ALE Property Group

31 December 2016 Half Year Results

ALE PROPERTY GROUP

Crows Nest Hotel, Sydney, NSW

Contents

ALE Property Group

Growing Securityholder Value – Consistently

High quality properties

- Growing, long term and secure income
- Positive prospects for market rent reviews
- Low site utilisation

Strong and cost effective governance

- Experienced Board and management team
- Internal management structure
- One of lowest management expense ratios in sector

Low risk capital structure

- Investment grade credit rating
- Low risk capital structure
- Long term funding and hedging

FY17 outlook

- Increasing distributions
- Distributions expected to be fully tax deferred

Group Highlights

Half Year to 31 December 2016

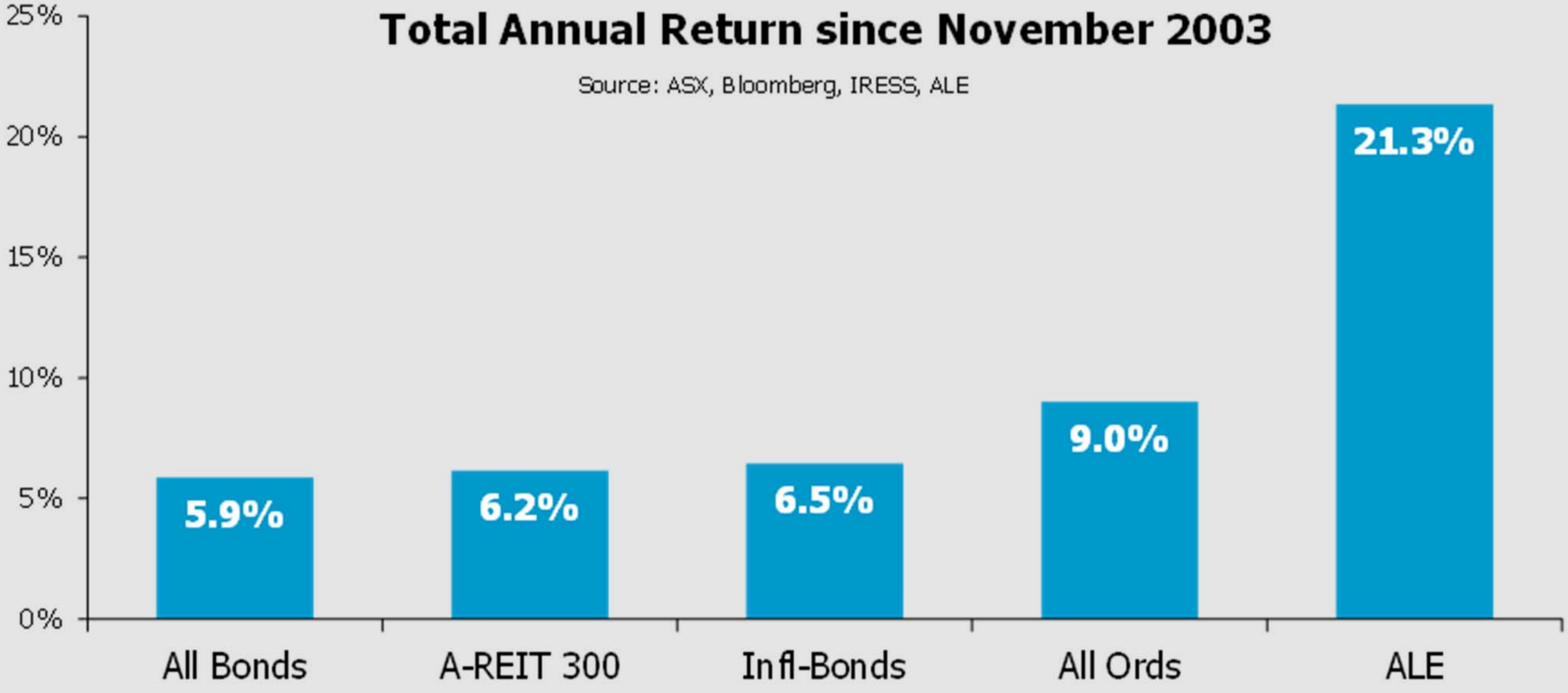
Portfolio Performance	Capital Management	Equity Performance
$1,004.5m Statutory property values	**44.7%** Net gearing	**$15.1m** Distributable profit
5.53% Average capitalisation rate	**3.9 years** Average debt maturity	**10.15 cps** Distribution
11.8 years Average Lease Term	**8.9 years** Hedge maturity	**100%** Distribution tax deferred
1.5% Rental income growth	**4.35%** All up cash interest rate	**14.1% p.a.** One year total return
100% Occupancy	**Baa2** Investment grade rating	**21.3% p.a.** Total return since IPO

Capitalisation rates, lease terms, interest rates, maturity terms and rental growth rates are all weighted averages

Specific definitions are on other pages or in the statutory accounts. Results are for the half year ending or as at 31 December 2016

ALE's 13 Years of Equity Performance

Superior Total Returns



1. Includes equity market price of $4.21 as at 31 December 2016 and reinvestment of distributions and 2009 renunciation payment
2. All Ordinaries Accumulation Index
3. BAICO Index - Australian credit inflation-linked securities
4. UBS S&P AREIT 300 Index
5. BAMSTO Index- composite of the Composite Bond, Inflation and Credit FRN indices

Financial Results

Half Year to 31 December 2016

ALE PROPERTY GROUP

The Breakfast Creek Hotel, Brisbane, QLD

Financial Highlights

Half Year to 31 December 2016

Profit Growth

- Distributable profit of **$15.1 million**
- Net profit after tax (IFRS) of $45.5 million

Growing Distributions

- 1H Distribution of **10.15 cps**
- Up 2.52% on previous corresponding period (pcp)
- In line with guidance
- Expected to be 100% tax deferred
- Funded from current distributable profits, capital and cash reserves

Sound capital position

- Gearing down to 44.7% provides significant headroom
- Gearing below medium term target of 50% to 55%
- Debt maturities diversified across next 6.9 years
- Base interest rates fully hedged for next 8.9 years
- All up cash rate currently fixed at 4.35% p.a.
- Advanced plans for refinancing Aug 2017 debt maturity

Outperforming

- 2003 IPO investment in ALE of $1.00
- Current accumulated value of $12.68
- ALE ranked 2nd of 43 AREITs in FY16 survey by BDO

Property Highlights

Half Year to 31 December 2016

Property revenue of **$28.4m**

- Up $0.4m or 1.41%
- Driven by annual CPI rent increases

Property valuations **$1,004.5m**

- Increased by 1.41%
- Average capitalisation rate unchanged at 5.53%
- At June 2016 the independent valuers gave more emphasis to discount cash flow methodology (DCF)
- June 2016 independent DCF valuations of 31 properties equivalent to a 4.79% cap rate
- Weighted average lease expiry of 11.8 years
- Transaction pricing market remains very strong with significant volumes of both pub properties and pub businesses

Value outlook supported by

- High quality tenant and leases
- Continuing capital expenditure by ALH contributing to ALH's earnings at properties
- 2018 '10% capped and collared' market rent reviews
- Potential for significant rent uplift from 2028 'open' market rent review
- Potential development of under utilised land

Distributable Profit

Half Year to 31 December 2016

Millions	Dec 16	Dec 15	Comments
Revenue from Properties	**$28.4**	$28.0	▪ Driven by annual November CPI based rent increases
Other revenue	**$0.4**	$0.5	▪ Lower interest rates and lower cash balances
Borrowing expense	**$10.3**	$10.3	▪ Interest rates fixed since 2014 refinancing
Management expense	**$2.3**	$2.3	▪ Remains one of lowest expense ratios in sector
Land tax expense	**$1.1**	$1.1	▪ Land tax for QLD properties only
Distributable Profit [1]	**$15.1**	$14.8	
Distributable Profit (cps)	**7.70c**	7.58c	
Distribution (cps)	**10.15c**	9.90c	▪ In line with guidance. 2.45 cps paid from distributable profit and capital (cash reserves)

1. Distributable Profit excludes non-cash accounting items – see full reconciliation to IFRS Net Profit.
2. Rounding differences may arise
3. 195.8 million securities were on issue during both the periods above.

Net Profit (IFRIS) and Distributable Profit

Half Year to 31 December 2016

Millions	Dec 16	Dec 15
Total Revenue	**$28.8**	$28.5
Total Other Income (Fair value increments to investment properties and derivatives)	**$31.3**	$53.0
Total Expenses	**$14.6**	$18.4
Income tax expense	**$(0.0)**	$(0.0)
Net Profit after income tax (IFRS)	**$45.5**	$63.1
Add back non cash items:		
Fair value (increments) to investment properties	**($13.9)**	($53.0)
Fair value increments/decrements to derivatives	**($17.4)**	$3.4
Employee share based payments	**$0.1**	$0.1
Non-cash finance costs	**$0.8**	$1.3
Income tax expense	**$0.0**	$0.0
Distributable Profit	**$15.1**	$14.8

ALE has a policy of paying distributions subject only to an amount not less than the 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 and hence how distributions are determined. 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. Rounding differences may arise in the above table.

ALE's Property Portfolio

High Quality, Well Located and Significant Development Potential

Burvale Hotel, Melbourne, VIC

ALE’s Property Portfolio

ALH Continues To Perform Strongly

Australia’s largest pub operator

- 320+ licensed venues
- 550+ liquor outlets
- 1,800+ short stay rooms

ALE owns 27% of ALH’s operated venues

ALH FY16 Revenue

- $4,106m
- Up 4.0% on pcp

ALH FY16 EBITDAR

- $711m
- 17.3% of revenue

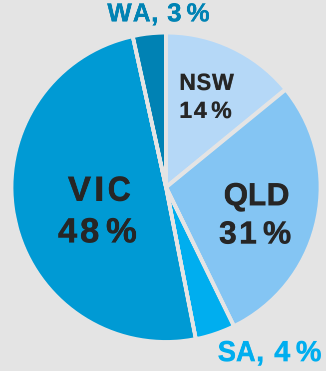
ALE's Property Portfolio

31 December 2016 Valuations

- Valuations increased by **$13.9m** or around 1.41% during the half year
- Average cap rate of **5.53%** remained stable
- Directors valuations as at 31 December 2016 using current passing net rent and June 2016 adopted capitalisation rates
- Valuations substantially exclude positive market rent prospects and significant capex by ALH
- June 2016 statutory valuations partially using discount cash flow methodology (DCF)
- Independent valuers advised that DCF will receive greater emphasis as market rent reviews draw closer
- June 2016 independent DCF valuations of 31 properties provides higher valuations equivalent to a **4.79%** cap rate

Portfolio composition as at 31 December 2016

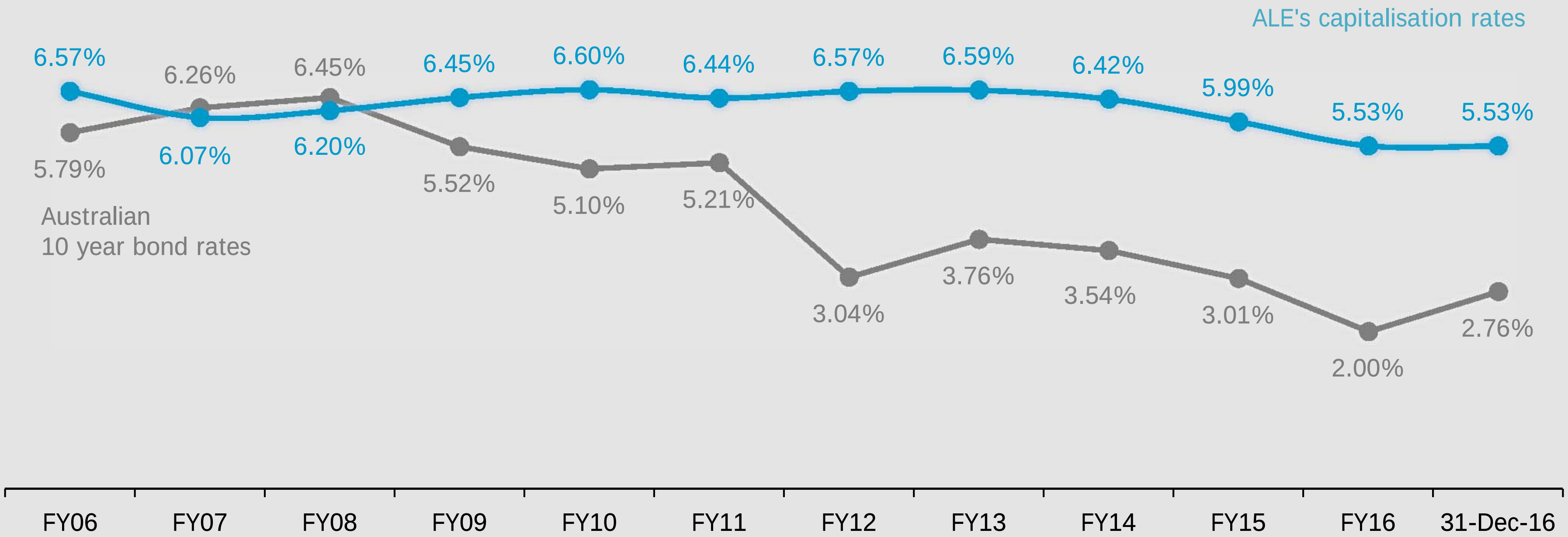
	Properties	Value ($m)	Av. Value ($m)	WACR
NSW	10	141.1	14.1	5.37%
QLD	32	313.8	9.8	5.46%
SA	7	35.4	5.1	5.81%
VIC	33	485.4	14.7	5.54%
WA	4	28.8	7.2	6.47%
Total	**86**	**1,004.5**	**11.7**	**5.53%**



Geographic Diversity

ALE's Property Portfolio

A Material Difference Between Cap Rate and Bond Rates



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

Case Study – Property Development by ALH

Anglers Arms Hotel, Gold Coast, QLD

Before Development

Planned Development

- Located in Southport, Gold Coast next to an existing light rail stop
- Acquired in 2003 for $4.4m at a cap rate of 8.4%
- ALH is investing $8m to completely reconstruct the hotel
- New Dan Murphy's opened November 2016
- New hotel to reopen March 2017
- EBITDAR for ALH expected to benefit significantly, supporting future market rent for ALE
- Fixed 10% rent increase applies on reopening of hotel, with next open market rent review in 2028
- $8.8m December 2016 valuation at 5.7% cap rate (limited recognition of future market rent)

Property Valuation

Three Layers of Value

Value of Income

- 100% of the properties are leased to ALH
- Long term triple net leases with average lease term of 11.8 years plus options
- ALH is Australia's largest pub operator

Value of Opportunities

- ALE owns ~ one square kilometre of land
- More than 90% of that land is located in Australian capitals and major cities
- Average 25% of the land is utilised by buildings
- Exploring opportunities for ALE and ALH to work together for mutual benefit

Value of Growth

- Potential for rental growth at market rent review dates
- Material capital expenditure by ALH over the past 13 years has enhanced EBITDAR which positively enhances market rent review prospects
- 2018 market rent review: may increase or reduce by up to 10%
- 2028 market rent review: may increase or reduce by an unlimited amount

Capital Management

Young & Jackson Hotel, Melbourne VIC

Capital Management

A Sound Debt Capital Structure

Capital management focus

- Managing all aspects of refinancing risk
- Growing distributions to securityholders

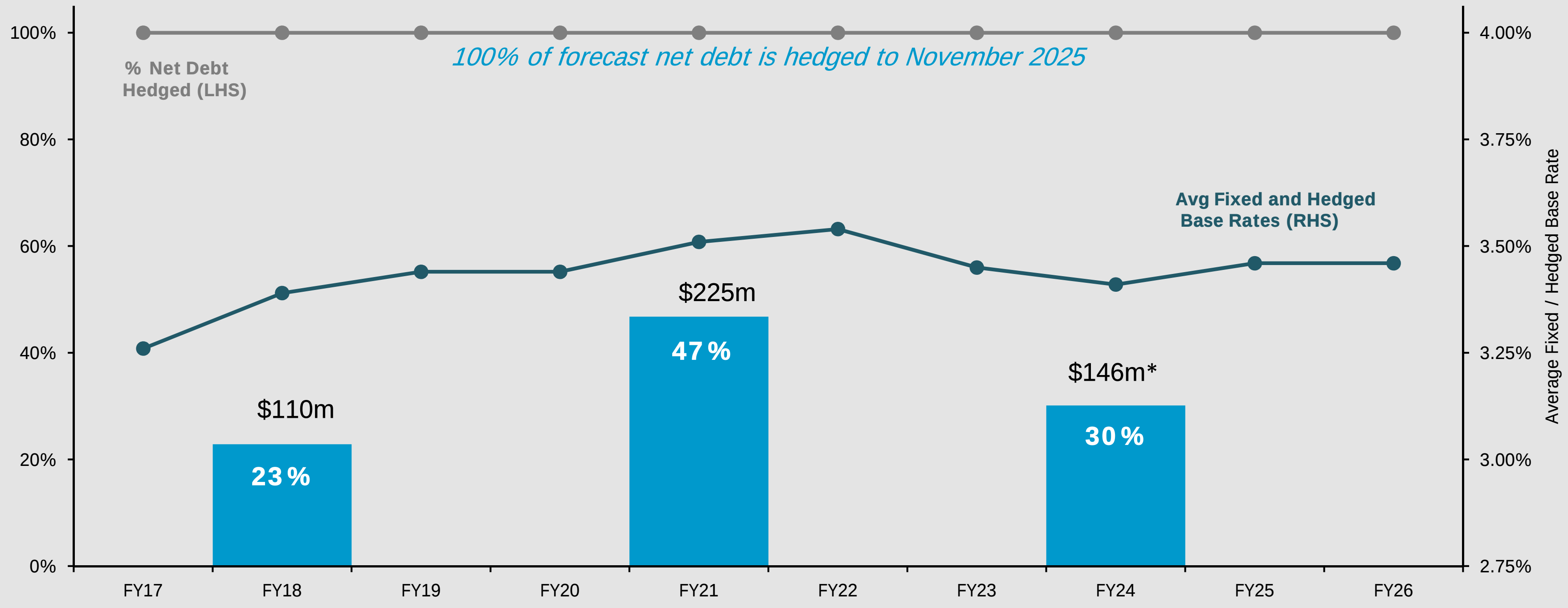
Capital structure with positive features

- Simplified debt capital structure
- Investment grade credit rating of Baa2 (stable)
- Gearing at lowest level of 44.7%. Significant headroom
- Gearing below medium term target of 50% to 55%
- Debt maturities diversified across next 6.9 years
- Base interest rates fully hedged for next 8.9 years
- All up cash rate currently fixed at 4.35% p.a.
- Advanced plans for refinancing Aug 2017 debt maturity

Capital Management

Diversified Debt Maturities And Long Term Hedging

Debt Maturities and Hedging Profile



** balance escalates with CPI*

Note: Base interest rates exclude credit margins

FY17 Outlook and Strategy

ALE PROPERTY GROUP

The Breakfast Creek Hotel, Brisbane, QLD

FY17 Outlook

Certainty Of Earnings With Value Upside

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

- EBITDAR at each property leading up to review date will be important

Rents are expected to take a much larger step increase to market levels at 2028 as rent reviews for each property are not capped

- Interest expense currently fixed at an all up cash rate of 4.35% p.a.
- Base interest rates fully hedged on around 100% of forecast net debt until November 2025
- Refinancing plans for August 2017 debt maturity of $110m are well advanced

- 970,000sm (approx.) of total land area
- Increasing engagement with ALH to identify opportunities to monetise or develop underutilised properties

Actively reviewing acquisition opportunities that meet ALE's disciplined strategy and criteria

- ALE will continue to work constructively with ALH and seek to ensure that existing properties' strong profitability are maintained & potentially enhanced through development

FY17 Outlook

Distribution Guidance

- During FY16 there was consultation with a number of larger and smaller securityholders
- Distributions were increased with the objective of maintaining gearing until the 2018 market rent review
- FY17 guidance of at least 20.40 cps

- Expected that future distributions will continue to grow at least in line with increases in the CPI
- Expected to be 100% tax deferred

- Given the level of under renting, ALE is seeking to move gearing back to a target range of between 50% and 55% following the 2018 market reviews
- ALE will consider an enhanced distribution profile or other capital management initiatives to achieve this outcome

All guidance assumes the existing portfolio, capital structure and hedging continue

ALE’s Current Value Proposition

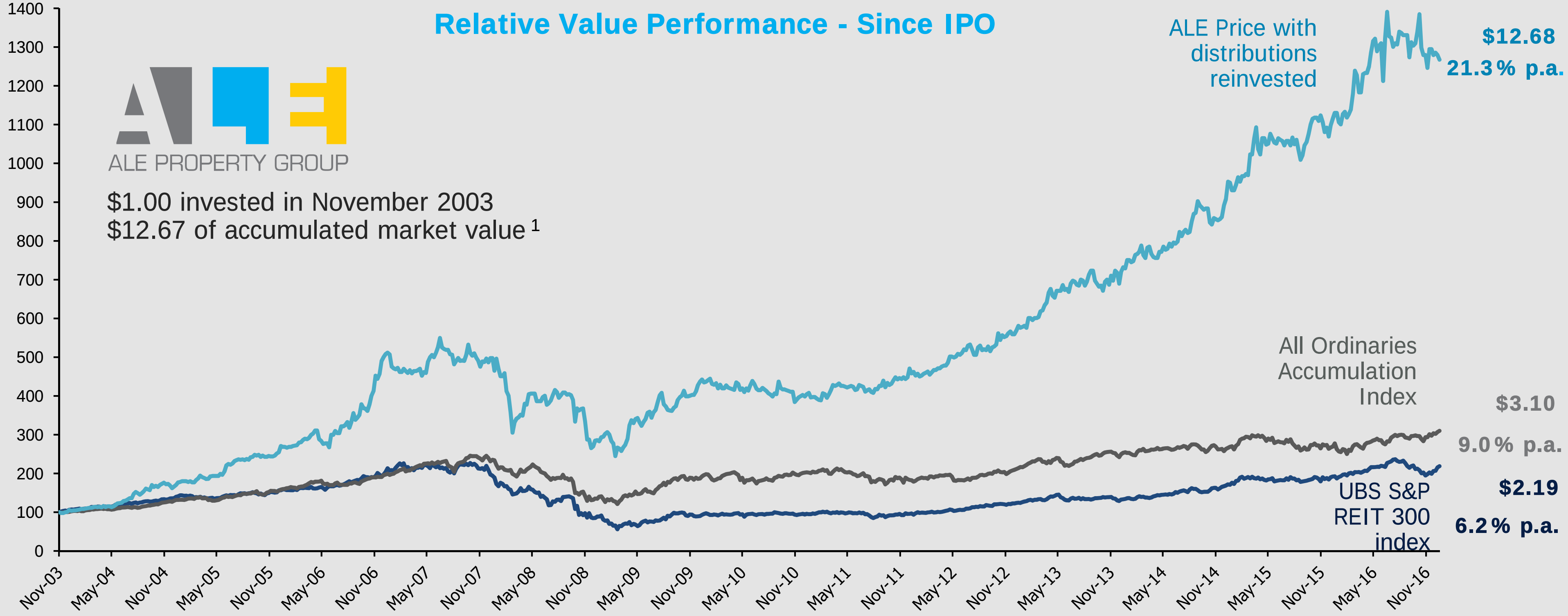
Quality

- **High quality property portfolio** in established locations with geographic diversity
- **Triple net leases** to ALH, Australia’s largest pub operator
- **Long lease terms** averaging around 11.8 years, with annual CPI increases and options providing **secure and stable income and capital growth**
- Portfolio is **substantially under rented,** according to independent valuers, providing **potential upside at the 2018 and 2028 market rent reviews**
- **Opportunities from increased utilisation of the land**
- **Low risk capital structure** with diverse debt maturity dates across next seven years and base interest rates fully hedged for around nine years
- **FY17 distribution yield of at least 4.8%**[1]

1. Based upon a security price of $4.21 as at 31 December 2016 and FY17 distribution of at least 20.40 cps

ALE's 13 Years of Equity Performance

$12.67 of Accumulated Value

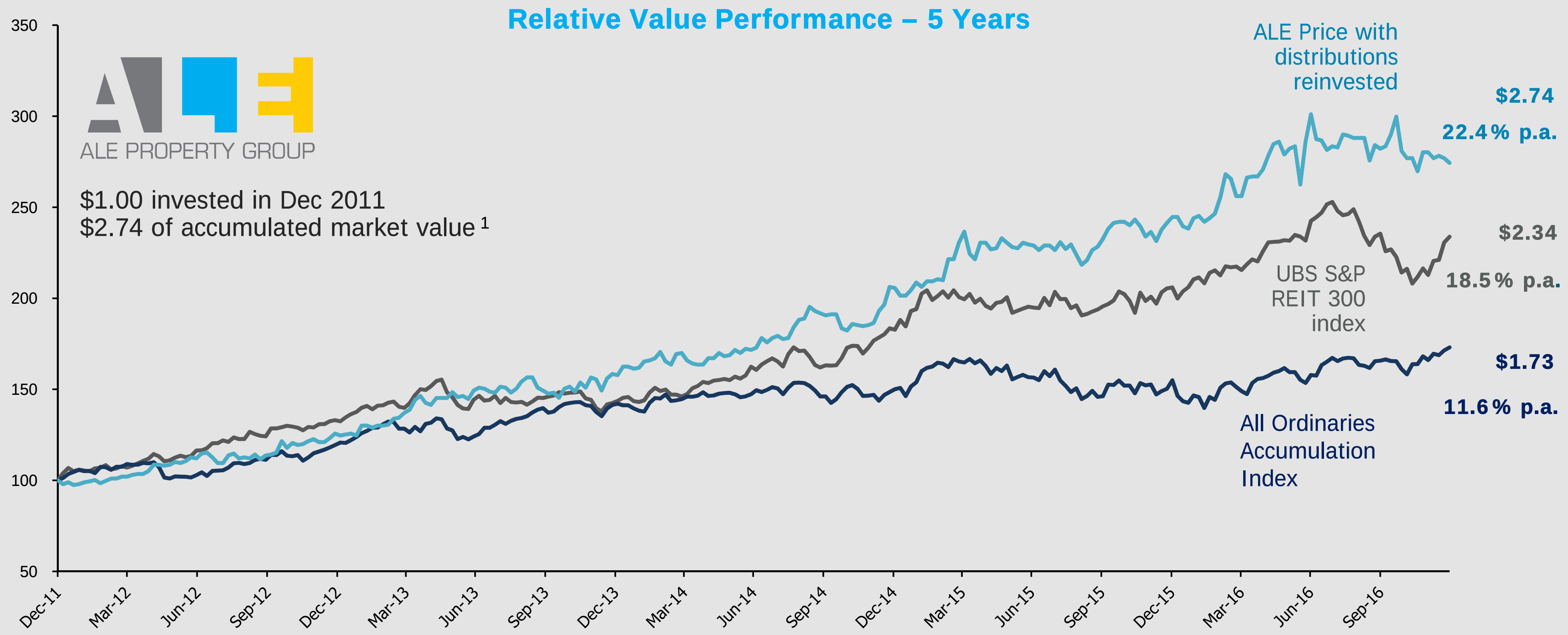


Sources: ASX, IRESS , ALE

1. Includes equity market price of $4.38 as at 3 January 2017 and reinvestment of distributions and 2009 renunciation payment

ALE's Five Years of Equity Performance

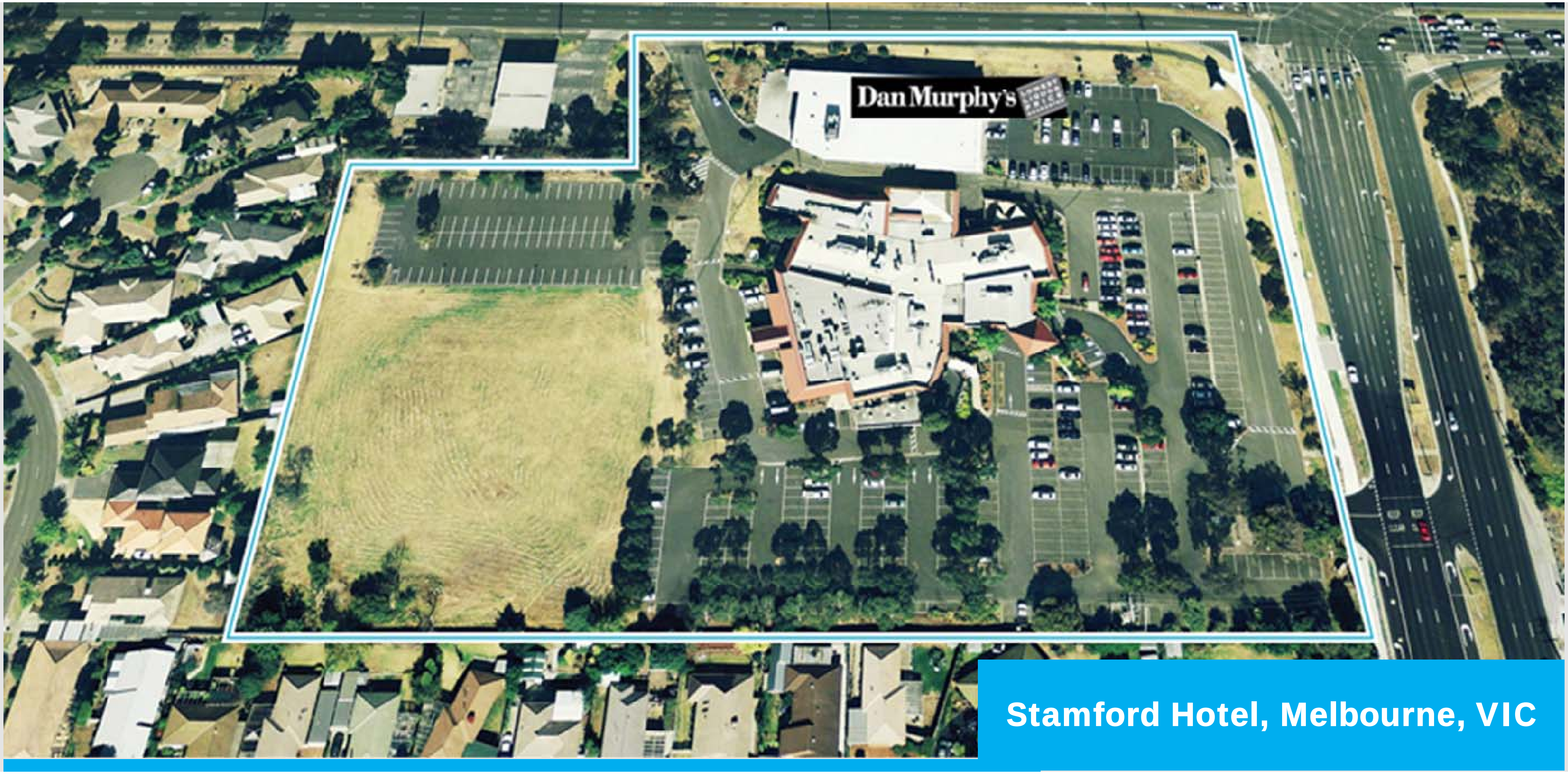
Outperforming over the short, medium and longer term



Sources: ASX, IRESS , ALE

1. Includes equity market price of $4.38 as at 3 January 2017 and reinvestment of distributions

Attachments



Stamford Hotel, Melbourne, VIC

December 2016 Half Year Results

Key Metrics

As at	December 2016	June 2016	Change
86 properties valuation	**$1,004.5m**	**$990.5m**	1.4%
Gearing[1]	**44.7%**	**44.9%**	(0.2%)
Net assets	**$521.4m**	**$495.9m**	5.1%
Net assets per security	**$2.66**	**$2.53**	5.1%
Price as premium to NTA[2]	**58.3%**	**79.8%**	(21.5%)
Market Capitalisation[2]	**$824.0m**	**$890.8m**	(7.5%)

1. AMTN gearing = (Total Borrowings – Cash) / (Total Assets – Cash). Derivatives values, deferred tax assets and unamortised borrowing costs are excluded. This covenant ratio is considered, in the opinion of the Directors, most relevant to securityholders as it is the debt covenant that has the least headroom available
2. Based upon security price of $4.21 as at 31 December 2016 and $4.55 as at 30 June 2016

ALE's Property Portfolio

Discounted Cash Flow (DCF) Valuations

- At June 2016 independent valuers applied both traditional capitalisation rate and discounted cash flow (DCF) methods in determining the valuations of a representative sample of 31 properties
- Statutory valuation capitalisation rate of **5.53%** reflects a combination of methods but continues to place significant emphasis upon the traditional capitalisation rate method
- The valuers' DCF valuation results were equivalent to an average capitalisation rate of **4.79%** based on the following weighted average assumptions:

Tenant's EBITDAR Growth Rate	1.2% p.a. (nominal / including CPI)
2028 Terminal Capitalisation Rate	7.0% (1.5% premium to current rates)
13 Year Discount Rate	7.9% p.a. (nominal / including CPI)

- ALE noted that the valuers' assumed EBITDAR growth rate was below forecasted inflation levels and significantly lower than the rates historically achieved by the tenant
- Also noted that ALE's average capitalisation rates during each of the last ten years have been materially lower than the terminal capitalisation rate of 7.0% assumed by the valuers

Note: See ASX announcement dated 14 June 2016 for more details

Capital Management

Substantial Covenant Headroom

- Substantial headroom to all debt covenants continues
- Covenant gearing of 44.7% (FY16 44.9%) is below target range of 50% to 55%
- Current level of gearing provides capacity to maintain inflation indexed distributions ahead of 2018 market rent review
- Headroom to AMTN gearing covenant of 60% equates to:
  - 25% (approx) reduction in property values
  - Expansion in average cap rate from current 5.53% to 7.40%
- ALE's average capitalisation rates have not exceeded 6.57% since 2006
- AMTN gearing covenant of 60% relates to distribution stopper and 65% to default
- Interest cover ratio at 2.7 times compares to AMTN covenant at 1.5 times
  - 100% of ALE's net debt is hedged for a term of around nine years
  - Next debt maturity in Aug 2017 of $110m represents only 23% of total debt

About ALE

Research Analyst Coverage of ALE

The following equity research analysts currently cover ALE's stapled securities:

➢ Johannes Faul	Morningstar
➢ Rob Freeman	Macquarie Securities
➢ Richard Jones	JP Morgan Securities
➢ Andrew Legget	Intelligent Investor

About ALE

Experience and Diversity

Board of Directors

- Board of Directors have extensive experience covering property, finance, risk management, compliance and capital management
- Board renewal and transfer of institutional knowledge is now well advanced

Peter Warne
Chairman & Non-Executive Director
- Appointed as Chairman and a non-executive director in September 2003
- 30+ years experience

Andrew Wilkinson
Managing Director & CEO
- Appointed Managing Director in November 2004 and CEO in November 2003
- 30+ years experience

James McNally
Executive Director
- Appointed as an executive director in June 2003
- 20+ years experience

Robert Mactier
Non-Executive Director
- Appointed as a non-executive director in November 2016
- 30+ years experience

Pippa Downes
Non-Executive Director
- Appointed as a non-executive director in November 2013
- 20+ years experience

Paul Say
Non-Executive Director
- Appointed as a non-executive director in September 2014
- 30+ years experience

Nancy Milne
Non-Executive Director
- Appointed as a non-executive director in February 2015
- 30+ years experience

Senior Management Team

- Experienced and stable management team

Andrew Wilkinson
Managing Director & CEO
- Appointed Managing Director in November 2004 and CEO in November 2003
- 30+ years experience

Andrew Slade
Capital Manager
- Andrew joined ALE in July 2005
- 25+ years experience in investment banking and structured finance

Don Shipway
Asset Manager
- Don joined ALE in September 2010
- 15+ years experience in the corporate real estate sector

Michael Clarke
Company Secretary & Finance Manager
- Michael joined ALE in October 2006
- 30+ years experience in accounting, taxation and financial management

ALE Property Group

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