

METHVEN

METHVEN LIMITED

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21 December 2016

Dear Shareholder

As part of our Methven 130 Strategy, one of our goals is to facilitate greater employee shareholding to further strengthen alignment of interests, and this is consistent with one of Methven's company values: *We're In This Together*.

Recently, we offered New Zealand based permanent employees the opportunity to participate in a discounted share purchase plan (DSPP). This enabled employees to buy a limited number of shares at a 10% discount to the market price.¹ This was very successful, resulting in 34 employees purchasing a total of 156,073 shares.

We have also offered additional senior executives the opportunity to participate in our Senior Executive Share Scheme, and we have facilitated further equity participation by our Group CEO, David Banfield under a Group CEO Scheme.

The Senior Executive Share Scheme and the Group CEO Scheme are intended to reward selected senior executives of Methven for meeting certain earnings/growth targets, and to align and link senior executive's incentives with growing sustained shareholder value. Details of the Senior Executive Share Scheme and the Group CEO Scheme are enclosed.

Because elements of the Senior Executive Share Scheme and the Group CEO Scheme could constitute "financial assistance" under the Companies Act 1993 (Act) and there are specific procedures that a company must comply with in relation to financial assistance transactions, we have also enclosed a notice complying with the formal disclosure requirements of section 80(1)(b) of the Act.

If you have any further questions, please feel free to contact Carl Cheater, Group Head of People & Culture on: +64 9 829 5157.

Yours faithfully



Phil Lough
Chairman
Methven Limited

¹ Calculated by reference to the three-day volume weighted average price of shares traded during the period from 25 – 29 August 2016, when the Board determined to make the offer.

METHVEN

SUMMARY OF THE SENIOR EXECUTIVE SHARE SCHEME AND GROUP EQUITY PARTICIPATION

Senior Executive Share Scheme

Since 2014 when we first told you about the Scheme, Methven has adopted its "Methven 130" strategic plan, and changed its balance date. We have therefore amended the terms of the Scheme for all senior executives participating in the Scheme to align with the current strategic plan and that balance date. The targets and thresholds are those we have outlined below.

The key components of the Scheme can be summarised as follows:

- (a) **Delivery of Shares:** Methven delivers ordinary shares in Methven (**Shares**) to selected senior executives (**Participant**). The shares are delivered at the market price (determined as the volume-weighted average selling price per share of all of the ordinary shares of Methven traded on the NZSX during the 10 business day period prior to the issue of the Shares (or the crystallisation of their entitlements);
- (b) **Loan:** Methven will provide each Participant with a loan equal to the aggregate issue price of the Shares issued to the Participant (**Loan**), which will be used for acquiring the Shares. Interest will be charged on the loan at a fair commercial interest rate equal to the IRD prescribed arms-length interest rate for FBT assessment purposes (currently 5.77% p.a.);
- (c) **Dividends:** Any dividends paid on the Shares will be repaid against the loan balance; and
- (d) **Cash Bonus:** Each Participant will be eligible to be paid a cash bonus, if certain performance conditions are met. Targets have been set by reference to Methven's net profit after tax (before the costs and effects of the Scheme) (**NPAT**) for each of the financial years ending 2017 and 2018 (in each case excluding payments as part of the Scheme). The 2018 financial year's NPAT targets are as follows:¹

NPAT year ending 30 June 2018 (\$NZ)	% of loan balance payable by cash bonus
\$11m or more but less than \$12m	25%
\$12m or more but less than \$13m	50%
\$13m or more	100%

If the NPAT in the 2017 financial year does not meet the NPAT target for that year, the 2018 financial year's NPAT target will be increased by the amount of the deficit.

The thresholds noted above may be reduced by the Board by \$500,000 in certain circumstances and may be adjusted to reflect the impact of any M&A activity.

The above targets are for the purposes of the Executive Share Scheme only and should Not be construed as guidance.

- (e) **Loan Repayment:** If the Loan is not fully repaid by the cash bonus, the Participant will have the option of repaying the Loan or, alternatively,

Methven or the Scheme's trustee will acquire the shares and the Loan will be extinguished.

Group CEO Equity Participation

MVN has established a scheme for Mr David Banfield, the group chief executive officer who is also a director of MVN (**Group CEO**). Under the scheme the Group CEO is granted the right to receive an interest bearing loan (**Loan**) for the purpose of acquiring Shares in MVN (**Scheme**).

The relevant Terms of the Scheme (as comparable to the SE Scheme) are as follows:

- (a) The shares will be issued directly to the Group CEO. MVN will hold a specific security interest in the shares the Group CEO purchases with the Loan. MVN will also instruct its share registrar to register a stop-trade order while the Loan remains outstanding.
- (b) The shares issued to the Group CEO are to be priced at the VWAP calculated between 25 August – 29 August (inclusive).
- (c) Interest will be charged on the Loan at a prescribed rate (being the fringe benefit tax rate specified by Inland Revenue from time to time, calculated daily on the basis of a year of 365 days).
- (d) The Loan is repayable on the 10th anniversary of the issue date or the cessation of the Group CEO's employment, whichever the earlier. The Group CEO is entitled to repay the Loan at any time prior to the repayment date.
- (e) On the cessation of the Group CEO's employment, the Loan will become repayable. The Group CEO will be required to repay it within 30 days.
- (f) The Group CEO must not transfer the shares while the Loan remains outstanding. There is no restriction contemplated following repayment of the Loan (other than standard MVN share trading policy restrictions and inside trading restrictions).
- (g) The Group CEO has a long term incentive cash bonus payable in the event that MVN and subsidiaries (**Group**) net profit after tax (**NPAT**) for the year ending June 2019 exceeds a defined target. It is a condition of that long term incentive bonus scheme that the after tax portion of any bonus earned under that scheme is required to be applied towards early repayment of the Loan. Whilst the quantum of this bonus, if payable, would be insufficient to entirely repay this loan (as the bonus will have tax deducted from the gross amount), it would nevertheless enable a substantial portion of the loan to be repaid.

NOTICE OF FINANCIAL ASSISTANCE TRANSACTION

Notice is given under section 80(1)(b) of the Companies Act 1993 of the following transaction under which Methven Limited (**Company**) has given financial assistance to (i) selected senior executives in accordance with the Company's Senior Executive Share Scheme (**Exec Scheme**) and (ii) the Group CEO under an equity participation arrangement (**Group CEO Scheme**), in each case for the purchase of shares in the Company.

The details of the financial assistance transaction are:

1. 100,000 ordinary shares were delivered to Richard Evans, 200,000 ordinary shares were delivered to Andy Chen and 50,000 ordinary shares were delivered to Fraser Houghton under the Exec Scheme and 369,713 ordinary shares were issued to the David Banfield under the Group CEO Scheme.
2. The consideration for the shares delivered to Richard Evans under the Exec Scheme was \$1.1122 per share, being the market price (determined as the volume-weighted average selling price per share of all of the ordinary shares of the Company traded on the NZSX during the 10 business day period following which his entitlement to the Shares accrued under his employment terms.

The consideration for the shares delivered to Andy Chen under the Exec Scheme was \$1.1659 per share, being the market price (determined as the volume-weighted average selling price per share of all of the ordinary shares of the Company traded on the NZSX during the 10 business day period following which his entitlement to the Shares accrued under his employment terms.

The consideration for the shares delivered to Fraser Houghton under the Exec Scheme was \$1.2329 per share, being the market price (determined as the volume-weighted average selling price per share of all of the ordinary shares of the Company traded on the NZSX during the 10 business day period following which his entitlement to the Shares accrued under his employment terms.

The consideration for the shares issued to David Banfield under the Group CEO was \$1.3524 per share, being the market price (determined as the volume-weighted average selling price per share of all of the ordinary shares of the Company traded on the NZSX during the 3 business day (25 August 2016 to 29 August 2016) period following the board's in-principle approval of the scheme.

3. Richard Evans, Andy Chen, Fraser Houghton and David Banfield are each the beneficial owners of the shares in respect of which the financial assistance has been provided.
4. The nature of the financial assistance is the provision, by the Company to each of Richard Evans, Andy Chen, Fraser Houghton and David Banfield, of a loan equal to the aggregate price to be paid for the shares referred to above (Loan). Loans will be used for acquiring those shares.

The total amount of the financial assistance provided was \$906,045 (\$111,220 in respect of Richard Evans, \$233,180 in respect of Andy Chen, \$61,645 in respect of Fraser Houghton and \$500,000 in respect of David Banfield), in each case being the value of the total shares.