently being negotiated. The remaining six properties have rent reviews in future periods.

ALE has committed extensive time and resources to ensuring that we are well positioned for the rent review process. Suffice to say that the process and methodology for agreeing the required rent review is being tested for the first time since the leases were entered into 15 years ago.

ALE has issued rent notices to ALH advising of our position that the rent on all of those 78 properties should increase by 10%. Although we also acknowledge our public comments that the final negotiated or determined outcome may result in not all of the properties rents increasing by the full 10%. We further remind you of the fact that across the portfolio the extent of the under renting is not uniform and hence the final outcome of this rent review process may not be indicative of the likely outcome of the uncapped rent review that is contractually required in 2028.

As announced on 3 September 2018, ALE received acceptance notices from ALH for approximately half of the properties confirming that the rent will increase by 10%. At the same time there are disputes with ALH with respect to the balance of the rent notices. It is apparent from ALH's response to our rent review notices that ALH either has made an ambit claim or has a fundamentally different view of how some clauses in our lease agreements should be interpreted. We have undertaken significant work with our legal, accounting and hotel valuation advisers in relation to these matters. We will vigorously prosecute our position in negotiations with ALH and, should it be required, through the formal determination process that is set out in the leases.

Given the volume of the disputed rents, the timing of the determinations and the final rent review outcomes are uncertain. The results of the determinations will however be operative from 4 November 2018 under the terms of the leases.

ALE maintains the outlook that the current rent review process will be a positive indicator for the more significant uncapped rent review in 2028. At this date, the full value of the rental streams of our 86 freehold pubs will be unlocked for the benefit of ALE's securityholders.

Corporate Governance

There have been two changes to the board this calendar year.

We welcomed Michael Triguboff as a non-executive director in February 2018. Michael is a nominee director of Caledonia (Private) Investments, ALE's largest securityholder. He has brought fresh perspective to the Board and his contribution is very much appreciated.

James McNally retired in August 2018 having served as a Director since 2003 when ALE was first listed on the Australian Securities Exchange. I would like to reiterate the Board's and management team's thanks to James for his long standing service and the very positive contribution that he made during his time on the Board. We wish him well.

FY19 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 tax 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 ALE's distribution 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.

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

13 November 2018