AVJennings®

23 November 2018

The Manager
Company Announcements
Australian Securities Exchange Limited
Level 4, Rialto North Tower
525 Collins Street
Melbourne Vic 3000.

Dear Sir,

ANNUAL GENERAL MEETING
AVJENNINGS LIMITED

Please find attached the Chairman and Managing Director speeches made at the Annual General Meeting of AVJennings Limited on 23 November 2018.

Yours faithfully,

Carl Thompson
Company Secretary.

Annual General Meeting – Friday, 23 November 2018 at 10:00am

Chairman and Managing Director Speeches

Chairman Speech

Good morning ladies and gentlemen. My name is Simon Cheong and it is a pleasure to welcome you this morning to AVJennings' 2018 Annual General Meeting.

There is a quorum present so I declare this meeting open.

I would first like to introduce my fellow colleagues with me today.

With me here are my fellow members of the Board:

- Mr Jerome Rowley – who is an independent Director and Deputy Chairman of the Board
- Mrs Elizabeth Sam – a non-executive Director
- Mr Bobby Chin – an independent Director
- Mr Bruce Hayman – an independent Director
- Mr Teck Poh Lai – an independent Director
- Mr. Tan Boon Leong - a non-executive Director

In addition, Mr Peter Summers – the Company's Managing Director and Chief Executive Officer and, Mr Carl Thompson who is the Company Secretary, are here.

I would also like to introduce Mr Mark Conroy and Mr Glenn Maris, from Ernst and Young, the Company's External Auditor.

This morning I will highlight our strategy, the changes our industry is going through and how we, as a company, are responding to current challenges and opportunities.

Following my remarks, I will hand over to Peter who will take you through a review of the 2018 financial year and make some further comments on the outlook for the year ahead.

There will be a general forum for questions and comments following Peter's address and I will then proceed with the meeting's formal agenda as set out in the Notice of Meeting distributed to shareholders ahead of this meeting.
For more than 85 years, AVJennings has helped people build a brighter future by creating communities they feel a part of.

Our strategy is centred on delivering strong and sustainable outcomes – for our customers, our shareholders and other stakeholders.

Key aspects of our strategy include:

1. A primary focus on horizontal residential developments;
2. Maintaining geographic diversity;
3. Targeting a stable, traditional customer profile;
4. Having an attractive, high quality product that is affordable.

Over the last 5 years we have delivered solid growth and returns for our shareholders. For the 2018 financial year, AVJennings recognised revenue of $374.3 million and profit before tax of $45.1 million, driven by a strong contribution from projects in New South Wales.

In terms of returns for our shareholders, over the past four years, revenue and earnings per share have increased at compounded annual growth rates of 10.6% and 13.4% respectively. Dividends remain important and we were pleased to declare a fully franked final dividend of 3.0 cents per share, taking total dividends declared for the year to 5.0 cents per share, in line with last financial year.

Notwithstanding the short term impacts from existing market conditions we see continued opportunity within our portfolio to grow the business. Our focus remains on profitably growing the business for the long term.

Turning to our business, one of the many strengths of AVJennings is its scale.

The business continues to have a strong underlying base with a land bank of around 10,000 lots and we will look to further grow this base.

Over 880 lot equivalents were acquired during the year with notable acquisitions in Kogarah and Huntley in New South Wales, and another two greenfield sites in Brisbane, Ripley and Deebing Heights.

On future acquisitions, our policy is to buy through the cycle to keep a viable and diverse mix of projects in our portfolio. In September we acquired Hall Farm in Orewa, near Auckland, which will yield approximately 580 lots. This green-fields site is already zoned residential, includes 5 commercial lots and is 37km north of Auckland. The acquisition expands the scale of AVJennings' NZ operations into retail land sales as well as sales to builders.

We will continue to be selective but seek to maintain a diverse geographic and product mix.

Moving on to the changes our industry is facing. This is undoubtedly a challenging time for the residential real estate market and we are not immune. The combination of a tightening of credit markets, oversupply of apartments in some areas and a reduction in foreign investment has all had an impact on sentiment.

However, we are a company that is diversified not only geographically but also in terms of product offerings. We have always taken a long term view and have seen more difficult conditions than what we are seeing today.

Nonetheless, softening in any market can create opportunities especially in terms of acquiring sites which is important to long term business sustainability.

The tightening of credit markets may also have the effect of favouring owner occupiers over investors. Owner occupiers form by far the majority of our customers.

I remain optimistic about the future and we remain focused on sustained long-term growth. While there may be some short-term pain across the industry, we are committed to profitably growing AVJennings. Furthermore, the market outlook continues to be supported by positive economic fundamentals, including low interest rates and population growth and we are ready to assess and take advantage of opportunities as they arise.

Before closing, I would like to thank my fellow Directors for their guidance throughout the year, Peter and the entire Executive team, and all of the AVJennings staff who helped us deliver a solid 2018 year. Finally a thank you to our shareholders for your continued support.

I am confident we have the right strategy in place to continue to grow and deliver for our shareholders and customers.

I will now hand over to Peter to provide commentary on operations and review of FY18.

Managing Director Speech

Thank you Simon and good morning.

This morning, I will discuss three topics.

Firstly, I will talk to the continuing transition we are seeing in our business, which as I have discussed before, is the progression of old projects and the advancement of newer ones.

I will then provide some comments around the financial performance for financial year 2018 and also expand on the comments Simon made earlier around the industry dynamics we are currently facing.

In the context of these industry dynamics, I will talk to the outlook for the year ahead.

Let me begin with some comments that I have made previously around the transition in the business that we experienced during the year.

During the 2018 financial year, we continued to progress the more mature projects which have formed the basis of over four years of strong results.

In recent years these projects have driven significant growth in activity levels, and it is these projects which are still driving most of our financial results.

The second part of our business has been to advance newer projects to the stage where they are contributing to profit.

But these projects are also the part of the business that can experience the greatest delays due to planning and other constraints and disappointingly, many of these projects did not contribute what we would have liked to our 2018 financial results.

These projects are the stepping stone to the next phase of growth and we believe contributions from these projects is right around the corner. Pleasingly, one of the projects, Lyndarum North, will see its first settlements occur in December 2018, with considerable pre-sales forecast to settle in the second half of FY2019.

Turning to the financial results for the 2018 financial year, revenue was down 6.8% to $374.3 million and profit before tax declined by 11.7% to $45.1 million.

We did see strong net operating cashflows of $47.9 million in FY2018, which allowed the company to reduce net debt from $164.1 million to $130.7 million. Our net gearing ratio dropped to 20.4%, giving greater financial capacity and flexibility for future acquisitions, which I will discuss shortly.

However, in FY2018 some projects did have challenges and delays in completing some stages which resulted in certain contracts not reaching the point necessary for revenue and profit to be recognised by the end of the financial year.

The most material of these was at Cobbitty, in Sydney, the impact of which was the deferral of $6.1 million net profit before tax. In addition to contributions from Cobbitty, we expect to see significant contributions going forward from other projects, including Lyndarum North, and other more recent acquisitions.

Lyndarum North is a large land subdivision we are undertaking in a joint venture with AustralianSuper. It has experienced many planning delays over recent years and this year was also impacted by a scarcity of specialist contractors. However we had 396 contracts on hand as at 30 June 2018 and, as I mentioned earlier, settlement of these will begin to flow in December 2018.

I would now like to expand on the comments Simon made earlier around the dynamics we are currently experiencing in the residential real estate market.

At our full year 2018 results announcement in August, we said that we had seen, and expected to see, some further softening in the Sydney and Melbourne markets.

There were several reasons for this statement.

Firstly, pricing. Prices needed to correct to some extent. The issue of affordability is real, and sooner or later pricing cannot keep going up, particularly in the face of a period of stagnant wages growth.

Secondly, credit availability was becoming more of a factor.

And thirdly there was also an uncertain political outlook with elections in Victoria this weekend and next year, a state election in New South Wales and of course the Federal election in 2019. Historically, elections have temporarily reduced activity in the residential market.

There is no doubt that the impacts of these factors have been greater than expected in the short-term. This is not uncommon with markets correcting as sometimes sentiment can run ahead of fundamentals.

In terms of pricing, Melbourne and Sydney have seen some corrections. However, our segment should not be confused with other segments where pricing during an upmarket is fuelled by mechanisms such as auctions and where high end properties are a feature of the market.

The issue of credit has certainly impacted more than expected when we announced our 2018 results, with the Royal Commission outcomes being a significant factor.

Politically, the period since our announcement has seen a new Prime Minister appointed and arguably, there has been an even greater loss in confidence from Australians in politics generally.

And all of this has generated constant, negative and often exaggerated media. However, whilst it can be argued that changes to the credit environment may have structural elements, in the main they, and issues related to pricing and politics, are more related to corrections rather than changes in fundamentals.

In fact, fundamentals remain strong with:

- low unemployment;
- a solid economy;
- shortages of detached dwellings, townhouses and low-rise apartments in Sydney, Melbourne and Auckland;
- low interest rates and inflationary expectations; and
- migration, whilst under renewed discussion, is likely to remain supportive of growth in the medium term.

In terms of migration and population growth, we agree it needs to be considered in terms of adequate infrastructure planning and, in our view, making greater use of regional areas.

However, it also needs to take into account our country's need to grow, especially to handle the costs of an ageing population. This has always been a major factor in recent population targets.

Our approach to all this is: Work in progress. Whilst we still have 6 weeks or so until the end of the half year, we expect work in progress levels to be around similar levels to 30 June 2018.

And as things stand today that is likely to be the case at 30 June 2019 as well.

However, that does not mean no change within the product and portfolio mix with greater built form levels compared to land only and an adjustment between the regions to reflect conditions.

We always expected these changes, plus existing project timings, to be heavily weighted toward the second half for the following reasons:

- We have stated previously we are increasing the amount of built form. Longer term, this is a safer strategy as it provides affordable completed housing which is the deepest and most resilient part of the market. But it does come with a longer lead time.

- The work in progress numbers in Queensland are increasing but are dominated by new projects which take time.

- There are also significant income streams from existing projects and customers weighted towards the second half including:
    - Waterline Place (Gem apartments)
    - Lyndarum North (although stages 1-3 settlements commence in the first half)
    - Builder sales on terms
    - A change in revenue accounting standards, meaning more revenue is recognised on settlement, pushing some sales negotiation further out.

- In the current market conditions, the transaction cycle is longer than in recent periods.

Outlook

The greater slowdown in the market has created more first half pressure and does create greater volatility. However:

- Approximately 66% of revenue that would be required to achieve a full year result similar to last year has either already settled or is under unconditional contracts and subject to production risk, is expected to settle this financial year;
- Dependent on market conditions, our work in progress levels support a full year result around a similar level to last year but also create a stock of completed housing required to support sales going forward.

We acknowledge the volatility of current market conditions and, will continue to monitor and, if necessary, will adjust the scale of the business operations accordingly.

Looking to the longer term strategy and the implications of these current market dynamics, while we will no doubt be impacted by the softer market conditions in the short term, we believe the medium to long term outlook remains solid. As Simon stated we have always had a main focus on the long term.

One advantage of a softening market is acquisitions. We are certainly seeing more sites becoming available and at better terms. We expect this to continue.

This point can’t be overstated.

The fact is, one of the greatest risks to the long term health of not only our company, but the wider residential market, was the continuing rising expectations of land owners, including government land agencies.

This softening in the market will hopefully also allow for a significant rethink by all parties about how best to handle growth and affordability. We urge government to look more broadly at the residential property industry, not simply as a generator of tax revenue, but as an industry providing a basic need to all Australians.

Before closing, I would like to recognise the hard work of my Executive team and the entire AVJennings staff.

Thank you also to Simon and the Board for your guidance and counsel throughout the year. And finally, to our shareholders for your continued support.