



Western Australia Plumbing Issues Update

Joint Industry Response

30 August 2024

Summary

A Joint Industry Response to the Perth plumbing failures has been agreed in-principle

- ➔ A Joint Industry Response to the WA plumbing failures has been agreed in principle by the Western Australia Government, Iplex Pipelines Australia (“Iplex AU”) and almost all builders of WA homes built with the Typlex Pro-Fit pipe who were in mediation. This Joint Industry Response (“JIR”) provides support for homeowners in a timely and pragmatic way:
 - ➔ Iplex AU and the WA Government have committed to cover direct costs of repairs by participating builders to WA homes affected by the plumbing failures: 80% by Iplex AU and 20% by the WA Government. Iplex AU estimates its share of repair costs will be up to ~A\$120m, the WA Government’s contribution is capped at A\$30m, at the rate of 20%.
 - ➔ The agreed work programme under the JIR is a range of measures based on the type and extent of plumbing failures. These will include pipe and damage repairs, ceiling pipe replacements, and – for WA homes with extensive failures – either a zone or a full house re-pipe. Temporary accommodation will be offered for full home re-pipes.
 - ➔ Iplex AU will also offer all homeowners, free of charge, the installation of a leak detector unit, providing early alerts and reducing impact in the event of a plumbing failure.
 - ➔ Participating Builders will maintain the relationships with their homeowners, complete the repair and other agreed work and cover their own administrative costs in doing so. The JIR has no time limit and is available to both current and future owners of WA homes built by Participating Builders.
 - ➔ BGC has not joined the JIR at this time. It will be eligible to join the JIR if it is willing to do so on the same terms as the rest of the industry. BGC’s share of the relevant homes is estimated to be in the order of 50-60%.
- ➔ The WA Government has agreed that the JIR is the appropriate response to address the WA plumbing failures and its actions mean that a recall order of the Typlex Pro-Fit pipe is not required.



Summary (cont.)

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- ➔ Iplex AU has committed to the JIR because it is in all parties' interests for there to be a pragmatic and homeowner-friendly mitigation of future issues. The JIR also means the Government has chosen a practical path forward, as Iplex has advocated, not a product recall.
- ➔ Our estimate of repair costs is based on leak and cost data collected over the last 15 months working with the Perth industry to repair >900 homes.
- ➔ Our statistical analysis of trend data forecasts that not all WA homes fitted with Typlex Pro-Fit will experience one or more leaks over time. Our provision for repair costs allows for a leak rate of ~35% which is higher than current or expected trends and assumes 15,000¹ homes were built in WA with Typlex resin ProFit). The provision also assumes a higher average repair cost than previously, due to allowance for a greater mix of more expensive repairs (e.g. zone / house re-pipes). The provision also allows for costs of repairs to BGC homes – even though BGC has elected not to participate in the JIR. The offer to BGC to participate on the same terms supports the provision being extended to their homes. However, if BGC remains outside the JIR, cash disbursed to fund repair costs will be proportionally lower.
- ➔ The JIR remains subject to final documentation. Assuming it is formalised, Fletcher Building expects to make a provision of ~A\$155 million in its FY25 accounts: ~A\$120m for Iplex AU's share of estimated industry repair costs; ~A\$20m for leak detectors; and ~A\$15m for overhead costs over a 5 year life of the JIR. These costs will be recorded as a Significant Item.
- ➔ Cash flows are expected to be phased over ~5 years: ~A\$40m-\$50m in year 1 and ~A\$15m-\$35m p.a. in subsequent years. These cash flows assume BGC joins the JIR; if it does not, cash outflows are expected to be proportionally lower. All cash flows are pre-tax.



Summary (cont.)

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- ➔ The JIR is entered into by the parties on a no liability, no admissions basis. All participants have agreed to a “no sue” provision as to part of the agreement.
- ➔ Each party is not restricted from acting in its own interest in defending or responding to a claim brought by a person who is not party to the JIR.
- ➔ The JIR (both work programme and funding rates) will either terminate or be renegotiated if a different outcome results from a third party lawsuit.
 - ➔ If the third party action is a homeowner class action, the JIR will terminate for homes and their owners included in that class action when it ends but may continue for homes not in the class.
 - ➔ If the third party action involves a builder (alone or with homeowners), the JIR may change to the extent it needs to stay on foot after that matter has been determined, but that change will only apply to amounts or activity required from that point forward.
 - ➔ All amounts spent in performing the JIR to that point, either by Iplex AU or other parties, cannot be reclaimed retrospectively, even if a court case would have allowed that to occur.



Summary (cont.)

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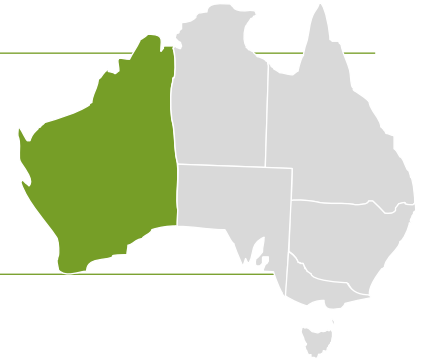
Current Litigation

- ➔ As previously notified, a class action has been served on Iplex AU on behalf of all homeowners, Australia wide, alleging that the Pro-Fit product was not of acceptable quality at the time of supply and seeking a wide range of damages (some of which are not addressed by the terms of the JIR). (see Note 26 in the Company's FY 24 financial statements for more information about that claim).
- ➔ In addition, BGC has filed a claim against Iplex AU making similar claims regarding the pipe not being “of acceptable quality” or “fit for purpose”. The losses claimed are largely addressed by the terms of the JIR, other than BGC's administrative and legal costs or rectification work done by BGC to date.
- ➔ Iplex AU intends to defend those matters.
- ➔ While the BGC claim is on foot, BGC will not be entitled to join the JIR. At BGC's request, discussions to enable them to join the JIR on the same terms as the industry for the benefit of its homeowners are ongoing.
- ➔ Additional or competing claims may be brought. The terms of the JIR do not require a homeowner to release or waive any rights they may have against any participant in the JIR.
- ➔ If a current or future matter were to be successfully brought against Iplex AU, it may have a material adverse impact to the Group.



Background

The plumbing failures continue to be concentrated in Perth



ESTIMATED HOMES BUILT WITH TYPLEX PRO-FIT

Data as of 21st August 2024

c.15k homes



Perth

c.15k homes



Rest of AU

Homes
with leaks
reported

17.8%

0.36%

- Pro-Fit with Typlex resin was first produced by Iplex AU in mid-2017 and was the bulk of the supply across Australia from then onwards
- Similar volumes of Pro-Fit were sold in Perth and the Rest of AU from 2017-2022 (manufacture of the product ceased in 2021) out of the same factory
- Pro-Fit with Typlex resin was only manufactured and sold in Australia, not in New Zealand
- Iplex is reliant on builders to provide it with the information and data referred to in this pack e.g. Home and leak numbers. Actual data may differ or be delayed, but Iplex does not expect any of those differences to be material
- To date, leaks have been reported to Iplex on ~2,680 or ~17.8% of the estimated 15,000 relevant homes in Perth



Iplex's approach to the plumbing failures

We have had a consistent focus on three workstreams



1

SUPPORT FOR CUSTOMERS & HOMEOWNERS

A\$15m interim investigation fund:

- ~\$7m spent on repairs and leak detection units
- ~\$8m on innovation, causation, administration and industry response design
- <\$1m remaining

More than ~2,000 repairs funded to date, across ~900 WA homes

40 parties registered and claimed, of which 32 are builders. BGC has not participated

Given today's announcement the interim fund will be extended to the end of September to allow the JIR to be put in place. This will increase the costs of the interim fund by ~\$1m



2

ESTABLISHING CAUSATION

Independent expert reports into causation confirm that:

- Plumbing installation failures cause the leaks
- There is no manufacturing defect
- Pro-fit pipes conform to Australian Standards



3

INDUSTRY RESPONSE

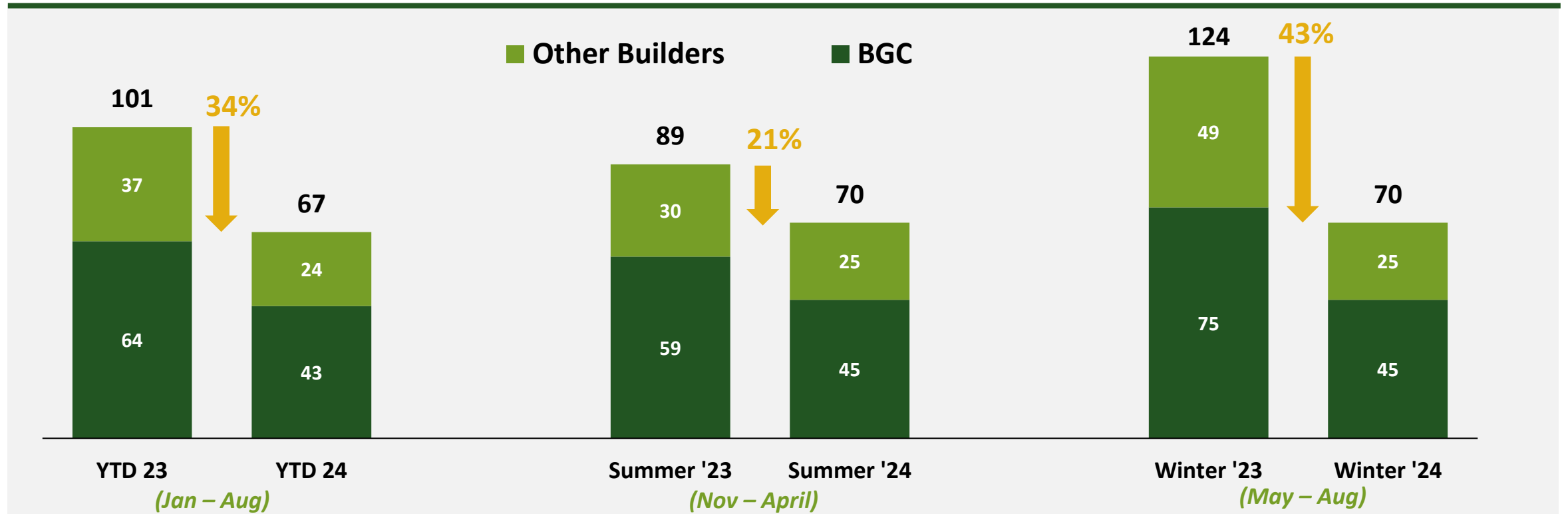
Iplex has been working with the Industry to design, develop and roll out an industry response to the plumbing failures



Trends in first time leak rates

Information to Iplex shows homes in Perth with first-time leaks are reducing, measured period-on-period

AVERAGE MONTHLY NUMBER OF PERTH HOMES EXPERIENCING A LEAK FOR THE FIRST TIME



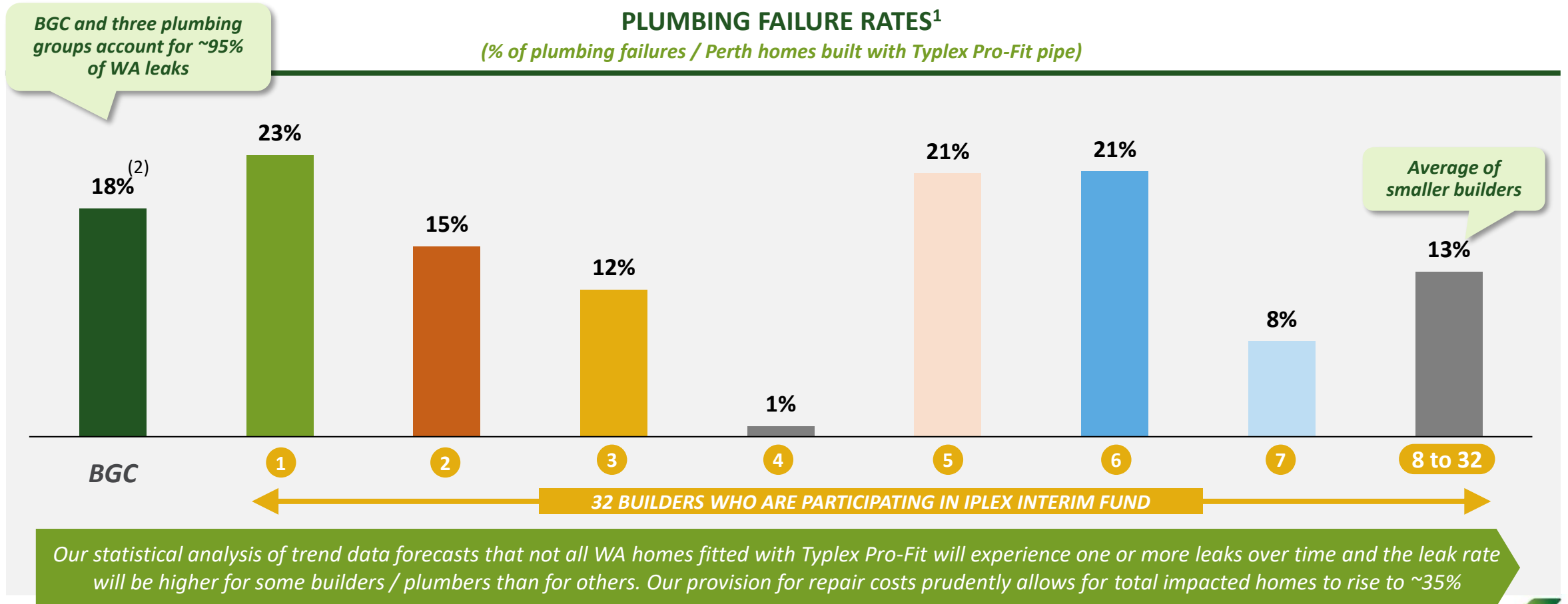
Notes:

- Data Source: BGC – June press announcement and BGC’s CEO media update in August; Other Builders – leaks as reported to Iplex in the period shown
- August 2024 data has been estimated based on information received for the period up to 21st August



Trends in leak rates

Different leak rates between plumbers / builders – and therefore between homes



How the Joint Industry Response will work

Leak detector units & a stepped approach to leak repairs offers a pragmatic response to plumbing failures

LEAK DETECTOR UNITS

- Iplex AU will offer all eligible WA homeowners, free of charge, the installation of a leak detector unit (LDU).
- LDUs provide early alerts and reduce impact in the event of a leak.
- Will be made available to BGC homeowners irrespective of BGC's participation in the JIR.

LDUs funded 100% by Iplex
Iplex cost provision: A\$20m

LEAK REPAIRS

- Repairs under the JIR will take a stepped approach based on type & extent of plumbing failures.
- Measures will include pipe and room repairs, ceiling pipe replacements in homes that have suffered a plumbing failure, and – for WA homes with extensive failures – a full house re-pipe plus temporary accommodation.
- In the repair cost provision, Iplex AU has allowed for leak rates to potentially rise to ~35%.
- Cost of repairs is higher than ~A\$100m prior estimate principally due to allowance for a greater mix of more expensive repairs (e.g. zone / house re-pipes).

Leak repair costs funded 80% by Iplex, 20% by WA Govt
WA Govt contribution up to A\$30m¹, Iplex 80% contribution not capped
Iplex direct repair cost provision: ~A\$120m

OVERHEAD COSTS

- Each party pays for its own administrative and overhead costs.
- External claims management costs are included in leak repair bucket.
- Does not include legal costs.

Iplex cost provision: ~A\$15m



Why Iplex is committed to the Joint Industry Response

The JIR is in all parties' interests

Avoids a **product recall**, which would have involved massive & needless disruption and cost at a time where there was no capacity in the industry to deliver it. The **JIR with Government is a more pragmatic path**

Our work to date has shown that **leak detector units and ceiling pipe replacements** in homes that have suffered a plumbing failure are an effective way to **mitigate future issues**

A **co-ordinated** response with a **range of fix solutions** provides the **right support to homeowners**

The Joint Industry Response:

- Focuses work in the right places
- Avoids a product recall
- Supports homeowners who really need it and helps mitigate future issues if they arise
- Brings together Government and industry in a coordinated way

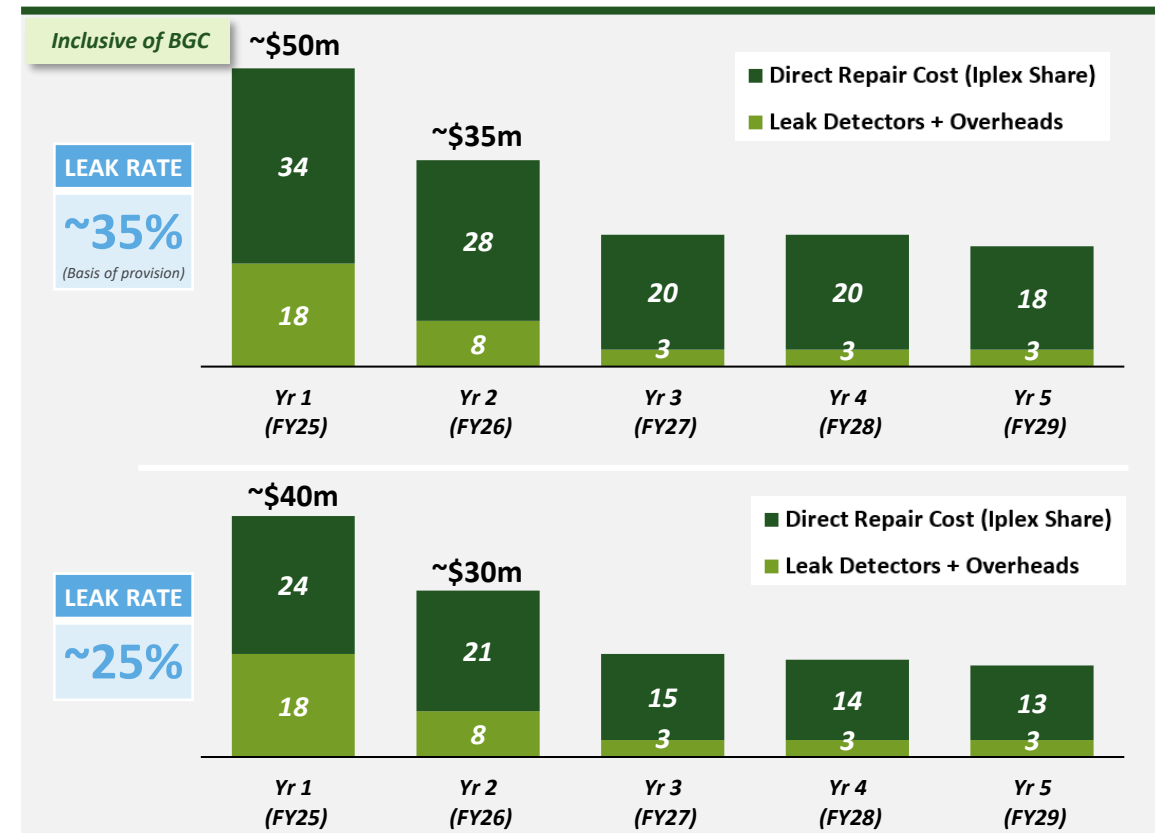


Financial considerations

Provision of ~A\$155m based on ~35% of homes being impacted & allows for BGC homes to be included under JIR. Costs & cash flows will be affected by actual level and will be lower if BGC does not join. Provision is Significant Item; cash flows are pre-tax

- ➔ Assuming the JIR is finalised, Fletcher Building expects to make a provision of ~A\$155 million in its FY25 accounts: ~A\$120m for Iplex AU’s share of estimated industry repair costs, ~A\$20m for leak detectors, and ~A\$15m for overhead costs in administering the programme.
- ➔ The provision assumes:
 - Up to 35% of WA homes fitted with Typlex Pro-Fit pipe leak over time.
 - Covers direct costs of builders, not their overhead or margin.
 - Legal costs, including litigation defence, are not included in the provision.
 - A mix of repair types including pipe repairs, ceiling pipe replacements, and – for WA homes with extensive failures – a full house re-pipe plus temporary accommodation.
 - Affected homes built by BGC are assumed to be remediated under the JIR – even though BGC is not currently a participant. To the extent BGC remains outside the JIR, the repair costs and associated cash flows for Iplex AU are expected to be proportionally lower.
- ➔ The provision is subject to the final documentation of the JIR.
- ➔ Cash flows are expected to flow over a period of at least five years. Annual cash flows will be subject to actual rate of leaks, type of repairs undertaken and actual costs incurred over time and are expected to be somewhat front-loaded due to initial costs of program set-up, need to repair homes already affected, and installing leak-detectors.

ESTIMATED TIMING OF IPLEX CASH FLOWS (A\$M, PRE-TAX)



Next Steps

→ **Formally document the Joint Industry Response among agreed participants**

- *Support under Iplex's Interim Fund remains in place to the end of September to allow the JIR to get up and running*

→ **Stand up the operational and administrative support for the Joint Industry Response**

- *Inclusive of third-party experts to provide assurance on loss adjustment, cost control and temporary accommodation*



Questions?



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