

2016 Sustainability Benchmark: Indonesian Palm Oil Growers Methodology

Appendix 1: Sustainability Benchmark Methodology

The 10 IDX-listed companies were benchmarked on their sustainability policies and recent practices. The companies could score a total of 12 points:

- Aligning with NDPE policies (maximum 6 points)
- Active membership of the RSPO (maximum 3 points)
- Recent practices (maximum 3 points)

The result was presented in score ranges: green for the category 9 to 12 points, orange for the category 5 to 8 points, red for the category 0 to 4 points.

NDPE Policy Alignment

No Deforestation, No Peat, No Exploitation (NDPE) policies form the most demanding palm oil industry standard to fight climate change, biodiversity loss and human rights abuses. A large group of leading private palm oil growers/traders/processors have adopted NDPE policies. Appendix 3 explains the NDPE policies further.

There was a maximum of 6 points for companies that have extensively committed themselves to NDPE policies. Points could be scored for aligning with the following key elements of NDPE-policies:

- Respecting the conservation of High Conservation Value (HCV) areas (1 point) and High Carbon Stock (HCS) areas (1 point)
- Not developing on peatlands delivered (2 points)
- Making commitments not to infringe on Free, Prior and Informed Consent, the labor conventions of ILO, and the UN guiding principles on human rights (2 points)

RSPO Active Membership

The Roundtable for Sustainable Palm Oil (RSPO) is a standard adopted by the international palm oil industry. Compared to NDPE policies the standard is weaker on deforestation and driving change, yet the RSPO also has a complementary role.

Points could be scored for:

- Consequently submitting New Planting proposals to the RSPO and the public *before* starting to clear and plant (1 point).
- Having more than 30% of CPO production RSPO certified (1 point).
- Having a time-bound plan to achieve 100% RSPO certification for own operations by 2020 (1 point).

Recent Practices

Companies that were found to deforest and/or opening peatlands after June 2015 scored zero points. Social issues, such as land disputes and labor rights violations, were

taken into account whenever recent instances of clear violations after June 2015 had come to light. In that case companies would get a penalty point. The total score on recent practices went never below zero.

A penalty point was also given to controlling shareholders with other palm oil businesses without having an NDPE policy for this other businesses and/or recent practices in contrast to NDPE policies.

Companies with a clean sheet on recent practices scored 3 points.

Practices with regard to the prevention and response to fires were not taken to account for the score on recent practices. The available data did not allow for a clear distinction in the efforts by the companies. As peatlands are very prone to fires, the fires issue is represented through the scores on peatland development (policy and practices).

For the benchmark the following sources were used: annual, sustainability and quarterly reports of the companies, fire hotspot data of the NASA, Landsat imagery, forest cover maps of the ministry of Environment and Forestry, concession boundaries from various sources, RSPO data such as the Annual Communication of Progress for each company and New Planting proposals over the years.

In Figure 1 below, the scores are shown, and their transfer to red, orange, and green.

Figure 1: IDX-listed companies, sustainability benchmark score.

Palm oil grower (ticker on the IDX)	NDPE			RSPO			Recent practices	Total score
	Deforestation	Peat	Exploitation	NPP	Time-bound plan	Present certificates	Deforestation, Peat and Exploitation	
PT Astra Agro Lestari (AALI)	2	2	2	0	0	0	2	8
PT Salim Ivomas Pratama Tbk (SIMP)	1	2	0	0	1	1	1	6
PT SMART (SMAR)	2	2	2	1	1	1	1	10
PT Dharma Satya Nusantara (DSNG)	2	2	1	0	1	1	0	7
PT Sampoerna Agro (SGRO)	1	0	0	0	0	0	3	4
PT Eagle High Plantations (BWPT)	0	1	0	0	0	0	3	4
PT Sawit Sumbermas Sarana (SSMS)	0	0	0	0	1	1	0	2
PT Tunas Baru Lampung (TBLA)	0	0	0	0	0	0	0	0
PT Austindo Nusantara Jaya (ANJT)	0	2	0	1	0	1	2	6
PT Bakrie Sumatera Plantations (UNSP)	0	0	0	0	1	1	3	5

Appendix 2: Risk Exposure Due to NDPE Policies

NDPE Signatories

A large group of leading private palm oil growers, traders and processors have adopted No Deforestation, No Peat, No Exploitation (NDPE) policies. The group represents a vast majority of oil palm traded/processed worldwide. Key elements of NDPE policies are:

- Ending all deforestation and conserving High Conservation Value (HCV) areas and High Carbon Stock (HCS) areas;
- Protecting all peatlands (regardless of depth);
- Recognizing the right of local communities to give or withhold their Free, Prior and Informed Consent (FPIC) to any new developments;
- Complying with the fundamental conventions of the International Labour Organisation (ILO) and upholding the wider United Nations Guiding Principles on Business and Human Rights.

The policies apply to a signatory's own plantation operations as well as all the plantations operated by their third-party suppliers. The protection of peatlands has become law in Indonesia in December 2016. Yet, enforcement may be insufficient.

The following NDPE signatories are known to (directly) buy palm oil from the group of 10 largest IDX-listed growers:

- Louis Dreyfus Company
- Kuala Lumpur Kepong (KLK)
- Asian Agri/Apical
- Golden Agri-Resources (GAR)
- Astra Agro Lestari
- Musim Mas
- Nestlé
- Unilever
- Wahana Citra Nabati.

All these NDPE signatories already apply the key elements mentioned above for their own palm oil operations. Wilmar, GAR, Asian Agri/Apical and Musim Mas are widely perceived as taking the lead in ensuring suppliers' compliance. They engage their third-party suppliers to the extent of suspending trade relations and favoring compliance. They also committed themselves to supply chain transparency by publishing a full list of third-party suppliers, and have a grievance procedure.

Revenue at Risk for IDX-Listed Growers

In June 2015, Chain Reaction Research released a report about the risk exposure of IDX-listed palm oil growers to NDPE-policies. The report concluded, based on 2014 figures, that 6 out of the 10 largest IDX-listed growers had a high-risk exposure (chance of losing main buyers). The estimate was based on the sustainability record of the IDX-listed growers and the percentage of their revenue generation via NDPE buyers.

Since June 2015 many of the IDX-listed companies have mitigated their risks. Some have strengthened their sustainability policies (AALI, DSNG); some have suspended their operations in contested areas due to buyers' intervention (BWPT, ANJT). SSMS and ANJT already experienced losing NDPE-buyers. Chain Reaction Research estimated

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the financial consequences in June 2016. Especially the recent practices of TBLA and SSMS are in contrast with NDPE policies.

Figure 2 below shows how the risk exposure has changed since June 2015. In June 2015, there were six palm oil growers with a high exposure, at present there are four.

Figure 2: IDX-listed companies, risk exposure to NDPE-policies, changes 2015 to 2016.

Palm oil grower (ticker on the IDX)	Risk exposure December 2016	Risk mitigation due to NDPE-buyers since June 2015	Risk exposure June 2015
PT Astra Agro Lestari (AALI)	Medium	Adopted a NDPE-policy in September 2015, moratorium on land conversion.	High
PT Salim Ivomas Pratama (SIMP)	Medium	No apparent changes	Medium
PT Sinar Mas (SMAR)	Medium	No apparent changes	Medium
PT Dharma Satya Nusantara (DSNG)	Medium	Strengthened sustainability policy, slowed down operations in contested areas	High
PT Sampoerna Agro (SGRO)	High	No apparent changes	High
PT Eagle High Plantations (BWPT)	High	No apparent policy changes, suspended operations in contested areas	High
PT Sawit Sumbermas Sarana (SSMS)	Medium	No apparent policy changes, main NDPE-buyers stopped purchasing, recent practices in clear contrast with NDPE	High
PT Tunas Baru Lampung (TBLA)	High	No apparent policy changes, recent practices in clear contrast with NDPE	Medium
PT Austindo Nusantara Jaya (ANJT)	Medium	No apparent policy changes, suspended operations in contested areas, main NDPE-buyers stopped purchasing	Medium
PT Bakrie Sumatera Plantations (UNSP)	High	No apparent changes	High

Figure 3 below shows the NDPE-buyers of the 10 largest IDX-listed companies in 2016, and an estimate of the percentage of revenue generated by present NDPE-buyers.

Figure 3: IDX-listed companies, main NDPE-buyers and percentage revenue from NDPE-buyers. Sources: quarterly reports IDX-listed growers, Astra auction results first half 2016.

Palm oil grower (ticker on the IDX)	Main NDPE-buyers in 2016	Revenue percent from NDPE-buyers
PT Astra Agro Lestari (AALI)	KLK, Musim Mas, Asian Agri/Apical, GAR, Wilmar	70%
PT Salim Ivomas Pratama (SIMP)	Wilmar, Musim Mas, GAR	20% to 30%
PT Sinar Mas (SMAR)	Wilmar, Musim Mas	< 10%
PT Dharma Satya Nusantara (DSNG)	GAR, Wilmar	70%
PT Sampoerna Agro (SGRO)	GAR, Louis Dreyfus, Wahana Citra Nabati	60%
PT Eagle High Plantations (BWPT)	GAR, Wilmar	90%
PT Sawit Sumbermas Sarana (SSMS)	Louis Dreyfus, Unilever	< 10%
PT Tunas Baru Lampung (TBLA)	Nestlé, Louis Dreyfus, Musim Mas, Wilmar, GAR, ADM and Asian Agri/Apical	20% to 30%
PT Austindo Nusantara Jaya (ANJT)	KLK and Astra Agro Lestari	40%
PT Bakrie Sumatera Plantations (UNSP)	Wilmar, Musim Mas	55%

Chain Reaction Research (CRR) is a consortium of Aidenvironment, Climate Advisers, and Profundo. CRR conducts sustainability risk analysis for financial analysts and investors, with a special focus on sectors that deal with environmentally intensive commodities in tropical countries. Since 2012, CRR has provided in-depth and reliable analysis to investors about the financial risks inherent in the activities of palm oil and pulp and paper companies in Indonesia. These reports have proven to be a driver for change; investors have used their financial leverage to stimulate companies to adopt No Deforestation policies. The reports have also highlighted the financial risks associated to noncompliance of sustainability standards.