AVJennings

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ASX/MEDIA RELEASE
AVJENNINGS RECORDS STRONG IMPROVEMENT IN SECOND HALF

Financial Results

Residential property developer AVJennings recorded an after tax loss of $15.3 million for the financial year to 30 June 2013 (2012: $29.8 million loss after tax). A full year profit after tax of $0.8 million was recorded before the impact of provisions for loss on inventory taken up as at 31 December 2012 (no inventory provisions were recorded in the second half).

The profit after tax for the second half significantly improved to $3.8 million (six months to 31 December 2012: $3.0 million loss after tax and before inventory provisions), reflecting ramped up activity compared with the first half.

Full year revenue of $158.5 million was down from $188.8 million in the previous year, however, second half revenue of $105.6 million almost doubled that of the six months to 31 December 2012 due to the completion of inventory and gradually improving market conditions, particularly in New South Wales.

These results were achieved despite relatively subdued lender appetite for residential property at both the producer and consumer ends of some micro-markets.

Two further significant events occurred in the second half.

Firstly, the Company successfully concluded discussions with its Club Lenders and the Club Facility maturity date was extended to 30 September 2015. The Company remains compliant with all lending covenants and is actively progressing its strategy of diversifying funding sources.

Secondly, the Company successfully completed an Entitlement Offer that raised $40.0 million after transaction costs. This more than offset the effect of increased production and settlement payments in respect of previous acquisitions.

Net Debt at balance date on a proportionate consolidation basis was $83.3 million (2012: $129.0 million).

Business Overview and Outlook

The working capital cycle in residential property development is typically longer than that of most other industries and, where it extends beyond balance dates, can mean that reported results sometimes do not clearly reflect market conditions over the whole of the period under review. Time and money expended on rebuilding work in progress levels in one period may therefore be disproportionately reflected in increased sales, settlements and revenue in succeeding periods.

Although demand was relatively subdued over much of the financial year, activity in the second half significantly outstripped that in the preceding six months during which the Company expanded investment in production (especially built form). This investment is in line with the strategy disclosed to the market and directly responds to the ongoing benign interest rate environment, low inflationary expectations and the chronic under-supply of housing in some areas, as well as the Company's perception of improvements in other demand drivers such as affordability, consumer confidence, subsidies for first home buyers that are now more explicitly focused on new production, together with tightening rental vacancy rates in certain areas of Sydney.

Consumer confidence in the key New South Wales market seems to have lifted over the last six months in particular, reversing a decade-long trend, while that in southern Queensland has shown more recent signs of improvement as pricing has realigned with historical relativities to the other eastern capitals. Performance of the Company's Victorian estates remains stable and fair, reflecting the Company's belief that the local market is steadily correcting for the oversupply of developed stock built up in some locations during the overheated market of 2010-11. The South Australian market is stable but subdued, however, the Company's key projects in that State ('St Clair' and 'Eyre' at Penfield) have reached important milestones and are now much better placed than in the previous period to capture their share of available demand in the future. The Auckland residential market is experiencing significant demand that should continue to leave the Company's Hobsonville Point joint venture project with Government fortunately placed for the foreseeable future.

Pleasingly, the Company benefitted from the solid rise in second half contract signings and settlements without undue margin sacrifice or the need to offer significant inducements of the sort anecdotally reported.

The following table illustrates the up-tick in lots under development (both land only and built form) since the low point of early in fiscal 2012:

667 at 30 June 11;
572 at 31 Dec 11;
318 at 30 June 12;
554 at 31 Dec 12; and
715 at 30 June 13.

A substantial amount of the work in progress reported as at 30 June 12 was completed during the second half, with 177 lots at 'Hobsonville Point' NZ, 60 lots at 'Arena' VIC and 33 lots at 'Arlington Rise' VIC (amongst others) being finalised.

While the production cycle is lengthy, headway is being made with older lots exiting work in progress being progressively replaced as newer projects reach maturity or come on stream (notably the first stage of 'Arcadian Hills', Cobbitty NSW following the resolution of a lengthy planning-related preliminary works delay), leaving management confident that the Company is firmly on the path towards lifting work in progress and revenue to levels it has not seen for several years.

Completed and unsold stock is at acceptable levels.

Although customer preference continues to favour built form in most markets, the Company has recently noticed a resurgence of interest in land only on some of its estates, which if sustained will help smooth the inherently higher demand that increased production can place upon working capital.

An appropriate focus on overhead and cost control is now ingrained in the Company's culture and that control is expected to be enhanced in the future as the new accounting system is bedded down.

Total lots under control stood at 9,952 at balance date. Although the Company has not purchased land since late 2010-11 and remains adequately positioned into the medium term, it is actively exploring capital-efficient mechanisms to secure future development opportunities in specific micro-markets.

Market fundamentals remain positive, with improvements in affordability, low interest rates and inflation, underlying housing shortages in some markets (especially Sydney and Auckland), positive population growth and a relatively stable macroeconomic outlook over 2014-2015 supporting the nascent rise in consumer confidence and transaction levels experienced in some markets.

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