ASX ANNOUNCEMENT

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The Manager
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Half Year Results to 31 December 2017

ALE Property Group (ASX: LEP), the owner of Australia's largest portfolio of freehold pub properties, increased distributions by 1.97% for the half year to 31 December 2017 and forecasts an increase in full year distributions.

Highlights:

- Distribution of 10.35 cents per security, up 1.97% on the previous corresponding period (pcp), and 100% tax deferred
- Distributable profit of $14.6 million, down from $15.1 million on pcp
- Net profit after tax of $29.7 million includes movements in investment property and derivative values
- Weighted average capitalisation rate unchanged at 5.14%
- Directors' valuation of 86 properties increased by 1.88% to $1,100.5 million
- Capital structure remains strong with gearing at historical low of 41.7%
- FY18 distribution guidance of at least 20.80 cps, expect FY18 distribution to be 100% tax deferred and up from FY17 of 20.40 cps
- Potential for enhanced distributions and/or capital management initiatives following 2018 market rent review
- 2003 investment of $1.00 in ALE has a current accumulated value of $15.62 or an annualised total return of 21.5%. Over the past three years the annualised total return was 18.0%
- For the second year running, ALE was ranked second of 43 AREITs in the annual BDO survey (FY17).

Results for Half Year Ending 31 December 2017

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

Millions	Dec 17	Dec 16	Change
Revenue from Properties	**$28.9**	$28.4	$0.5
Other revenue	**$0.5**	$0.4	$0.1
Borrowing expense	**$11.1**	$10.3	($0.8)
Management expense	**$2.6**	$2.3	($0.3)
Land tax expense	**$1.2**	$1.1	($0.1)
Distributable Profit [1]	**$14.6**	$15.1	($0.5)
Distributable Profit (cps)	**7.48c**	7.70c	(0.22c)
Distribution (cps)	**10.35c**	10.15c	0.20c

Rounding differences may arise

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 $29.7 million for the half year to 31 December 2017 includes non-cash adjustments for movements 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]

Distributable Profit

The following factors resulted in a lower distributable profit of $14.6 million for the half year:

- Increased cash finance costs due to higher debt levels at lower interest rates. Higher debt levels are being used to fund higher distributions;

- Increased management costs associated with market rent review preparations;

- Rental income increased by 1.7% due a November 2016 rent review of 1.4% and a November 2017 rent review of 1.9%; and

- Higher cash balances following the March 2017 refinancing resulted in increased interest income.

The distribution of 10.35 cents per security will be 100% tax deferred.

Statutory Property Valuations

As announced on 12 December 2017, the directors revalued the property portfolio to $1,100.5 million as at 31 December 2017. This is an increase of $20.4 million over the 30 June 2017 valuation and is substantially attributable to the CPI increase arising from the rental reviews of 81 of the properties since 30 June 2017. Rent for ALE's other five properties will be reviewed in the second half of the financial year.

The Directors' December 2017 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 2017 for the 86 properties. The 30 June 2017 adopted 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 2017. The next round of independent valuations will be undertaken as at 30 June 2018. 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 increased marginally.

Market Rent Reviews and Lease Extensions

Rents are expected to take a small step increase towards market levels at November 2018 as the market rent reviews for each property are capped and collared within 10% of the 2017 rent. Rents are expected to take a much larger step increase at 2028 as the rent for each property is able to fully revert to market levels. Individual hotels' outlook, their EBITDAR results in the years leading up to reviews and market rent parameters will be important to market rent review outcomes.

Of the 86 properties ALE owns, the significant majority (76) are subject to standard triple net leases with their next market rent review dates in November 2018. For two of those 76 properties a rent increase of 10% has already been agreed. Details for the other 10 standard and non-standard leases are listed in the table below:

Hotel	Next Rent Review Date	Rent* ($m)	Next Renewal Date	Renewal Term (Years)	Lease Type, Review and Renewal Details **
Balmoral, WA	Feb 2018	0.48	Feb 2023	5	2018 renewal agreed by ALH. CPI increase to apply
Berwick, VIC	Jun 2018	1.20	Jun 2028	10	Standard lease
Camp Hill, QLD	Nov 2018	0.30	Nov 2028	10	Standard lease. 10% increase already agreed
Gepps Cross, SA	Nov 2018	0.30	Nov 2028	10	Standard lease. 10% increase already agreed
74 Hotels	Nov 2018	49.96	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	0.70	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%
Burleigh Heads, QLD	Nov 2023	0.78	Nov 2033	10	Standard lease
Narrabeen Sands, NSW	Jun 2024	0.80	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		**58.42**			

* December 2017 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 10% from preceding year's rent. The first of four 10 year options for ALH to renew are between 2028 and 2034. The three non-standard leases relate to Balmoral, Brass Monkey and Pritchard's.

Pub Property Developments

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.

Two more 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

Significant Land Holdings

ALE currently owns 954,247 square metres of land across 86 properties and has a current average book value of $1,150 per square metre of land. The book values also include value of building improvements and long term / high quality leases at each of the properties. On average 25% of the properties' land is occupied by pub and retail liquor buildings with the balance covering car parking and vacant land.

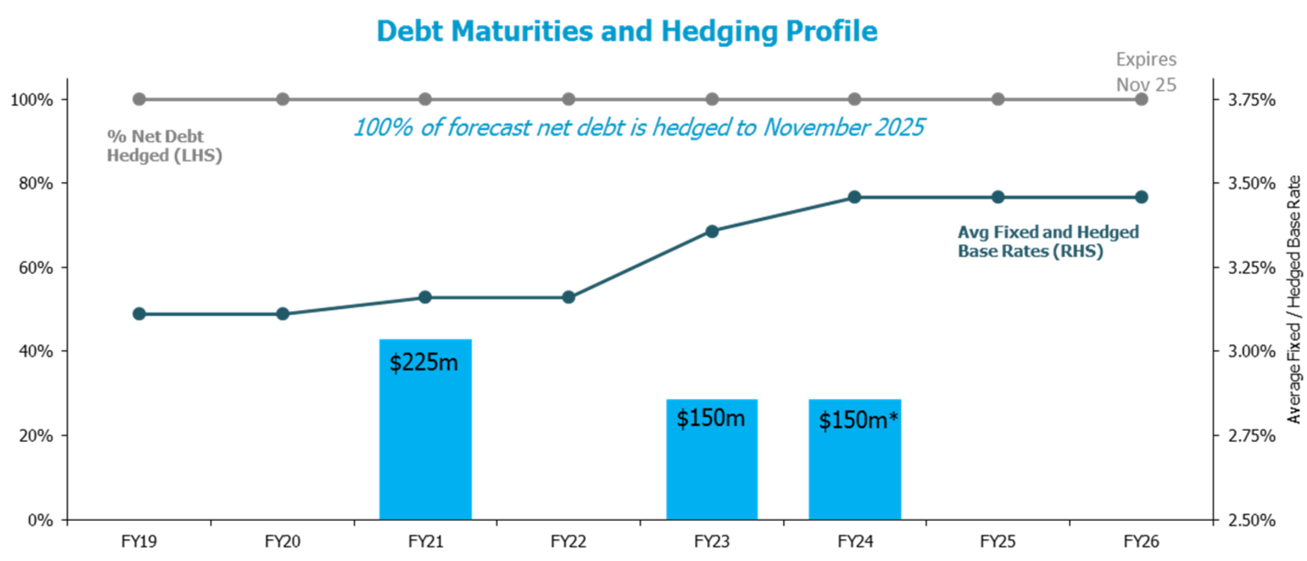
Opportunities exist to continue to develop and expand the improvements at a number of the properties by applying complementary higher and better use strategies to vacant land and existing buildings. Such opportunities are considered jointly by ALE and ALH.

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.

ALE's next scheduled debt maturity of $225 million is in August 2020.

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 six years.



* *balance escalates with CPI*

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

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

- Investment grade credit rating of Baa2 (stable)
- Debt maturity that are diversified over the next 5.9 years
- 100% of forecast net debt hedged at low rates over the next 7.9 years
- All up cash interest rate of 4.26% p.a. fixed until August 2020 maturity
- Gearing at historical low of 41.7% (42.7% at June 2017)
- Interest cover ratio is well above covenant levels at 2.6 times.

The total value of ALE's properties would need to fall in value by around 31% or $345 million before meeting the nearest covenant.

ALE's Performance

The value of ALE securityholders' $1.00 investment at the time of ALE's listing around 14 years ago, with reinvested distributions, grew to $15.62[2] as at 31 December 2017. This has delivered an annualised total return to securityholders of 21.5% over that period.

ALE has outperformed both Australia's real estate investment trust sector and the wider equity market benchmarks over each of the past one, three, five, ten and 14 years to 31 December 2017. For the past three years to 31 December 2017 the annualised total return has been 18.0%.

Distribution Payment

The distribution of 10.35 cents per stapled security will be paid on 5 March 2018 to holders on ALE's register as at 5.00pm on 29 December 2017. The half year distribution will be 100% tax deferred.

FY18 Outlook

Over the past 14 years ALH has funded and constructed at least 30,000 square metres of additional buildings on ALE's properties. More than 90% of the one square kilometre (approximately) of land owned by ALE is located in Australian capitals and major cities. ALE and ALH continue to explore opportunities to work together on redevelopment of underutilised properties for mutual benefit.

Preparations for the November 2018 rent reviews for 76 of the properties are well underway. Each hotel's earnings outlook, past earnings results and applicable market rent parameters will be important to the outcomes. On current EBITDAR results, ALE is on strong grounds for a positive outcome for the rent reviews. Given the uneven spread of the difference between market and current rent across the portfolio, we do not expect that all 76 individual hotels will receive the full 10% rental uplift.

For FY18, ALE's Board has affirmed guidance that distributions are expected to continue to grow at least in line with CPI and are expected to be 100% tax deferred.

Following the completion of the 2018 market rent reviews, there is potential for enhanced distributions and/or capital management initiatives. It is expected that the FY19 distributions will be partly tax deferred.

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 $4.85 at 31 December 2017 plus reinvestment of all distributions and renunciation payments since ALE's 2003 listing.

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