

ASX ANNOUNCEMENT

6 August 2014

Announcement No. 27/14

**The Manager
Corporate Announcement Office
Australian Securities Exchange**

ANNUAL REVIEW, ANNUAL REPORT AND PROPERTY COMPENDIUM 2014

Please find attached a copy of the ALE Property Group (ALE) Annual Review 2014.

ALE's annual report was released today.

ALE will mail the Annual Review to securityholders unless they have elected not to receive one.

The Annual Review, Annual Report and Compendium may be viewed at the following websites:

www.aleproperty2014.reportonline.com.au

www.aleproperties.com.au

- Ends -

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Annual Review 2014

Delivering Value

Chairman and Managing Director's Message

ALE has finished the year to June 2014 with a number of positive achievements. The properties have again increased in value, a refinancing has been successfully completed and we were pleased to mark our 10th anniversary by receiving the award 'AREIT of the Year'.

HIGHLIGHTS

A strong performance is the best description of the group's achievements this year. ALE expects to pay a distribution of 16.45 cps that will exceed guidance and the value of the properties increased by 5.1% to around \$822 million. The capital management achievements were also very significant. ALE was awarded an investment grade credit rating and thereafter completed a successful refinancing with an inaugural issue of Australian Medium Term Notes (AMTN) reducing the cost of and diversifying the group's debt.

ALH, the tenant of each of ALE's properties, continued to perform strongly. Finally, ALE was pleased to receive the award for 'AREIT of the Year'.

THE MARKET

The broad trends evident last year in both the property and capital markets continued during this financial year. Over the past six months in particular, the view that a low growth environment may be with us for many years has become more widespread. This has increased the momentum of investors being drawn to strong dependable earnings streams, similar to those that characterise ALE's properties and equity distribution profile.

In property markets it has been notable that competition for quality properties is increasing from a wider range of both domestic and global institutions. Consistent with that view, credit markets have become more competitive.

NOTABLE ACHIEVEMENTS

ALE now enjoys a capital structure that is simple, long term, diverse and sustainable. Debt maturity dates are evenly dispersed over the next nine years and ALE now has an established presence in one of the most liquid debt capital markets in the Asia Pacific region.

The completion of the refinancing in the AMTN market resulted from an extended period of planning and consultation by ALE's management team with a wide range of participants in the Australian, Asian and American markets. Many funding options were


examined in significant detail and progressed to an advanced stage so that the Board was able to choose from a number of attractive options. In addition, management worked with a range of counterparties to devise and then execute a complete restructure of the interest rate hedging arrangements.

Separately, in November 2013 at ALE's Annual General Meeting, a paper was provided for investor consideration which examined the outlook for ALE's property values. It provided investors with an insight as to potential value arising from the significant capital expenditure by ALH and the under rented position of the portfolio. ALE received positive feedback on the paper, as most investors found that it allowed them to better understand the value of a reversion to a potentially higher level of market rent in future years. The paper is recommended reading for investors and may be found in the Announcements section of ALE's website.

Finally, our tenth anniversary was marked with ALE receiving the award for 'AREIT of the Year' from Property Investment Research.

LOOKING FORWARD

ALE's achievements provide a firm foundation for the coming years and give the Board confidence with respect to the future distribution profile. The distribution guidance for FY15 and until the next refinancing (scheduled for FY18) will be from a FY14 base of 16.45 cps growing by at least increases in the CPI. The Board will provide more specific guidance at this year's Annual General Meeting.



Peter Warne
Chairman



Andrew Wilkinson
Managing Director

16.45 cps

FY14 distribution was above guidance

\$821.7m

5.1% increase in property valuations

\$335m

AMTN refinancing completed

6.5 years

Average debt maturity

1.43%

Average AMTN issue margin

Operational Review

ALE completed an AMTN issue during the year that was both successful and contained a number of notable features. The issue has established ALE's presence in one of the most liquid debt capital markets in the Asia Pacific region.

ALE'S PROPERTIES

In a strengthening but discerning market, ALE's 86 properties increased in value by 5.1% to around \$822 million, driven by CPI based rent increases and a reduction in capitalisation rates to around 6.4%. The lower capitalisation rates reflect the strong demand for high quality properties and an acceptance that lower yielding assets are becoming more attractive.

ALE'S CAPITAL MANAGEMENT ACHIEVEMENTS

This year was very active on the capital management front. Firstly, ALE was awarded an investment grade credit rating of Baa2 by Moody's. Very shortly afterwards, ALE completed a successful \$335 million refinancing of the CMBS and ALE Notes 2 with an inaugural issue of Australian Medium Term Notes (AMTN).

This refinancing outcome was the result of a multi-year project for management that included working through a comprehensive information process with Moody's, negotiation of full legal documentation for multiple debt markets, and road shows to more than 40 debt investors in Australia, Asia and the United States of America. A large range of debt alternatives were also examined, including syndicated bank debt in the domestic and Asian markets, domestic and offshore CMBS, US private placements and a range of debt products in the European markets.

As the chart of ALE's Capital Structure in this document shows, ALE has taken some deliberate and constructive steps in recent years to arrive at the current capital structure. There are now just two fixed rate instruments, the Capital Indexed Bonds (CIB) and the AMTN. The average term has been extended from 4.3 to 6.5 years with a diversity of maturity dates in around three, six and nine years' time.

The notable features and achievements of the AMTN issue by ALE included:

- Largest AMTN issue by an AREIT since 2011;
- For Baa2 / BBB rated corporate issuers, the AMTN issue was:
 - the second largest ever inaugural issue;
 - the lowest ever credit margin for an issue with a six plus year term;
- Only dual tranche AMTN issue by an Australian corporate issuer in 2014;

- Significant demand (around \$650 million) from around 40 investors was scaled to deliver a very competitive outcome;
- Allocations were made to quality Australian and Asian fixed interest investors, many of whom had participated in a range of ALE debt issues since 2003; and
- Unique market terms including buy back rights for ALE.

The annual credit margin savings of around \$6 million (or 1.75% p.a.) realised from the AMTN refinancing will largely replace the now fully amortised hedging benefits that have previously reduced interest expenses. The savings also compared favourably to the \$1.7 million of costs relating to the repayment of the CMBS two years before their scheduled maturity date.

In addition, management worked with a range of bank counterparties to devise and then execute a complete restructure of the group's interest rate hedging arrangements. While this resulted in upfront break costs, these largely equated the present value of base interest rate savings ALE will enjoy over the next six years. The refinancing and hedge restructure also delivered the benefit of releasing around \$22 million of cash that was held as collateral.

Finally, the AMTN issue includes a number of market standard covenants. ALE currently enjoys significant headroom to all of them. The value of the properties would need to fall in value by around 15% before the nearest covenant is met.

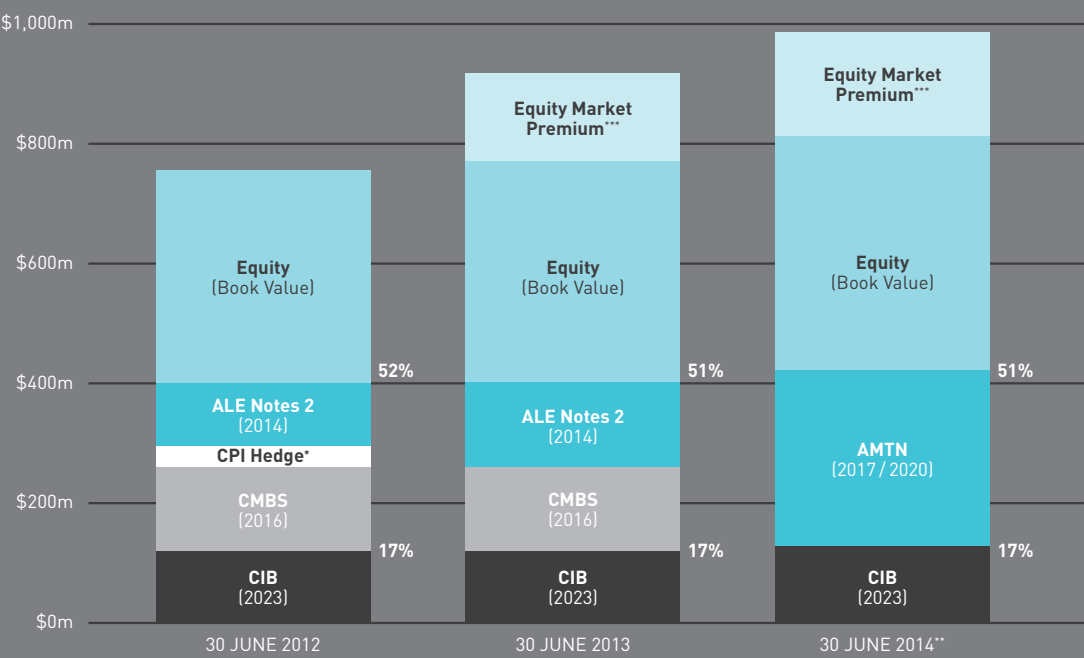
STRONG EQUITY PERFORMANCE

The value of ALE securityholders' \$1.00 investment at the time of ALE's listing nearly 11 years ago, with reinvested distributions, had grown to \$7.93 by 30 June 2014. This has delivered a total securityholder return of 21.5% p.a. over that period. The total returns over the past one, three and five years to 30 June 2014 were 15.1%, 22.6% and 18.2% p.a. Each of these return performances compares very favourably with both the Australian real estate investment trust sector and the wider equity markets.

As indicated in the table at the top of the next page, over and above the other benchmarks, the additional accumulated value delivered to ALE's securityholders since 2003 has been more than \$5.30 per security. For a securityholder who made a \$100,000 investment, the additional value delivered has been more than \$530,000.

ALE's capital structure has become increasingly simple as well as long term and diverse.

ALE's Capital Structure



* CPI Hedge accumulated indexation
** After ALE Notes 2 redemption (expected August 2014)
*** Equity Market Premium represents the difference between the market capitalisation based value and the book value of ALE's assets

Covenant gearing percentage levels at both the secured CIB debt and total net debt levels reference the book value of ALE's assets.

ALE has delivered more than \$5.30 per security of additional value since ALE's November 2003 IPO

FROM NOVEMBER 2003 IPO TO JUNE 2014

Benchmark	Total Returns ¹ (p.a.)	ALE's Additional Value Delivered (p.a.)	ALE's Additional Value Delivered ² Per \$1.00 Investment	ALE's Additional Value Delivered Per \$100,000 Investment
ALE Property Group	21.5%			
ASX AREIT 300 (Accumulation)	3.9%	17.6%	\$6.43	\$643,000
All Ordinaries (Accumulation)	9.5%	12.0%	\$5.31	\$531,000

1 Total Returns = Security price / Index return plus reinvestment of dividends/distributions since 12 November 2003
2 ALE's Additional Value Delivered: ALE's Total Accumulated Value of \$7.93 less \$1.50 (AREIT 300) or less \$2.62 (All Ordinaries) as at 30 June 2014

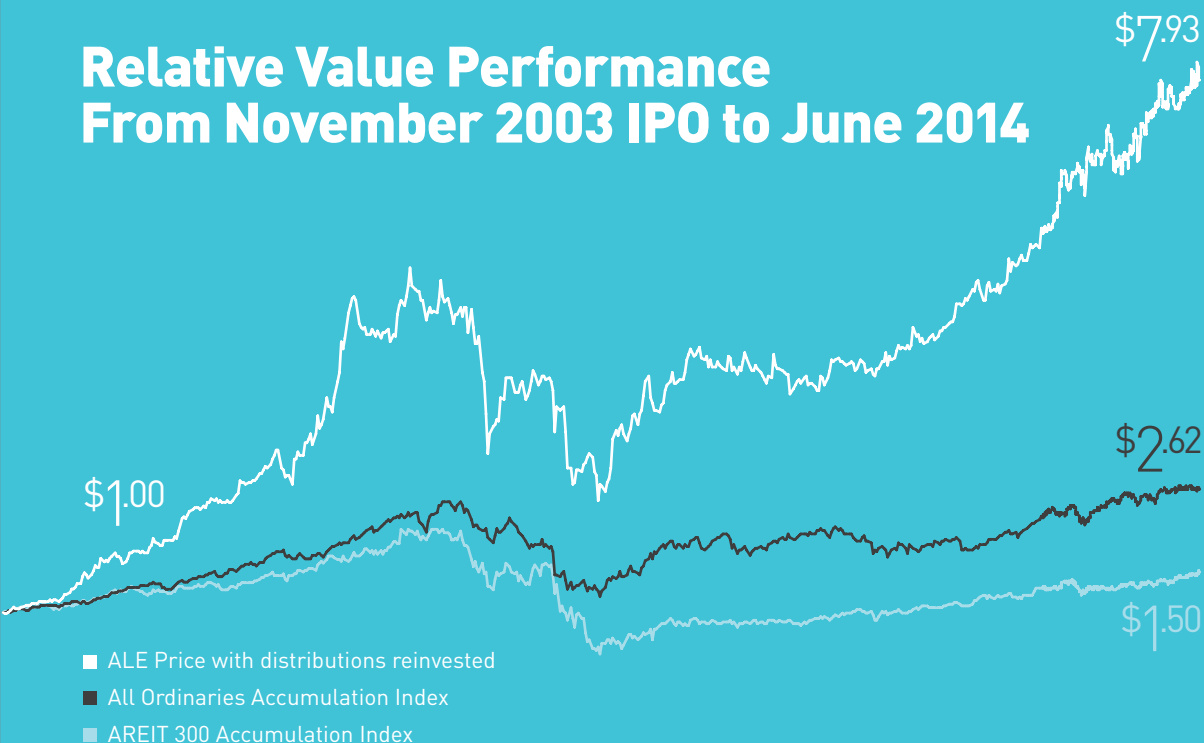
To access the entire Annual Report go to aleproperty2014.reportonline.com.au

The 2014 Annual Report includes:

- Highlights
- Chairman and Managing Director's Review
- Video Interview
- Capital Management
- Property Case Studies
- Property Valuation Analysis
- Board and Management
- About ALE and ALH
- Securityholder Information
- Financial Reports
- Corporate Governance



Relative Value Performance From November 2003 IPO to June 2014



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