

## LETTER FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE

To the holders of Ordinary shares in New Britain Palm Oil Limited (the “Company” or “NBPOL”) for information only.

4 May 2012

Dear Shareholder,

In this letter and attached appendices, we provide you with an explanation of Resolutions 5 and 6 set out in the Notice convening the AGM, which is being submitted to shareholders in connection with the proposed introduction of a new executive incentive structure know as the New Britain Palm Oil Limited Long-Term Incentive Plan (the “LTIP”).

### **Background**

With the Company’s growing operations and resultant revenue and profit growth, the management together with its key value drivers plan to take the Company to its next stage of development through the execution of the business strategy. The success of the strategy is dependent on the hiring and retention of top quality executives and employees and the Remuneration Committee is acutely aware of these risks in an extremely competitive environment for talent.

Following a recent examination of the current remuneration policy by the Company’s Remuneration Committee it was felt that the remuneration policy and overall structure was not optimally aligned with the Company strategy or in line with the market.

In light of this review, the Remuneration Committee are proposing to introduce a new remuneration policy and specifically introduce the New Britain Palm Oil Limited Long-Term Incentive Plan for the Executive Directors and key value drivers of the Company.

### **Rationale for the LTIP**

The Remuneration Committee’s review of the remuneration policy highlighted that there was a significant pay gap (historic and current) between the current arrangements and the market. The Remuneration Committee strongly believes that a new policy should be adopted that:

- (a) more clearly aligned Executives’ interests with those of shareholders;
- (b) is in line with UK corporate governance best practice in this area;
- (c) ensures greater transparency on how the Company sets each element of the compensation package and associated performance hurdles;
- (d) appropriately focuses the Executives on the successful outcome of the next stage of development through the execution of the business strategy using a reward strategy that supports this business strategy and in particular provides targeted short and long-term incentives;
- (e) provides an opportunity for the Executives to build a material long-term shareholding in the Company; and
- (f) is deemed to be competitive against similar sized companies in the market in which they are listed.

## New remuneration structure for the Executive Directors

The following table shows the principal changes between the current remuneration structure operated by the Company and the new remuneration structure:-

Element	Current structure	New structure for 2012
<b>Salary</b>	<ul style="list-style-type: none"> <li>Chief Executive Officer: \$450k.</li> <li>Executive Director, Sales and Marketing and Investor Relations: \$190k.</li> </ul>	<p>10% salary increase for the Executive Directors:-</p> <ul style="list-style-type: none"> <li>Chief Executive Officer: \$495k.</li> <li>Executive Director, Sales and Marketing and Investor Relations: \$209k.</li> </ul>
<b>Annual bonus</b>	<p>Discretionary bonus. The Company currently operates a discretionary bonus plan with levels of bonus determined by the Remuneration Committee at the end of the relevant financial year.</p> <p>In respect of 2011, the Remuneration Committee has determined to pay part of the discretionary bonus for each of the Executive Directors and selected other members of the senior management in the form of a Bonus Share Award.</p> <p>The key terms of the Bonus Share Award are:-</p> <ul style="list-style-type: none"> <li>Maximum value of the Bonus Share Award is 100% of salary;</li> <li>one-off payment in shares;</li> <li>50% of the Awards vest at the end of a 3 year vesting period, with the remaining 50% of the Awards vesting after 4 years subject to continued employment to the relevant dates.</li> </ul> <p>Bonus Share Awards will be granted under the rules of the LTIP provided that on a change of control Bonus Share Awards will vest as they have already been earned.</p>	<p>100% maximum annual cash bonus.</p> <p>Short term performance metrics include:</p> <ul style="list-style-type: none"> <li>35% of bonus is based on achieving Profit before Tax as compared to market expectations and budget;</li> <li>45% of bonus is based on the 30:30 target, with 20% linked to Fresh Fruit Bunch ("FFB") production achieved versus budget and 25% linked to Extraction rates achieved versus budget; and</li> <li>20% of bonus is based on sustainability indicators with 10% linked to maintaining RSPO certification and 10% linked to ISO14001 being maintained.</li> </ul>
<b>Benefits</b>	<ul style="list-style-type: none"> <li>Competitive levels of benefits provided, including accommodation, utility charges, insurance cover for medical treatment, directors' insurance, death in service and permanent disability insurance, school expenses and travel benefits.</li> <li>The Executive Directors do not receive a pension contribution from the Company.</li> </ul>	No change

Element	Current structure	New structure for 2012
<b>Share incentives</b>	None	<p>Introduction of the New Britain Palm Oil Limited Long-Term Incentive Plan ("LTIP").</p> <p><i>Performance Share Awards</i></p> <ul style="list-style-type: none"> <li>• Executive Directors: Initial Award maximum of 300% of salary, thereafter 200%.</li> <li>• Senior management: between 50% and 200% of salary (circa 138 people).</li> <li>• Performance Share Awards would be tested against Average Annual ROCE and the Company's strategic 30:30 initiatives at the end of a 3 year performance period.</li> </ul> <p>The Remuneration Committee may reduce the number of shares vesting which have been earned based on the satisfaction of the ROCE and 30:30 KPI performance targets if the Company has not maintained its dividend policy during the performance period.</p>

Appendix 1 sets out an overview of the key terms of the LTIP, Appendix 2 sets out a technical summary of the LTIP and Appendix 3 sets out some illustrative modelling of the LTIP.

### **Shareholder consultation**

The Remuneration Committee consulted with its principal shareholders prior to finalising the new arrangements. The Remuneration Committee is grateful for shareholders' comments and engagement during the consultation process.

### **Board recommendation**

The Board considers the LTIP to be in the best interests of the Company and shareholders as a whole and unanimously recommends that you vote in favour of Resolutions 5 and 6

Yours faithfully,



Brown Bai, CBE CSM  
**Chairman of the Remuneration Committee**

## APPENDIX 1

### SUMMARY OF THE TERMS OF THE NEW BRITAIN PALM OIL LIMITED LONG TERM INCENTIVE PLAN

The following section sets out an overview of the operation of the LTIP.

#### Overview of the Performance Share Awards

Feature	Detail
<b>Type of Award</b>	<ul style="list-style-type: none"> <li>• Awards in the form of conditional shares, nil-cost options or restricted shares.</li> <li>• Annual Awards to be granted.</li> <li>• Awards have a life of up to 10 years.</li> <li>• From vesting date to end of performance period, shares subject to claw back in event of material misstatement of accounts/gross misconduct.</li> </ul>
<b>Participation</b>	<ul style="list-style-type: none"> <li>• Executive Directors and senior management.</li> </ul>
<b>Individual limits</b>	<ul style="list-style-type: none"> <li>• Annual Awards subject to a limit of 200% of base salary (e.g. the proposed ongoing Award maximum from 2013).</li> <li>• In exceptional circumstances, an Award of 300% base salary can be awarded (i.e. the proposed initial Award maximum for 2012).</li> </ul>
<b>Plan limits</b>	<ul style="list-style-type: none"> <li>• Number of shares allocated under Awards in 10 year period and which are to be satisfied by newly issued or treasury shares (if applicable) cannot exceed 10% of the Company's issued share capital (5% under executive share plans).</li> <li>• In addition to newly issued shares and treasury shares (if applicable), Awards can be settled through the use of market purchase shares.</li> </ul>
<b>Vesting period</b>	<ul style="list-style-type: none"> <li>• Awards vest at the end of a 3 year performance period.</li> </ul>
<b>Good leavers</b>	<ul style="list-style-type: none"> <li>• A good leaver is someone whose employment is terminated by reason of death, ill health, disability, redundancy or such other reason as the Remuneration Committee may determine.</li> <li>• On termination of employment a good leaver does not lose vested Awards.</li> <li>• Unvested Awards will vest on the usual vesting date but pro-rated for time served and if the performance targets have been achieved.</li> <li>• The Remuneration Committee has discretion to accelerate the vesting date to the date of cessation (subject to the performance conditions being met at this date).</li> </ul>
<b>Bad leavers</b>	<ul style="list-style-type: none"> <li>• Anyone who is not a good leaver will be a bad leaver.</li> <li>• All unvested Awards will lapse on termination of employment.</li> </ul>
<b>Change of control</b>	<ul style="list-style-type: none"> <li>• All unvested Awards will vest on a change of control.</li> <li>• The level of vesting will be determined by the Remuneration Committee by reference to the time elapsed from the grant date to the change of control date and the performance levels achieved as at the date of the change of control.</li> </ul>

**Performance target**

Performance targets will be set by reference to a 3 year period i.e. a 3 year target will be set. The initial Performance Share Awards are subject to two different performance targets with a general underpin:-

**30:30 KPIs**

- 50% based on achieving the Company’s strategic 30:30 KPIs over a three year performance period:

<b>Performance Level</b>	<b>Fruit yields per hectare versus budget</b> (25% of the total Performance Share Award)	<b>Palm product extraction rates versus budget</b> (25% of the total Performance Share Award)	<b>Level of vesting</b> (maximum 50% of the total Performance Share Award)
<i>Threshold</i>	>80% of average budgeted performance	>80% of average budgeted performance	30%*
<i>Maximum</i>	100% of average budgeted performance	100% of average budgeted performance	100%*

*\*Straight-line vesting between threshold and maximum.*

**Average ROCE**

- 50% based on Average ROCE over the three financial years prior to the vesting date:

<b>Performance Level</b>	<b>Average Annual ROCE over three financial years prior to the vesting date</b>	<b>Level of vesting</b> (maximum 50% of the total Performance Share Award)
<i>Threshold</i>	10%	30%*
<i>Maximum</i>	15%	100%*

*\*Straight-line vesting between threshold and maximum.*

The ROCE formula used will be:

$$ROCE = \text{Pre-Tax Operating Profit} / \text{Capital Employed}$$

- *Pre-Tax Operating Profit* = Operating Revenue – Operating Expenses
- *Capital Employed* = Total Assets – Current Liabilities (equivalent to Shareholders Funds + Debt)

*\*Excluding net gain/ loss arising from fair value of biological assets under IAS 41.*

**Underpin**

The Remuneration Committee may reduce the number of shares vesting which have been earned based on the satisfaction of the ROCE and 30:30 KPI performance targets if the Company has not maintained its dividend policy during the performance period.

**General**

- Where performance targets are not satisfied at the end of the 3 year period, the Awards will lapse, performance targets will not be retested.
- The Remuneration Committee will disclose the targets at the date of grant of Performance Share Awards and the actual performance and the related payout at the end of the performance period in the Annual Report and Accounts.

## **APPENDIX 2**

### **SUMMARY OF THE TECHNICAL TERMS OF THE LTIP**

#### **Operation**

The Remuneration Committee, the members of which are non-executive directors, supervise the operation of the LTIP in respect of the executives of the Company.

#### **Eligible Employees**

Any employee of the Company is eligible to participate in the LTIP however the actual intended participation will be limited to the Executive Directors and senior manager level employees.

Non-executive directors are not eligible to participate in the LTIP.

#### **Grant & Vesting of Awards**

Awards will normally be granted to each participant within a 42 day period following the date of publication of the annual results of the Company.

On the grant of Awards the Remuneration Committee will determine the maximum face value of the Awards that can be granted to a participant in any calendar year. The maximum face value of Awards that can be granted is 200% of salary (the Remuneration Committee has discretion to grant up to 300% of salary in exceptional circumstances).

The vesting of Awards will be subject to continued employment, satisfaction of the performance targets and any other terms or conditions determined at grant.

#### **Limits**

The Company may issue 10% of its Shares within a ten year period to satisfy Awards to participants in the LTIP and any other Share plan operated by the Company under which Shares are issued (5% for executive plans).

The Remuneration Committee will be monitoring the issue of Shares during the ten year period. It should be noted that where the Company uses treasury Shares (if applicable) to satisfy its obligations under Share arrangements they shall be added to the number of Shares issued for the purposes of this limit.

#### **Taxation**

The vesting of Awards or exercise of Awards is conditional upon the participant paying any taxes due.

#### **Allotment and Transfer of Shares**

Shares subscribed will not rank for dividends payable by reference to a record date falling before the date on which the Shares are acquired. Application will be made for the admission of the new Shares to be issued to the Official List of, and to trading on, the relevant Exchange following the vesting and/ or exercise of Awards.

### **Variation of Share Capital**

On a variation of the capital of the Company, the number of Shares subject to Awards and their terms and conditions may be adjusted in such manner as the Remuneration Committee determines and the advisors of the Company confirm to be fair and reasonable.

### **Duration**

The LTIP will operate for a period of five years from the date of approval by shareholders. The Remuneration Committee may not grant Awards under the LTIP after the specified dates.

### **Amendments**

Amendments to the rules of the LTIP may be made at the discretion of the Remuneration Committee. However, the provisions governing eligibility requirements, equity dilution, Share utilisation and individual participation limits and the adjustments that may be made following a rights issue or any other variation of capital together with the limitations on the number of Shares that may be issued cannot be altered to the advantage of participants without prior shareholder approval, except for minor amendments to benefit the administration of the LTIP, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for the group. However, participants should be notified of any amendment which would materially detrimentally affect their existing rights and such amendments must be approved by the majority of participants notified.

The Remuneration Committee may add to, vary or amend the rules of the LTIP by way of a separate schedule in order that the LTIP may operate to take account of local legislative and regulatory treatment for participants or the relevant group company, provided that the parameters of these arrangements will provide no greater benefits than the rules of the LTIP as summarised above.

### **General**

Awards and any other rights granted pursuant to the LTIP are non-pensionable.

### **Non-Transferability of Awards**

Awards are not transferable except in the case of a participant for whom a trustee is acting, in which case the trustee will be able to transfer the benefit to the participant or by will or the laws of descent and distribution.

**Note:** This Appendix 2 summarises the main features of the LTIP but does not form part of them and should not be taken as affecting the interpretation of the detailed terms and conditions constituting the rules. Copies of the rules will be available for inspection at the registered office of the Company, Bebere Plantation, Mosa, KIMBE, West New Britain Province, Papua New Guinea, during usual office hours (Saturdays, Sundays and statutory holidays excepted) from the date of despatch of the Chairman's letter up to and including the date of the General Meeting and at the meeting itself. The Directors reserve the right, up to the time of the meeting, to make such amendments and additions to the rules of the LTIP as they consider necessary or desirable, provided that such amendments and additions do not conflict in any material respect with the summary set out in this Appendix 2.

## APPENDIX 3

### MODELLING INDICATIVE COSTS VS. BENEFIT OF THE LTIP AWARDS (ILLUSTRATIVE ONLY)

#### Assumptions

This section illustrates the cost and benefit (Executive Directors and key value drivers) of the LTIP in terms of the:

- potential value delivered to the Executive Directors and the total potential value for all participants;
- total charge to the P&L of granting Awards under the LTIP;
- potential dilution of the LTIP; and
- the benefit to shareholders assuming three different growth scenarios.

The tables below set out the assumptions used to model the LTIP Performance Share Awards:-

#### Corporate inputs

	GBP	US\$
Current share price	£8.50	\$13.35
Current market capitalisation ('000)	£1,232,500	\$1,935,025
Exchange rate US\$:GBP - 12 month average	1.57	

#### NBPOL growth assumptions

Performance level	Threshold	Strong	Maximum
Assumed growth p.a.	5%	15%	25%

#### Participation

	Base salary (US\$)
Chief Executive Officer	495
Executive Director, S&M and IR	209
Other Group 1 participants (Ave.)	279
Total Other Group 1 participants	1,114
Group 2 participants (Ave.)	240
Total Group 2 participants	2,161
Group 3 participants (Ave.)	81
Total Group 3 participants	10,120
Assumed level of salary increase	3%

## LTIP

Size of LTIP Performance Share Awards	Initial Awards (% of salary)	Future Awards (% of salary)
Executive Directors	300%	200%
Other Group 1 participants	200%	200%
Group 2 participants	100%	100%
Group 3 participants	50%	50%

### Performance conditions

ROCE	50%
NBPOL strategic KPI's	50%

### Performance level

	Threshold	Strong	Maximum
Percentage of award released - ROCE	30%	65%	100%
Percentage of award released - 30:30 Strategic KPIs	30%	65%	100%

### Other key terms

	Vesting period (years)
Vesting Period	3

## Summary of the financial impact for the Company, participants and shareholders

The following table sets out a summary of the value created for shareholders, benefit to participants, potential dilution to shareholders and the total P&L cost of the LTIP at three different levels of performance from 2012 to 2017 (assuming three grants under the LTIP):-

2012 - 2017	Value created for shareholders (ignoring dividends) \$000	Total Benefit to participants \$000	% value of Total Return to Shareholders attributable to participants	Total Dilution %	Estimated Total Charge to the P&L Account \$000
<b>Threshold</b>					
<i>LTIP</i>	\$534,612	\$11,899	2.23%	1.69%	\$10,279
<b>Strong</b>					
<i>LTIP</i>	\$1,957,001	\$33,870	1.73%	1.55%	\$22,270
<b>Maximum</b>					
<i>LTIP</i>	\$3,970,203	\$66,918	1.69%	1.44%	\$34,262

### Notes:

- Value created is calculated by taking the market capitalisation on the first date of grant in 2012 from the market capitalisation at the end of the third LTIP vesting period in 2017.
- Total benefit to participants equates to the aggregate market value on vesting of Performance Share Awards at the end of the performance period.
- Dilution is the approximate percentage of the issued share capital which would need to be issued to satisfy Performance Share Awards.
- Total charge to the P&L account equates to the charge arising from the operation of the LTIP Performance Share Awards.

## Detailed analysis

The following table sets out the expected future benefit for the Executive Directors and all participants and the value created for shareholders:-

Threshold	2015	2016	2017
<i>Market capitalisation (m)</i>	\$2,240,033	\$2,352,035	\$2,469,637
<b>LTIP</b>	<b>Level of payout (\$000)</b>		
Chief Executive Officer	\$516	\$354	\$365
Executive Director, S&M and IR	\$218	\$150	\$154
Other Group 1 participants (Ave.)	\$193	\$199	\$205
Total Other Group 1 participants	\$774	\$797	\$821
Group 2 participants (Ave.)	\$83	\$86	\$88
Total Group 2 participants	\$750	\$773	\$796
Group 3 participants (Ave.)	\$14	\$14	\$15
Total Group 3 participants	\$1,757	\$1,810	\$1,864
<b>Total Benefit to participants</b>	<b>\$4,015</b>	<b>\$3,884</b>	<b>\$4,000</b>
<b>Value created for shareholders from 2012 - ignoring dividends</b>	<b>\$305,008</b>	<b>\$417,010</b>	<b>\$534,612</b>

Strong	2015	2016	2017
<i>Market capitalisation (m)</i>	\$2,942,931	\$3,384,371	\$3,892,026
<b>LTIP</b>	<b>Level of payout (\$000)</b>		
Chief Executive Officer	\$1,468	\$1,008	\$1,038
Executive Director, S&M and IR	\$620	\$426	\$438
Other Group 1 participants (Ave.)	\$551	\$567	\$584
Total Other Group 1 participants	\$2,203	\$2,269	\$2,337
Group 2 participants (Ave.)	\$237	\$244	\$252
Total Group 2 participants	\$2,136	\$2,200	\$2,266
Group 3 participants (Ave.)	\$40	\$41	\$42
Total Group 3 participants	\$5,002	\$5,152	\$5,307
<b>Total Benefit to participants</b>	<b>\$11,429</b>	<b>\$11,055</b>	<b>\$11,387</b>
<b>Value created for shareholders from 2012 - ignoring dividends</b>	<b>\$1,007,906</b>	<b>\$1,449,346</b>	<b>\$1,957,001</b>

Maximum	2015	2016	2017
<i>Market capitalisation (m)</i>	\$3,779,346	\$4,724,182	\$5,905,228
<b>LTIP</b>	<b>Level of payout (\$000)</b>		
Chief Executive Officer	\$2,900	\$1,992	\$2,051
Executive Director, S&M and IR	\$1,225	\$841	\$866
Other Group 1 participants (Ave.)	\$1,088	\$1,121	\$1,154
Total Other Group 1 participants	\$4,352	\$4,482	\$4,617
Group 2 participants (Ave.)	\$469	\$483	\$498
Total Group 2 participants	\$4,221	\$4,347	\$4,478
Group 3 participants (Ave.)	\$79	\$81	\$84
Total Group 3 participants	\$9,883	\$10,179	\$10,485
<b>Total Benefit to participants</b>	<b>\$22,580</b>	<b>\$21,841</b>	<b>\$22,496</b>
<b>Value created for shareholders from 2012 - ignoring dividends</b>	<b>\$1,844,321</b>	<b>\$2,789,157</b>	<b>\$3,970,203</b>