ALE PROPERTY GROUP

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 2.52% for the half year to 31 December 2016 and forecasts an increase in full year distributions.

- Distributable profit of $15.1 million (1H16: $14.8 million)
- Net profit after tax of $45.5 million includes increments to investment property and derivative values
- Half year distribution of 10.15 cents per security
  - increase of 2.52% on previous December half year
  - 100% tax deferred
  - funded from current year distributable profits and capital (cash reserves)
- Weighted average capitalisation rate unchanged at 5.53%
- Directors' valuation of 86 properties increased by 1.41% to $1,004.5 million
- Capital position remains strong
  - debt maturity dates diversified across next 6.9 years
  - all up cash interest rate currently fixed at 4.35% p.a.
  - base interest rates hedged for next 8.9 years on 100% of debt
  - gearing of 44.7% provides significant headroom
- Distribution guidance progressively restores gearing to target range
  - FY17 distribution of at least 20.40 cps (up from FY16 of 20.00 cps)
  - expect full year distribution to be 100% tax deferred
  - aim to increase subsequent annual distributions by CPI
  - consideration being given to enhanced distribution profile and / or further capital management initiatives following completion of 2018 market review
- ALE ranked 2nd of 43 A-REIT's in survey for FY16 by BDO
- 2003 investment of $1.00 in ALE has a current accumulated value of $12.68 or an annual total return of 21.3% p.a.

Results for Half Year Ending 31 December 2016

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

Millions	Dec 16	Dec 15	Change
Revenue from Properties	**$28.4**	$28.0	$0.4
Other revenue	**$0.4**	$0.5	($0.1)
Borrowing expense	**$10.3**	$10.3	-
Management expense	**$2.3**	$2.3	-
Land tax expense	**$1.1**	$1.1	-
Distributable Profit [1]	**$15.1**	$14.8	$0.3
Distributable Profit (cps)	**7.70c**	7.58c	0.12c
Distribution (cps)	**10.15c**	9.90c	0.25c

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.

Accounting Result

ALE's reported net profit after tax (NPAT) of $45.5 million for the half year to 31 December 2016 includes non-cash adjustments for the increments to 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]

Distributable Profit

The following factors enabled ALE to deliver an increased distributable profit of $15.1 million for the half year to December 2016.

Property income increased due to the annual CPI based rental escalations. Borrowing expenses remained constant due to the fixed interest rates applicable to 100% of ALE's borrowings. Management expenses were in line with the prior period and ALE's management expense ratio remains one of the lowest in the AREIT sector.

The distribution of 10.15 cents per security will be 100% tax deferred.

Statutory Property Valuations

As announced on 6 December 2016, the directors revalued the property portfolio to $1,004.5 million as at 31 December 2016. This is an increase of $13.9 million over the 30 June 2016 valuation and is substantially attributable to the CPI increase arising from the rental reviews of 81 of the properties since 30 June 2016. Rent for ALE's other five properties will be reviewed in the second half of the financial year.

The Directors' December 2016 revaluations are supported by independent advice from CBRE and Herron Todd White (HTW) that it would be reasonable for the Directors of ALE to maintain the adopted capitalisation rates applicable as at 30 June 2016 for the 86 properties. The 30 June 2016 capitalisation rates were a combination of the application of both the traditional capitalisation rate and the discounted cash flow methodologies but with an emphasis on the traditional capitalisation rate approach.

It was noted by both valuers that there continues to be significant demand across all classes of investment grade commercial property, particularly for properties with individual property values similar to those owned by ALE.

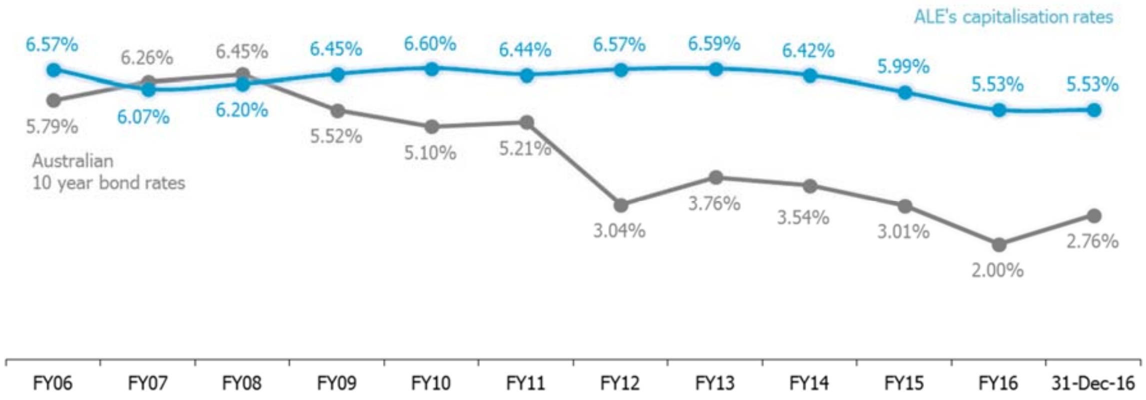
The Board did not have the individual properties revalued independently as at 31 December 2016. The next round of independent valuations will be undertaken as at 30 June 2017. All valuations excluded any portfolio premium or discount.

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 number of successful objections by ALE.

Over and above the existing portfolio, ALE continued to evaluate a range of investment opportunities with the appropriate level of discipline required by the ALE Board in the current market.

Capitalisation Rates and Long Term Bond Rates

Over the 10 years to December 2016, long term bond rates have fallen by around 300 basis points compared to ALE's capitalisation rates which fell by around 100 basis points. Bond rates have increased slightly since 31 December 2016 but ALE's capitalisation rates currently exceed long term real bond rates by around 475 basis points.



The current spread between ALE's capitalisation rates and Australian Government bond rates of around 2.8% remains at a high level.

Other Property Matters

ALE continues to work constructively with ALH toward agreeing a range of developments that are potentially value enhancing for the properties.

ALH expects to shortly complete the full redevelopment of the Anglers Arms Hotel in Southport, on the Gold Coast. A Dan Murphy's store was opened there in November 2016 and the newly reconstructed hotel will be reopened next month. ALH's total capital expenditure at the property will be around $8 million.

Over the past 13 years ALH has funded and constructed at least 30,000 square metres of additional improvements on ALE's properties as well as a large number of refurbishments within the existing buildings.

ALE's Unique and Favourable Lease Arrangements

ALE reminds investors of the strength of the properties 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 of around 12 years to November 2028;
- Near term market rent reviews - next in late 2018 for 79 of the 86 properties, each capped and collared at 10%;
- Capital expenditure – the significant amounts of capital expenditure funded by ALH are expected to have a positive impact on both ALH's operating profitability and ALE's market rent prospects at the properties;

- Change of control protections – a change in more than 20% of the ownership of ALH requires ALE's consent based on its reasonable opinion that ALH will continue to have the financial capacity, business skills, other resources and authorisations to enable it to conduct the permitted operating uses profitably and perform all of its the lease obligations (an exception applies if ALH becomes an ASX listed entity);

- 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 12 years, as ALH is not released on assignment; and

- Operating profit protections - subject to regulatory changes and requirements, ALH has agreed that it will not reduce the number of gaming entitlements below 90% of the current numbers across ALE's properties.

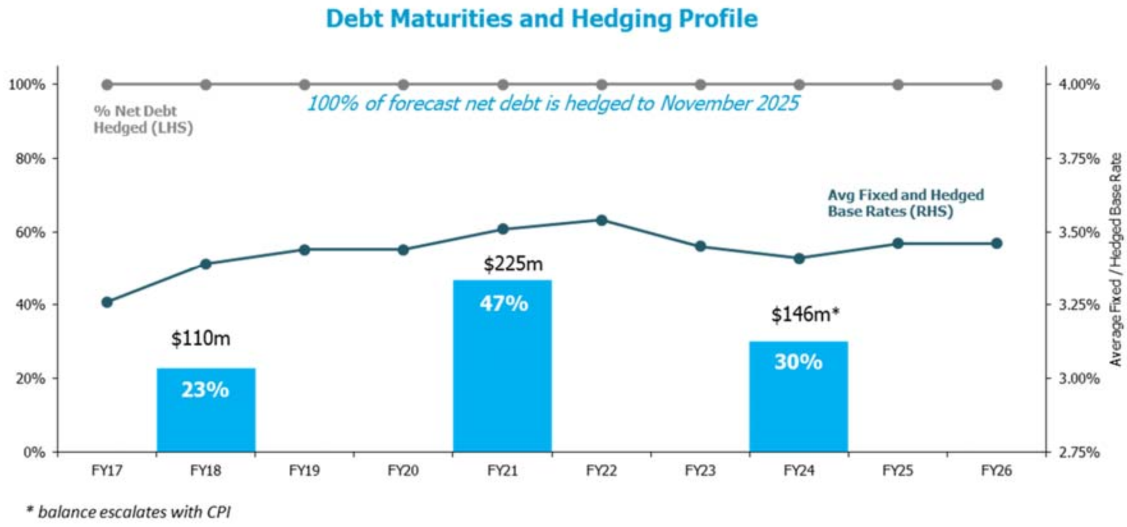
It is notable that other ALH leases available to investors in the pub property market may not enjoy the benefit of all the above positive terms.

Capital Management

ALE's capital position remains strong. This was evidenced by a steady reduction in gearing over the last three years and the maintenance of an investment grade credit rating. Gearing is now at an historic low of less than 45%.

ALE's next debt maturity of $110 million will occur in August 2017. ALE is already well advanced in preparations for this refinancing with a range of options available. Key debt market participants have continued to provide ALE with positive encouragement to issue in both the domestic and offshore capital markets.

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), with debt maturities diversified across the next one, four and seven years.



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

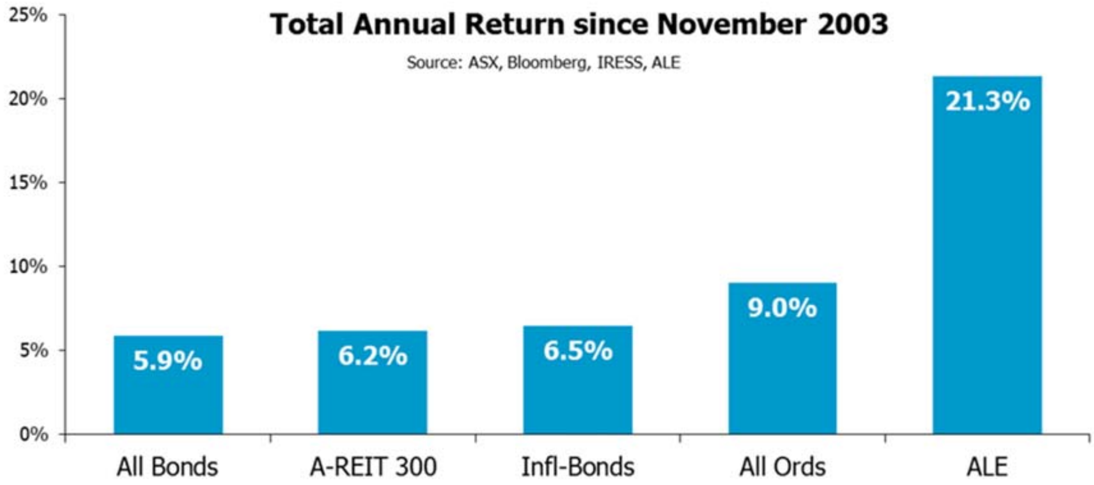
ALE's debt capital structure continues to be characterised by the following positive features:

- Debt structure with two types of fixed rate bonds
- Investment grade credit rating of Baa2 (stable)
- Maturity dates that are diversified over the next 6.9 years
- 100% of net debt hedged at low rates – extended to 8.9 years
- All up cash interest rate currently fixed at 4.35% p.a.
- Lower gearing remains below target range at 44.7% (44.9% at June 2016)

Finally, the AMTN issue includes a number of market standard covenants, to which ALE currently enjoys significant headroom. The total value of ALE's properties would need to fall in value by around 25% or $250 million to reach the nearest covenant.

ALE's Performance

The value of ALE securityholders' $1.00 investment at the time of ALE's listing nearly 13 years ago, with reinvested distributions, grew to $12.68[2] as at 3 January 2017. This has delivered a total return to securityholders of 21.3% p.a. over that period. As indicated by the chart below, ALE has outperformed a number of different investment classes including AREITs.



ALE's total returns over the past one, three and five years to 31 December 2016 were 14.1%, 19.9% and 22.4% p.a. respectively. Over each of these time periods ALE has outperformed both Australia's real estate investment trust sector and the wider equity market benchmarks.

Distribution Payment and DRP

The distribution of 10.15 cents per stapled security will be paid on 6 March 2017 to holders on ALE's register as at 5.00pm on 30 December 2016. The half year distribution is 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 Board decision to reinstate the DRP.

FY17 Outlook

ALE continues to anticipate a positive outlook for future market rent increases based on the significant under renting currently inherent in the portfolio. This view has been reinforced by the valuers' partial use of the DCF methodology in determining the June 2016 valuations. The valuers advise that the DCF method will receive greater emphasis as the market rent review dates draw closer.

ALE is increasingly engaging with ALH in identifying opportunities to monetise or develop underutilised parts of around 970,000 square metres (approximately) of total land area to further to enhance portfolio returns. The market will be informed when any agreements are reached.

The Board's full year distribution guidance of 20.40 cents per security is in line with the objective of maintaining the level of gearing over time and recognising the significant under renting inherent in the portfolio. Accordingly, it is expected that the level of distributions in future years will be maintained and continue to grow at least in line with increases in the CPI. The full year distribution is expected to be 100% tax deferred.

In addition, as the Board has previously advised that it will seek to move gearing back to the target range of 50% and 55% following completion of the 2018 rent reviews and would consider an enhanced distribution profile and/or capital management initiatives to achieve that outcome.

In a market where lower interest rates and strong equity prices prevail, ALE will continue to assess potential disposals and acquisitions that align with both our disciplined capital management strategy and previously announced investment criteria. Even if these opportunities are not available, ALE will continue to engage constructively with ALH to, wherever possible, maintain and potentially enhance the existing portfolio of properties profitability levels through further development.

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

- 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 $4.21 at 31 December 2016 plus reinvestment of all distributions and renunciation payments since ALE's 2003 listing.

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