CHAIN REACTION RESEARCH
sustainability risk analysis

INITIATING COVERAGE

20 May 2015

Triputra Agro Persada

HIGH RISK

Palm oil company

IPO: 2016 or 2017

Risk Assessment

Sustainability Outlook ....**HIGH RISK**

Legal Compliance ....**MEDIUM RISK**

Deforestation and Biodiversity..................**HIGH RISK**

Climate Change.....................................**MEDIUM RISK**

Social Issues ....**HIGH RISK**

Summary

Triputra Agro Persada (Triputra/TAP) is a privately owned Indonesian palm oil and rubber plantation company. The company has a land bank of approximately 300,000 hectares, of which around 164,000 ha is currently planted with palm oil. The company is one of the fastest growing palm oil companies in Indonesia, planting an estimated 100,000 ha from 2010 to 2014, and is aiming to expand its operations even further in the coming years. With 25 palm oil plantation subsidiaries, the company produced an estimated 323,000 tonnes of crude palm oil (CPO) in 2014. However, it is not active further downstream in the supply chain, selling all of its CPO to processors and traders.

As the palm oil sector undergoes radical transformation, Chain Reaction Research (CRR) assessed the sustainability and financial risks of Triputra's policies and practices, based on compliance with national laws and regulations, customer sustainability policies, and certification standards. This report gives an overview of the company, delves into the environmental and social issues it faces, and presents a financial analysis of how sustainability risks may impact the bottom line.

A draft version of the sustainability risks identified in this report was sent to Triputra for review on April 10, 2015. Triputra representatives did not provide any specific information to CRR in response to the report's findings before the time of publication.

Sustainability and Financial Risks

After extensive research, it is clear that Triputra has very little transparency about its sustainability policies, having not published an Annual Report since 2012. This lack of transparency alone poses a serious risk for the company with customers that require greater levels of openness. Nevertheless, the available information on Triputra's record shows that the company faces serious issues in its operations, including deforestation, peatland development, and conflicts with local communities:

- From 2006 – 2014, Triputra's plantation companies were responsible for 37,300 ha of documented deforestation in Indonesia. That is an area about twice the size of the island of Manhattan.
- Triputra's current land bank covers 28,100 ha of potential and actual orangutan habitat, much of which has been converted to palm oil plantations.
- The company has also developed 16,300 ha of carbon-rich peatlands, which is the climate equivalent of the annual carbon pollution from 415,000 cars.
- Triputra and its subsidiaries have faced a number of conflicts with local communities and smallholders, several of which are still unresolved and on-going.

Assessing Triputra's sustainability risk exposure has proved relatively challenging, as the group remains unlisted on any stock exchange, and therefore relatively opaque. Triputra's latest publicly available Annual Report is from 2012. The group's membership in the Roundtable on Sustainable Palm Oil (RSPO) since 2007 offered limited further insight into Triputra's sustainability policies and practices. There is very little information available on assessments and/or conservation by the company of High Conservation Value (HCV) or High Carbon Stock (HCS) areas.

Triputra has been a member of the RSPO since June 2007. CRR's findings indicate that Triputra has been substandard in delivering on the requirements of its membership, making the company vulnerable to being challenged through formal complaints, and to being suspended or expelled from the Roundtable's membership.

These issues put the company at serious risk of losing market access to both traders and end users that have adopted No Deforestation, No Peat, No Exploitation policies and require transparency. In addition, Triputra faces some risk of losing access to global capital markets as investors tighten sustainability requirements going forward.

For example, Wilmar International, the world's largest palm oil trader, is likely to be Triputra's largest customer. At the end of 2012, Wilmar accounted for 44% of Triputra's trade receivables. In December 2013, Wilmar committed to a No Deforestation, No Peat, No Exploitation policy for its supply chain. In January 2015, Wilmar disclosed most of its suppliers, on a palm oil mill level, that deliver to its refineries and oleochemical factories. This disclosure showed that eight of Triputra's CPO mills sold to Wilmar facilities in the first nine months of 2014. Without reforming its sustainability practices and providing greater transparency, Triputra faces serious risk of losing its ability to sell to Wilmar.

To evaluate the potential financial impacts of these sustainability risks, CRR employed a model based on Triputra's most recent financial statements from 2012, and estimated future earnings. CRR developed a baseline scenario in which sustainability issues have no impact on Triputra's business, as well as three alternative scenarios that account for varying impacts. For each scenario, CRR identified the impact on key financial indicators such as Return on Equity, Return on Assets, leverage and profit margins. The analysis showed:

1. Triputra could potentially lose global customers if its practices are not compliant with companies, such as Wilmar, that have adopted No Deforestation policies. This could result in a 10.4% loss in net income margin, a 2.3% drop in RoA, and 22.9% drop in RoE.
2. Triputra could be required to acquire and reforest compensation land to be handed over to the government for its illegal occupation of forestland. This could result in an 8.4% loss in net income margin, a 2.6% drop in RoA, and 27.2% drop in RoE.
3. Triputra could have to pay compensation costs to the RSPO for its deforestation since 2006, estimated to be approximately USD 30 million in fees. This would create a temporary drop in the net income margin, RoE, and RoA.

Conclusion

In all three of the alternative scenarios analysed by CRR, Triputra's key financial indicators are depressed in comparison to the baseline scenario, while the debt-equity ratio increases to dangerously high levels. There is also a possibility that these different scenarios could occur simultaneously, creating cumulative and more serious impacts on financial indicators. Additionally, a significant risk embedded in all scenarios is that they could result in further damage to the reputation of Triputra Agro Persada among customers, investors, and the public. This could trigger additional scenarios with negative consequences on the financial indicators of the company, such as major customers cancelling purchasing contracts and banks and investors denying financing and investments.

Since Triputra is an upstream palm oil company that is dependent on processors and traders to buy its products, poor management of sustainability and governance issues on its plantations could have potentially significant negative financial impacts. This underscores the fact that addressing current and past sustainability issues – such as deforestation, peatland development, and social conflicts – will be critical to Triputra's financial stability. The extent to which the company is able to successfully resolve these issues could significantly affect its financial performance in the coming years.

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1 Company profile of Triputra Agro Persada

1.1 Key Figures

Triputra is a palm oil and rubber plantations company, with access to a land bank of around 300,000 hectares in Indonesia.[1] CRR estimates its planted palm oil area at 164,000 ha at present. **For the four-year period 2013-2016, we assume that Triputra has been or will be planting 15,000 ha per year** in order to become a major crude palm oil producer.[2] The company produced an estimated 323,000 tonnes of CPO in 2014, but is not active further downstream in the palm oil supply chain: all its CPO is sold to processors and traders.

Triputra is a privately owned company. It belongs to the Triputra Group, which was founded in 1998 by Theodore Rachmat and Benny Subianto, former senior executives of the Astra Group that is active in palm oil plantations as well as car manufacturing.

To enhance growth, the owners of Triputra in 2012 sold strategic minority stakes to two prominent investors, the private equity group Northstar Group (Singapore) and GIC, the sovereign wealth fund of Singapore. The two investors together put USD 200 million in the company in one of Southeast Asia's largest private equity deals of the year.[3] Triputra has teamed up with these strategic investors to bring in private equity expertise on acquisitions to expand the company and to achieve efficiencies. After that, these investors reportedly intend to exit their stakes in Triputra through an IPO in 2016 or 2017.[4]

Triputra's latest published key figures are from 2012 and are presented in Table 1.

Table 1 Key figures for Triputra Agro Persada in 2012

Indicators	Result in 2012
CPO Production	280,074 tonnes
Revenue	IDR 2.5 trillion / USD 264 million
Net Profit	IDR 65.6 billion / USD 6.8 million

Source: Triputra Agro Persada, "Annual Report 2012".

1.2 Palm Oil Plantations

1.2.1 Land Bank

All of Triputra's palm oil operations are located in Indonesia, mainly in Kalimantan. The company's 2012 annual report stated a total land bank of 299,549 hectares.[5] Table 2 provides a summary of the company's land bank per province, based on IUP plantation business permits. A detailed overview of the company's 25 palm oil plantation subsidiaries is shown in Appendix 1

Table 2 Triputra Agro Persada's land bank per province

Province	Land bank (ha)	%
Central Kalimantan	114,885	38
East Kalimantan	104,608	35
West Kalimantan	68,456	23
Jambi, Sumatra	11,600	4
Total	**299,549**	**100**

Sources: IUP permit data.

Of the 25 plantation subsidiaries, 21 are almost fully owned by Triputra through the holding company PT Agro Multi Persada (94.93% owned by Triputra). Four companies, with a total land bank of 60,908 ha, are controlled by PT Union Sampoerna Triputra Persada (USTP). This is a 50/50 joint venture between Triputra and the Indonesian company PT Union Sampoerna.[6]

A part of Triputra's land bank, at least 15,589 hectares (5%), has been developed into plasma plantations for smallholders who supply their fruits to the company's CPO mills.[7]

Apart from TAP, the Triputra Group also owns other palm oil investments such as the PT Agro Maju Raya (Amara) group. On its website, the Triputra Group claims a total land bank of 388,000 ha and mentions plans to have a 600,000 ha land bank in 2020, which would make Triputra one of the three biggest palm plantation companies in Indonesia (though these figures may be outdated projections based on market circumstances that no longer exist).[8]

1.2.2 Planted Area

Triputra is one of the fastest growing Indonesian palm oil companies. It has been expanding its planted area aggressively, as Table 3 shows, adding 20,000 hectares on average per year in the period 2010 - 2012 to reach a planted area of 133,907 ha (including 15,589 ha of plasma plantations).

For the four-year period 2013-2016, CRR assumes that Triputra has been or will be planting 15,000 ha per year. This is based on the company's ambitions as stated in 2013.[9] Going from this assumption, and the assumption that there will be no acquisitions or disposals of plantation companies, the planted area will reach 193,907 ha at the end of 2016.

Table 3 shows that Triputra's mature planted area could increase a lot the coming years. At the end of 2016 fresh fruit bunches will be able to be harvested from 130,562 ha, while as of late 2014 this figure stood at 78,562 ha. This is an increase of 66% in two years.

Table 3 Areas planted with palm oil, 2010-2016 (ha)

Date	Immature area (0-3 years)	Mature area (4-18 years)	Total planted area	Increase
31 Dec 2010	43,608	38,326	81,934	8,600
31 Dec 2011	51,908	57,887	109,795	27,900
31 Dec 2012	67,268	66,638	133,907	24,100
31 Dec 2013	*78,945*	*69,962*	*148,907*	*15,000*
31 Dec 2014	*85,345*	*78,562*	*163,907*	*15,000*
31 Dec 2015	*72,445*	*106,462*	*178,907*	*15,000*
31 Dec 2016	*63,345*	*130,562*	*193,907*	*15,000*

Source: Triputra, “Annual report 2012”, p. 234; CRR estimates for 2013 - 2016.

1.3 CPO Production

As of 31 December 2012, Triputra owned six palm oil mills.[10] In 2013 the company added two more, bringing Triputra’s total mill capacity to 390 tonnes of fresh fruit bunches (FFB) per hour. The plan for 2014 was to add another four mills, but it is not clear whether this goal has been realized.[11]

As Triputra’s mature palm oil area is increasing rapidly (see Table 3), the volumes of FFB harvested are also growing. Some of this FFB harvest is sold externally, but the largest part is processed in Triputra’s own CPO mills. Additionally, these CPO mills buy FFB from smallholders and external plantation companies. Table 4 gives an overview of Triputra’s production volumes of FFB, CPO and palm kernel in the period 2011-2014. Figures for 2011 and 2012 are derived from the last annual report published by the company, while figures for 2013 and 2014 are estimated by CRR based on Triputra’s mature palm oil area (see Table 3) and on average yields and extraction rates.

Table 4 Production volumes, 2011-2014

Production indicator	2011	2012	2013	2014
Total FFB harvested (tonnes)	755,947	1,026,871	*1,078,096*	*1,210,619*
Mature plantations (ha)	57,888	66,638	*69,962*	*78,562*
Yield (tonnes per hectare)	**13.06**	**15.41**	***15.41***	***15.41***
Total FFB processed (tonnes)	896,100	1,221,500	*1,278,096*	*1,410,619*
CPO produced (tonnes)	204,044	280,958	*292,500*	*322,829*
Palm kernel produced (tonnes)	39,424	54,850	*56,811*	*62,701*
CPO extraction rate (%)	**22.8%**	**23.0%**	***22.9%***	***22.9%***
Palm kernel extraction rate (%)	**4.4%**	**4.5%**	***4.4%***	***4.4%***

Source: Triputra, “Annual report 2012”, p. 234 and 272; CRR estimates for 2013-2014.

1.4 Customers

Triputra is not active further downstream in the oil palm supply chain beyond its mills; its entire CPO production is sold to external customers. Wilmar International, the world's largest oil palm trader, is probably Triputra's largest customer. As of 31 December 2012 Wilmar accounted for 44% of Triputra's trade receivables.[12] In December 2013, Wilmar committed to a No Deforestation, No Peat, No Exploitation policy for its supply chain; and in January 2015 Wilmar disclosed most of its suppliers (on a palm oil mill level) that deliver to its refineries and oleochemical companies. This information showed that eight Triputra mills delivered CPO and/or palm kernel to Wilmar facilities in the first nine months of 2014.[13]

The BEST (Berkah Emas Sumber Terang) Group is likely also a large customer of Triputra. The BEST Group was the second largest Triputra-debtor as of 31 December 2012, accounting for 15 per cent of Triputra's trade receivables.[14] It is one of the top 5 of largest palm oil refiners in Indonesia, according to the company. It has five refineries, located in Medan (located in the province of North Sumatra), Semarang (Central Java), Sepanjang, Surabaya and Gresik (all three in East Java). The BEST Group is not listed on a stock exchange.[15]

Triputra's subsidiary PT Etam Bersama Lestari (PT EBL) in East Kalimantan is known to sell part of its CPO to Golden Agri-Resources.[16] Triputra's subsidiary PT Brahma Binabakti is a CPO supplier to Musim Mas.[17]

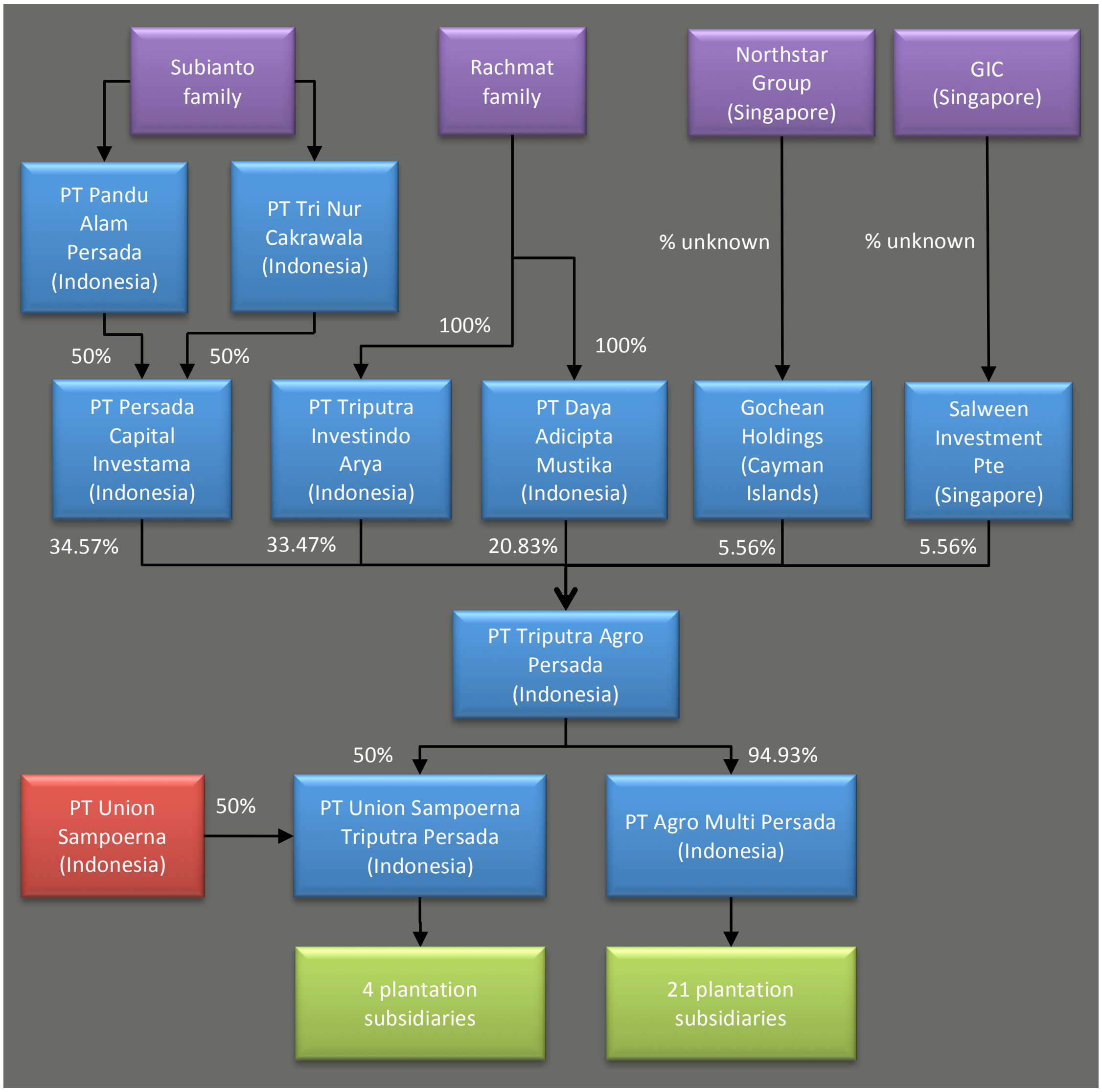
1.5 Ownership Structure

Triputra was founded in 1998 by Theodore Rachmat and Benny Subianto, former senior executives of Astra International (PT Astra Agro Lestari), a significant palm oil producer as well as Indonesia's largest car manufacturer. The collaboration between Rachmat and Subianto also includes other investments in the agribusiness, manufacturing, mining and trading and services sectors, together labelled as the Triputra Group. These investments include a majority share in PT Kirana Megatara, which is Indonesia's largest producer of processed rubber; and automotive component producers Dharma and Pako.[18]

To enhance growth, in 2012 Triputra owners sold strategic minority stakes to two prominent investors: the private equity group Northstar Group (Singapore) and GIC, the sovereign wealth fund of Singapore. The two investors together put USD 200 million into the company for a 5.56% stake each, consisting of USD 100 million in shares and USD 100 million in convertible bonds plus an option to add USD 50 million in securities.[19]

Figure 1 gives an overview of Triputra's present ownership as of April 2015.

Figure 1 Ownership structure of Triputra Agro Persada



Source: Triputra Agro Persada, "Annual Report 2012", July 2013, p. 36-42.

Triputra's main shareholders are:

- **Theodore Rachmat**

Theodore Permadi Rachmat, age 70, is a prominent Indonesian businessman. In December 2014, he was ranked as the 14th richest Indonesian by the American magazine Forbes, with a personal wealth of USD 1.9 billion.[20] He started his career as a salesman for a heavy equipment maker, and worked several years for car manufacturer Astra International. Apart from being a co-owner of the Triputra Group, Rachmat also has a 27% share of DSN Group, another major palm oil plantation company with a land bank of 185,199 hectares that has been listed on the Jakarta stock exchange since June 2013.[21] One of his sons, Arif Rachmat, is the CEO of Triputra.[22]

- **Benny Subianto**
  Benny Subianto, age 72, was the President Director of oil palm plantation company PT Astra Agro Lestari from 1999 to 2006. In December 2014, Benny Subianto was ranked as the 32th richest Indonesian by the American magazine Forbes, with a personal net worth of USD 1 billion.[23] Apart from being a co-owner of the Triputra Group, Subianto also has a 7.5% share of DSN Group.[24]

- **Northstar Group**
  The Northstar Group is a Singapore-headquartered private equity firm managing more than USD 1.2 billion in committed equity capital dedicated to investing in growth companies in Indonesia; and to a lesser extent, other countries in Southeast Asia. Since its founding in 2003, the Northstar Group has raised three private equity funds and invested in more than 25 companies across the banking, insurance, retail, oil and gas, coal and mining services, telecom, and agribusiness sectors. The Northstar Group has invested over USD 2.2 billion with its co-investors in the Southeast Asian region.[25]

  Northstar Group was founded in 1983 by Patrick Walujo, formerly a banker at Goldman Sachs Inc.; and Glenn Sugita, who previously worked at PricewaterhouseCoopers. The firm is closely linked to the American private equity group TPG Capital, one of the largest private equity managers in the world, after a share swap agreement. Ashish Shastry, formerly the head of TPG's Southeast Asian business, joined Northstar Group in 2011.[26]

  In 2011, Northstar Group completed fundraising for its fund Northstar Equity Partners III with USD 820 million of capital commitments. The 2012 investment in Triputra most likely originates from this fund.[27]

- **GIC**
  GIC, formerly known as Government of Singapore Investment Corporation, is the sovereign wealth fund of the government of Singapore. It is one of the world's largest global investors, with well over USD 100 billion of assets in more than 40 countries worldwide.[28]

2 Sustainability Risk Assessment

2.1 Introduction

In January 2015, Triputra CEO Arif Rachmat said, "We are moving very rapidly into a high standard of excellence in terms of sustainability. To be honest it is not only good for business, but I believe it is the right thing to do."[29]

Chain Reaction Research assessed the sustainability impact of Triputra's policies and practices, based on compliance with national laws and regulations, customer sustainability policies, and certification standards (i.e., RSPO).

The following sections elaborate on the sustainability risks Triputra is facing on issues like deforestation and biodiversity loss, climate change, social issues and legal compliance. Given the new sustainability policies adopted by Triputra's customers, further deforestation and destruction of endangered species' habitat presents serious risks to Triputra's continued market access.

Assessing Triputra's sustainability risk exposure proved relatively challenging, as the group remains unlisted on any stock exchange, and therefore relatively opaque. Triputra's latest publicly available Annual Report dates from 2012. The group's membership in the Roundtable on Sustainable Palm Oil (RSPO) since 2007 offered limited additional and relevant insights into Triputra's sustainability policies and deliveries.

2.2 Deforestation and biodiversity loss

2.2.1 Triputra's Policy

In January 2013, Triputra CEO Arif Rachmat issued a policy statement with regard to Triputra's operations and sustainability.[30] The statement includes no reference to deforestation or biodiversity. Triputra's 2012 sustainability report says, "[T]he Company continues to conduct ongoing preservation."[31] But there is very little information available on assessments and/or conservation by the company of High Conservation Value (HCV) areas. There is none on High Carbon Stock (HCS) areas.

2.2.2 Deforestation

In the period 2006-2014, Triputra's current plantation companies conducted 37,300 ha of deforestation.[32] Table 5 shows the amount of deforestation per plantation company.

Table 5 Deforestation by Triputra Agro Persada, 2006-2014

Plantation company	Regency, province	Deforestation 2006-2014 (hectares)
PT Sumber Mahardhika Graha (PT SMG)	Lamandau/Sukamara, Central	5,600
PT Dwiwira Lestari Jaya (PT DLJ)	Berau, East	4,900
PT Buana Hijau Abadi (PT BHA)	Sintang, West	4,900
PT Gawi Bahandep Sawit Mekar (PT GBSM)	Seruyan, Central	3,800
PT Anugerah Agung Prima Abadi (PT AAPA)	Berau, East	3,400
PT Pinang Witmas Abadi (PT PWA)	Kubu Raya, West	2,700

Plantation company	Regency, province	Deforestation 2006-2014 (hectares)
PT Kiara Sawit Abadi (PT KSA)	Sintang, West	2,500
PT Muara Toyu Subur Lestari (PT MTSL)	Paser/North Penajam Paser, East	2,500
Other plantation companies		7,000
Total		**37,300**

Source: Landsat 2006, Dephut forest cover 2006, Landsat 2014

2.2.3 Orangutan Habitat

Triputra's land bank overlaps with 28,100 ha of potential and actual orangutan habitat, as Table 6 shows.[33] Except for PT TAN and PT MIK, most of the habitat has already been converted into palm oil plantations by Triputra. In several cases, orangutans have been found within Triputra's plantations. On 24 August 2014, an orangutan mother and her baby were found within the concession of PT Salonok Ladang Mas.[34] In the summer of 2012, the Center for Orangutan Protection (COP) spotted orangutan nests within an area that was about to be cleared by PT Trieka Agro Nusantara along the Lamandau River.[35] The company is not transparent about the existence of orangutans within the areas it has designed for oil palm plantings, indicating that there might have in reality been more cases. Development on orangutan habitat exposes the company to significant legal penalties, as well as reputational risk from international NGOs that would publicize these practices widely with media and customers.

Table 6 Potential and actual OU-habitat within land bank Triputra

Plantation company	Potential and actual OU-habitat within land bank Triputra (hectares)
PT Gawi Bahandep Sawit Mekar (PT GBSM)	12,400
PT Sukses Karya Mandiri (PT SKM)	5,500
PT Trieka Agro Nusantara (PT TAN)	3,100
PT Mega Ika Khansa (PT MIK)	2,400
PT Harapan Hibrida Kalbar (Central Kalimantan)	1,900
PT Salonok Ladang Mas (PT SLM)	1,500
Other plantation companies	1,300
Total	**28,100**

Source: Landsat, OU habitat maps UNEP World Conservation Monitoring Centre.

2.2.4 High Conservation Value (HCV) Areas

Four of Triputra's 26 plantation companies in West Kalimantan have undergone an assessment to identify areas that are exceptionally important from an ecological or socio-cultural point of view. A total of 4,400 ha was identified as including rare, threatened or endangered species; as well as peatland of more than three metres deep, riparian zones, sacred areas, customary forests and hills.[36] The assessment reports for the four plantation companies were not made public. Triputra has also not published any other information with regard to conservation activities.

2.3 Impact on Climate Change

2.3.1 Triputra's Policy

Triputra's sustainability report 2012 refers to climate change, stating: "The release of greenhouse gas emissions directly affects global warming. Within this context, the Company participated and took part in reducing the release of greenhouse gas emissions in the air, although the Company has not yet conducted an entire calculation of the amount of emissions produced."[37]

The main climate impacts of palm oil plantation are the conversion of peatlands, the management of palm oil mill effluent (POME) and fire outbreak. Almost all major palm oil traders have now agreed to avoid any new development of peatland, regardless of depth, in order to reduce the industry's climate change impact, whilst previously developed peatlands are to be subjected to Best Management Practices, in addition to no deforestation policies and methane capture from POME ponds. Insofar as we could ascertain, Triputra has not published policies that address these areas of concern.

2.3.2 Peatland Conversion

Over the last few years, Triputra converted several peatlands in Kalimantan into palm oil plantations. Table 7 breaks down the total of 16,300 ha of peatland.[38]

Table 7 Peatlands developed by Triputra

Plantation	Province	Opened up peatland (ha)
PT Gawi Bahandep Sawit Mekar (PT GBSM)	Central Kalimantan	7,100
PT Buana Hijau Abadi (PT BHA)	West Kalimantan	4,500
PT Pinang Witmas Abadi (PT PWA)	West Kalimantan	3,100
PT Kedap Sayaaq Dua (PT KSD)	East Kalimantan	1,100
PT Harapan Hibrida Kalbar (PT HHK)	West and Central Kalimantan	500
Total		**16,300**

Source: Landsat, peatland maps Ministry of Agriculture Indonesia and Wetland International

2.3.3 Greenhouse Gas Emissions

When peatlands are drained, the stored carbon reacts with oxygen in the air to release carbon dioxide into the atmosphere. The oxidation process leads to yearly CO_2 emissions of 35 to more than 80 tonnes of CO_2 per hectare (depending on peat type, drainage depth, soil temperature and other factors). Minimisation of drainage is important to reduce greenhouse gas emissions. However, even with an optimal drainage of 40-60 cm in the field, palm oil plantations will still have a significant carbon footprint of about 60 tonnes of CO_2/ha/year.[39] This would bring Triputra's emissions through the drainage of peatlands (excluded N_2O-emissions) at 1.0 million tonnes of CO_2 yearly for the 16,300 ha. This is equivalent to the yearly CO_2-emissions of 415,000 cars.[40]

Triputra has not disclosed any effort to minimise the release of greenhouse gases due to the discharge of Palm Oil Mill Effluent (POME) at CPO mills. Some concerns over this waste were raised in Triputra's sustainability report 2012, greenhouse gases were not mentioned in this respect.[41] Recently Triputra's

CEO Arif Rachmat mentioned methane gas capture as one of the ways to minimize the emission of greenhouse gases."[42]

2.3.4 Fire Frequencies

While Triputra's frequency of fire issues have been at a low level compared to some other palm oil companies, it is worth noting that any reports of burning pose serious legal and reputational risks for the company. Burning of biomass for land clearing and burning of drained peat is the second largest (after oxidation) source of greenhouse gas emissions in peat swamp areas.[43] Fires within the concessions of Triputra were assessed by CRR through satellite detections of so-called hotspots. In total CRR recorded 111 hotspots for the period of November 2013 until October 2014.

In Table 8 the five subsidiaries with most hotspots are shown. Together these five subsidiaries represented more than 60% of the hotspots recorded within Triputra's 26 plantation companies. The fires of PT GBSM, the plantation company with the most hotspots, were all located in peatland. It remains unclear what techniques Triputra uses to prevent the occurrence of fires and to assure effective and prompt response whenever a fire does occur.

Table 8 Prevalence of hotspots within concessions Triputra

Plantation company	Prevalence hotspots
PT Gawi Bahandep Sawit Mekar (PT GBSM)	22
PT Buana Hijau Abadi (PT BHA)	15
PT Graha Cakramulia (PT GCM)	12
PT Sukses Karya Mandiri (PT SKM)	9
PT Muara Toyu Subur Lestari (PT MTSL)	8
Other 21 subsidiaries	45
Total	**111**

Source: NASA, "FIRMS MODIS Fire Archive Download", http://1.usa.gov/1wjSgWd

2.4 Social issues

2.4.1 Land Disputes with Communities

According to a newspaper article in February 2015, PT Gawi Bahandep Sawit Mekar (PT GBSM) has seven land disputes with communities. The same article mentions that a land dispute on an area of 614 ha concerning PT Mega Ika Khansa (PT MIK) was resolved recently. Triputra agreed to pay compensation of IDR 2.1 billion (around USD 160 million) to a total of 20 people that had land rights.[44]

CRR found three pending land disputes with communities, concerning subsidiaries of Triputra's 50% owned holding company Union Sampoerna Triputra Persada (USTP):

- **PT Harapan Hibrida Kalbar 2 (PT HHK 2).** Since 1960, approximately 600 families have grown rubber, durian, bananas and rice on 1,200 hectares of customary land in the area around the village Batu Sedau, district Manis Mata, regency Ketapang, West Kalimantan. Then, in 2007, PT HHK 2 entered the area. The company fenced the area, making use of its Right to Exploit (HGU) permit. The families never got any compensation or smallholder land. The case has been mediated by the *bupatis* (district administrators) of Ketapang Morkes Effendi and Hendrikus, in 2010 and 2012 respectively. However, there is still no settlement with PT HHK 2. The families never left their land.[45]

- **PT Sumber Mahardhika Graha (PT SMG).** In March 2013, hundreds of people from the Ajang village (district Permata Kecubung, regency Sukamara, Central Kalimantan) confiscated heavy equipment and drove workers from the land. The villagers demanded that PT SMG stop its activities, restore the land, rehabilitate evicted people and pay compensation to the community based on some of the harvested timber. For a long time, the company did not respond to the demands of the people. In early 2012, PT SMG started taking wood from the 4,892 ha village forest, without any notice to the village. Additionally, approximately 600 families grow crops such as rubber, rice and mountain fruit on more than 2,400 hectares. Based on the narrative of the people, they managed the land since 1978. In March 20143, a community leader stated, "This past year since this subsidiary operates, local residents can no longer use the thousands of hectares of customary land for cultivation. Thousands hectares of land have now been cleared by the company and they sell the wood unilaterally."[46]

- **PT Salonok Ladang Mas (PT SLM).** On 5 February 2014 hundreds of residents of eight villages blocked the main entrance road to the palm oil plantation PT Salonok Ladang Mas (SLM), a subsidiary of USTP. The residents demanded that the company solve all land disputes that had been created since 2004-2005. They put a wooden portal at the main entrance until 11 o'clock. The eight villages were Sembuluh I, Sembuluh II, Baung, Telaga Pulang, Tabiku, Bangkal, Pembunag Hulu and Natai Nangka.[47]

2.4.2 Smallholders

Many land conflicts ultimately result in a discourse about the transfer of planted land bank for the socio-economic benefit of local communities. Since 2007, Ministry of Agriculture Regulation (Nr.26/2007) determined that, at minimum, 20% of the total area managed by plantation companies should be developed to benefit local communities.[48] In October 2014, this policy was affirmed in the new Plantation Act (Nr. 39/2014). Consequently, non-compliant growers may now lose their permits within three years of issuance whenever they fail to deliver on the policy, which usually involves the development of smallholder land.[49]

Table 9 shows that Triputra is significantly lagging behind the 20% target, based on reported planted land bank in the year 2012.

Table 9 Percentage plasma of Triputra's planted area

Year end	Total planted area (ha)	Plasma planted area (ha)	% plasma
2012	133,906	15,589	12
2011	109,796	12,020	11
2010	81,934	9,326	11
2009	73,336	8,615	12
2008	70,013	8,268	12

Source: Triputra, "Annual report 2012", page 234.

A large part of Triputra's smallholder land is located in Jambi, Sumatra. The plantation company PT Brahma Binabakti (PT BBB) has established a plasma project there of 6,126 ha, according to the company.[50]

CRR found escalating disputes over smallholder land between communities and plantation subsidiaries of PT Union Sampoerna Triputra Persada (USTP), which is 50% owned by Triputra. So far USTP has been reluctant to establish smallholder land related to at least three plantation companies. The disputes also show both the lack of enforcement by the government; as well as the problems with regulations that allow companies to offer communities bordering fully planted plantations smallholder land that is located many kilometres away. Community disputes with USTP include:

- **PT Harapan Hibrida Kalbar 2 (PT HHK 2).** On 13 May 2013 the House of Representatives (DPRD) of Ketapang was supposed to have a hearing on the case of PT HHK 2 and the community of Batu Sedau. However, to the disappointment of the parliament and about 100 residents of Batu Sedau that had made a long journey, the company didn't show up. The people complained that they had been waiting for seven years already for smallholder land, which was promised by the company.[51] In July 2014, the West Kalimantan Ombudsman made known that it was trying to mediate in a dispute with regard to PT HHK 2.[52]

- **PT Sumber Mahardhika Graha (PT SMG).** In March 2014 the chairman of the provincial parliament of Central Kalimantan received a visit from representatives of the villages Ajang and Laman Baru, which told him that that PT SMG so far had not delivered any hectare of plasma to the local community. The village representative of Laman Baru stated that the company's presence could be well received by the people, but as of now the company had not fulfilled its plasma obligation and had instead made rivers turbid and contaminated by herbicides. The local government had not been responsive to the plasma issue, so the village representatives now turned to the province.[53]

- **PT Graha Cakra Mulia (PT GCM)** and **PT Sumber Mahardhika Graha (PT SMG).** In September 2013 there was a mass rally at the parliament of the Lamandau regency of people demanding plasma. The bupati of Lamandau invited three companies that had so far not fulfilled their obligations, including PT GCM and PT SMG. However, the bupati steered towards a solution outside the HGU of the companies. This was not what the communities wanted. "The company has been negligent in carrying out obligations under the regulations. If only the obligation had been implemented a long time ago, we would now definitely have been enjoying the results. If only now built, how many more years we have to wait and accept the results?" said community representatives.[54]

2.5 Legal compliance

2.5.1 Forestland Occupation

The Indonesian Forestry Act Nr. 41/1999 prohibits any person to occupy and exploit forestland without prior permission of the Ministry of Forestry. Regardless, many local authorities have issued oil palm permits over forestland since. While forestry law provides procedures for changing forestland to other uses, plantation companies often did often not follow them. Government Regulation No. 60/2012 of 6 July 2012 aimed to address this problem.[55] Companies with clearings/plantings in Convertible Production Forest (HPK) are required to apply for forestland release permits *post hoc*. However, plantation companies holding an oil palm license over forestland categorized as Production Forest (HP) and Limited Production Forest (HPT) were offered a one-off opportunity to apply for the acquisition of compensation land until 6 January 2013 in exchange for any forestland converted to other uses.

Not all plantation companies have made use of Government Regulation No. 60/2012, and many that have not reported the full extent that their operations overlap with designated forestland. Table 10 shows for which areas of occupied forestland Triputra has made use of Government Regulation No. 60/2012, and for which forestland it has not.

Table 10 Triputra's land bank within forestland estate

Concession Name	Applied for GR60/2012		Not applied for GR60/2012	
	HP + HPT (ha)	HPK (ha)	HP + HPT (ha)	HPK (ha)
PT Brahma Binabakti (PT BBB)			3,700	
PT First Lamandau Timber International (PT FLTI)	800	500		
PT Graha Cakramulia (PT GCM)			1,300	300
PT Hanamas Jaya Abadi (PT HJA)		2,300		
PT Harapan Hibrida Kalbar 1 (Central Kalimantan)	500			
PT Harapan Hibrida Kalbar 2 (Central/West)			3,500	500
PT Mega Ika Khansa (PT MIK)	3,500	2,200		
PT Salonok Ladang Mas (PT SLM)			1,000	
PT Sukses Karya Mandiri (PT SKM)	4,400	9,500		
PT Sumber Mahardhika Graha (PT SMG)	15,200	2,800		
PT Trieka Agro Nusantara (PT TAN)			3,800	7,900
Total	**24,400**	**17,300**	**13,300**	**8,700**
		41,700		**22,000**

Sources: Ministry of Forestry, "Application for forest release permit with regard to PP 60/2012", http://bit.ly/1mIFZb0, 4 October 2013. Land Use Designation maps of the Ministry of Forestry.

Triputra submitted six applications for plantations within Kalimantan under GR60/2012, covering 41,700 ha of forestland estate (Table 10). GR 60/2012 requires the group to identify, acquire and restore uncontested land bank in Kalimantan, equal to its occupied land area of HP and HPT. Assuming that Triputra's applications are processed, the group will have to acquire and reforest 24,400 ha of land in the "Other Land Use" (APL) category and return this land to the State.

Any remaining forestland within the concessions that had not been developed as of 6 July 2012 would not be eligible for compensation and would revert back to the State, just like any that was occupied after the deadline of 6 January 2013 or any forestland over which no appropriate applications were submitted. Based on the regulations, Triputra may lose access to a land bank of 22,000 ha minimum.

2.5.2 Other Legal Issues

Subsidaries of Triputra Agro Persada are involved in several other legal issues as well:

- **Mill without Environmental Impact Assessment**
  In 2010, Triputra subsidiary PT Salonok Ladang Mas (PT SLM) was building a palm oil mill close to Lake Sembuluh. NGO Walhi Kalteng raised concerns over this development, possibly affecting the precarious ecological Sembuluh Lakes region and the livelihoods of six communities. Moreover, the mill was being built nine kilometres from an earlier planned location, away from the lake. The company made the location change without any notice to the authorities and without a new Environmental Impact Assessment. In June 2010 the villagers of Sembuluh I and II had also filed a protest against the new factory.[56] Finally, the development of the palm oil mill at the new location was brought to a halt.

- **Planting too close to a lake**
  The Indonesian Forestry Act Nr. 41/1999 prohibits the cutting of trees in a forest area with a radius or distance up to: 500 meters from the edge of a lake; 200 meters from the left and right edge of springs and rivers in a swamp area; 100 (one hundred) meters from the left and right side of the river; 50 (fifty) meters from the left and right side of a tributary.[57] Evidence shows that Triputra's subsidiary PT Mega Ika Khansa (PT MIK) has been in violation of this regulation, as it has been planting palm oil close to the mouth of Lake Sembuluh.[58]

- **Poor environmental management in East Kalimantan**
  In December 2013, the department of plantations of East Kalimantan published the results of an assessment of 43 palm oil plantations under construction in the province. Assessment criteria included legality, management, land rights settlement, the realisation of the construction, the application of environmental plans and the empowerment of the community and/or local cooperative. Both PT Hamparan Perkasa Mandiri (PT HPM) and PT Subur Abadi Wana Agung (PT SAWA) scored in the lowest possible range, and these were the only of Triputra's companies that were assessed.[59]

  In August 2010 the province of East Kalimantan presented a list with the environmental management performance of 91 companies in the field of forestry, plantations, coal mining and industry/services. PT Etam Bersama Lestari (PT EBL) was the only company of the 10 assessed palm oil plantation companies that was labelled red, representing a largely inadequate performance.[60]

2.6 RSPO Progress

Triputra has been a member of the Roundtable for Sustainable Palm Oil (RSPO) since June 2007.[61] CRR's finding indicate that Triputra has been substandard in delivering on the requirements of its voluntary RSPO membership, making the company vulnerable to being challenged through formal complaints; and to being suspended or expelled from the association's membership.

In an effort to clean out inactive members from its association, RSPO has recently ousted 15 members and suspended 61 for failure to comply with its reporting requirements.[62] The intervention was based on the absence of annual reporting and did not consider the quality of reports. Since Triputra did submit an Annual Communication of Progress (ACOP) over the past years, it remained a member of RSPO; however, Triputra's latest ACOPs suggest that the group comprises only one or two plantation estate subsidiaries, which is factually wrong and misleading.[63]

Triputra's progress towards RSPO-certification has been equally unpromising. In September 2013, PT GBSM announced it would have its mill and oil palm plantation assessed for certification.[64] No further progress has been reported so far— possibly because, of all Triputra's plantation subsidiaries, PT GBSM appears to be the one with most land disputes, with new development in peatlands and forest areas. In August 2014, it was announced that PT Brahma Binabakti (PT BBB) would be subjected to a similar assessment.[65] Although Triputra stated in its latest ACOP (2013/14) that it would achieve its first certification by 2014, neither subsidiary have obtained the sustainability certifications to date.

Furthermore, Triputra is in non-compliance with RSPO's New Planting Procedure (NPP), which requires growers to report any new development. Even though Triputra subsidiaries have been aggressively expanding, the group has not submitted a single NPP for any of these developments.[66] This failure may be challenged by any stakeholder through a formal complaint, which may result in RSPO's Complaints Panel ordering a complete stop on any new development, pending compliance with RSPO's procedures – a ruling that is increasingly issued after the association's General Assembly adopted a Resolution in 2013 that led to a revamping of its Complaints Procedure, making it increasingly independent from vested interests.

2.7 Findings of the Sustainability Risk Assessment

Since late 2013 there has been a wave of sustainability policy improvements by major palm oil growers/traders. These have focused on eliminating deforestation, protecting peatlands, and protecting the rights of local communities and workers. Triputra's lack of transparency alone poses a serious risk for the company with customers that require greater levels of openness. Nevertheless, the available information on Triputra's record shows that the company faces serious issues in its operations, including deforestation, peatland development, and conflicts with local communities:

- Triputra's apparent policy of minimizing transparency on sustainability commitments and deliveries relative to a rapidly growing land bank, associated with a range of sustainability concerns, introduces a high risk of legal prosecution, media campaigns and formal complaints and grievances filed by the company's stakeholders (including its investors and main buyers).
- Though Triputra has been a member to the RSPO for almost eight years now, RSPO activities by the company have been largely non-existent.
- Since 2006, Triputra's plantation companies have been responsible for 37,300 ha of deforestation. There is little information available on assessments and/or conservation of High Conservation Value (HCV) areas by the company; and there is none on High Carbon Stock (HCS) areas. Instead, Triputra's land bank overlaps with 28,100 ha of potential and actual orangutan habitat, and this habitat is mostly already converted into palm oil plantations by Triputra.
- Like most palm oil companies, Triputra is still not transparent about its greenhouse gas emissions. Yet the company cultivates oil palms on 16,300 hectares of peatlands, which causes yearly GHG emissions equivalent to 415,000 personnel cars.
- Satellite analysis by CRR identified 111 fires within Triputra's concessions, between November 2013 and October 2014. Five subsidiaries represented more than 60% of the hotspots recorded. While Triputra's frequency of fire issues have been at a lower level compared to some other palm oil companies, any reports of burning pose serious legal and reputational risks for the company.
- Triputra has some severe land disputes with communities. Furthermore, the company does not live up to regulations on the inclusion of smallholders to its palm oil plantation business in Indonesia.

- Triputra has put 63,700 ha of its concessions at risk. These areas fall under the statutory jurisdiction of the Ministry of Forestry, and the Ministry has never given permission for this occupation. CRR estimates that Triputra will have to return at least 22,000 ha back to the state.

In our Financial Risk Analysis, we assess the potential financial consequences if Triputra continues to develop its land bank and ignores the major legal requirements, RSPO standards and procedures, and the purchasing policies of its main customers.

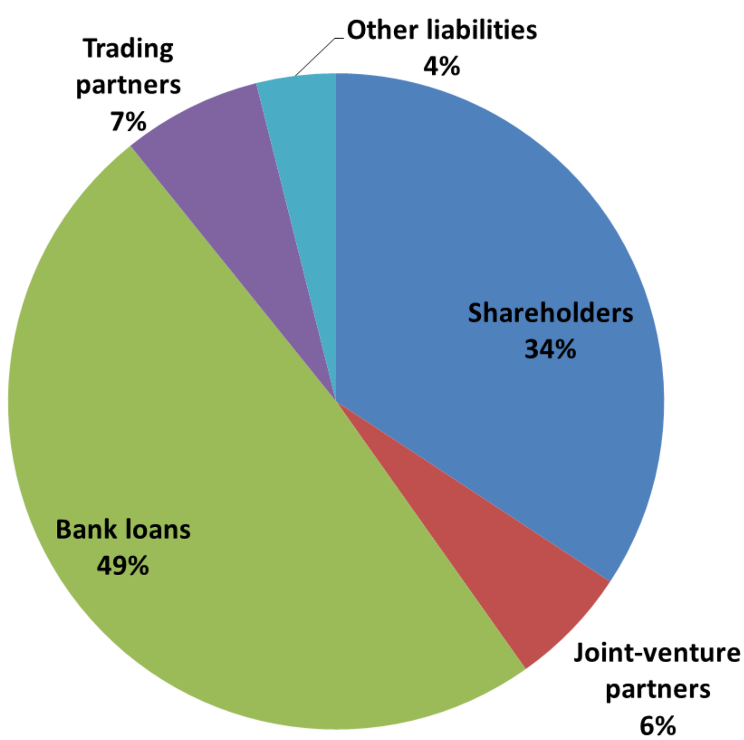
3 Financial Risk Assessment

3.1 Financing Structure of Triputra Agro Persada

At the end of 2012, the last year that Triputra published an annual report, the company owned assets with a total value of IDR 8,777 billion (USD 913 million). These assets are financed by equity and liabilities from the following groups of financial stakeholders:[67]

• Shareholders (including convertible bonds)	IDR 3,007 billion	34%
• Joint-venture partners	IDR 520 billion	6%
• Bank loans	IDR 4,303 billion	49%
• Trading partners	IDR 603 billion	7%
• Other liabilities	IDR 344 billion	4%

Figure 2 Financing structure Triputra Agro Persada, end of 2012



Source: Triputra Agro Persada, "Annual report 2012", p. 309-326.

Figure 2 shows that Triputra's shareholders and banks are its main financial stakeholders, financing 34% respectively 49% of its total equity plus liabilities at the end of 2012.

3.1.1 Shareholders

As shown above, the second largest group of financial stakeholders are the company's shareholders, financing 34% of total equity plus liabilities. As described in Section 1.5, the shareholders include the Indonesian founders of the company, Theodore Rachmat and Benny Subianto, as well as a private equity fund managed by Northstar Group and GIC, the sovereign wealth fund of the government of Singapore. While the latter two investors together only control 11.12% of the company's shares, their financial contribution to the company is much larger than this share suggests. The funds provided by shareholders (34% of total equity plus liabilities) can be broken down as follows:[68]

• Equity Indonesian shareholders	IDR 1,102 billion	13%
• Equity foreign shareholders	IDR 506 billion	6%
• Convertible bonds foreign shareholders	IDR 1,399 billion	16%

The funds invested by Northstar and GIC Private thus equal 22% of Triputra's total equity plus liabilities and are more significant than the net value of the funds attributable to the company's two Indonesian founders. This means that the foreign pension funds and other private investors, who have participated in the Northstar Equity Partners III fund, are significantly responsible for Triputra's expansion process and are thus exposed to the possible financial consequences of the company's poor sustainability performance (see chapter 2).

The following investors have committed the Northstar Equity Partners III fund, and are therefor indirectly invested in Triputra:

• Endowment PMF Master Fund	United States	USD 6.0 million[69]
• Hatteras Master Fund	United States	USD 2.9 million[70]
• University of Texas Investment Management Co.	United States	USD 100 million[71]

3.1.2 Banks

The Indonesian and foreign banks that have provided loans to the company are also significantly exposed to the potential financial risks of the company's poor sustainability performance. Figure 2 shows that bank loans made up 49% of total equity plus liabilities at the end of 2012. We estimate that this increased to above 60% after July 2013, and that the company has not significantly reduced its high leverage since then.

Three loan facilities account for the lion's share of the company's indebtedness over the past few years:

- In August 2007, PT Union Sampoerna Triputra Persada (USTP) took over five plantations with a total land bank of 63,000 ha from the Malaysian company Kulim for USD 125 million. USTP is a 50/50 joint venture between Triputra Agro Persada and the Indonesian company PT Union Sampoerna. The Indonesian Bank Mandiri financed the acquisition with USD 53.4 million of equity and a loan of USD 71.6 million. In addition, Bank Mandiri provided an investment loan of USD 76.2 million to finance the further development of the plantations. This loan had a maturity of 12 years including a grace period of four years, which means that around half of the loan is still outstanding at present.[72]

- In October 2011, Triputra secured a syndicated loan from nine banks with a value of USD 260 million. The loan was used to finance the acquisition of five mature palm oil plantations, palm oil plantings and the construction of CPO mills. The loan will mature in 2016 but can be extended for two years.[73]
- In July 2013, Triputra secured a USD 470 million nine year syndicated loan facility from a syndicate of 14 Indonesian and foreign banks arranged by DBS (Singapore) and HSBC (United Kingdom). Approximately USD 270 million would be used to establish plantations, while the other USD 200 million was used to refinance the company's existing loans.[74]

Table 11 provides an overview of the banks that have participated in Triputra's latter two syndicated loan facilities.

Table 11 Banks involved in syndicated loan facilities for Triputra Agro Persada

Bank	Country	Syndicated loan facility October 2011	Syndicated loan facility July 2013
ANZ (incl. Bank Panin)	Australia	32.5	23.5
Bank DKI	Indonesia		23.5
CIMB (incl. CIMB Niaga)	Malaysia		23.5
DBS	Singapore	32.5	94.0
Export-Import Bank of Indonesia	Indonesia	32.5	23.5
HSBC	United Kingdom		94.0
Industrial and Commercial Bank of China	China		23.5
Mitsubishi UFJ Financial	Japan	32.5	
Oversea-Chinese Banking Corporation (incl. OCBC NISP)	Singapore	32.5	47.0
QNB	Qatar		23.5
Rabobank	Netherlands	32.5	23.5
Standard Chartered (incl. Bank Permata)	United Kingdom	32.5	47.0
United Overseas Bank	Singapore	32.5	23.5
Total		**260.0**	**470.0**

Sources: ThomsonONE Banker, *"Loans and issuances"*, Viewed in March 2015; AgroAsiaNews (2011, 26 October), "Triputra gets US$260 million syndicated loan", available at: http://www.agroasianews.com/news/corporate-news/11/10/26/triputra-gets-us260-million-syndicated-loan; Jakarta Post (2013, 1 August), "Triputra secures loan to finance expansion"; CRR estimates.

Among the international banks listed in Table 11, several banks have adopted policies that exclude the financing of palm oil companies involved in deforestation, forest fires, or land conflicts with local communities. This is the case for Rabobank (the Netherlands),[75] HSBC (United Kingdom),[76] and Standard Chartered (United Kingdom).[77] These three banks, as well as ANZ (Australia), are also members of the RSPO.[78]

Given Triputra's poor sustainability record, as described in chapter 2, these institutions' financial relationships with the company are likely to create serious reputational risks for these banks. In addition, Triputra's poor sustainability performance could also create financial risks for the banks and investors involved, as discussed in following sections.

3.2 Objective and Approach of the Financial Risk Assessment

The following sections discuss the financial risks that Triputra, as well as the banks and investors exposed to the company, could face as a result of the sustainability risks identified in chapter 2. The objective of discussing these scenarios is not to predict the future; rather, it is designed to show how Triputra's sustainability issues could potentially impact its financial indicators. The scenarios aim to describe plausible scenarios that show how previously inconceivable or imperceptible developments may play out.

To evaluate the potential financial impacts of these sustainability risks, CRR employed a model based on Triputra's most recent financial statements from 2012, and estimated future earnings. CRR developed a baseline scenario in which sustainability issues have no impact on Triputra's business, as well as three alternative scenarios that account for varying impacts. For each these three scenarios, CRR identified the impact on key financial indicators such as Return on Equity, Return on Assets, leverage and profit margins.

1. Triputra could potentially lose customers if its practices are not compliant with companies, such as Wilmar, that have adopted No Deforestation policies.
2. Triputra could be required to acquire and reforest compensation land to be handed over to the government for its illegal occupation of forestland.
3. Triputra could have to pay compensation costs to the RSPO for its deforestation since 2006, estimated to be approximately USD 30 million in fees.

For comparative purposes, each of these scenarios is assumed to occur at the beginning of FY2016. To assess the financial impacts of these scenarios in FY2016 and FY2017, each one is compared with the baseline scenario.

3.3 Baseline Scenario

Table 12 gives an overview of Triputra's main financial indicators for the period 2012-2017. These estimates are based on financial figures for FY2012 published by the company, the estimated growth in the company's mature palm oil plantation area (Table 3), the resulting output and price development of CPO and palm kernels in the past two years,[79] and some additional estimates by Chain Reaction Research. The baseline scenario assumes business-as-usual development for Triputra, in which the sustainability issues discussed in chapter 2 do not have a significant impact on its bottom line. Table 12 shows how Triputra's key financial indicators could develop from 2013-2017 in this baseline scenario.

Table 12 Triputra Agro Persada: Baseline scenario for 2013-2017

Indicator		FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Sales	IDR million	2,551,906	3,211,562	4,075,011	4,834,176	5,306,680
Net income	IDR million	87,189	172,865	288,809	388,045	442,743
Net income margin	%	3.4%	5.4%	7.1%	8.0%	8.3%
Return on Assets	%	0.8%	1.4%	2.0%	2.4%	2.4%
Return on Equity	%	5.3%	10.1%	15.3%	17.8%	17.2%
Debt-equity ratio		5.08	5.86	6.23	6.21	5.94

Source: Triputra, "Annual Report 2012"; CRR model calculations.

In the baseline scenario, both sales and net income (profit attributable to the company's shareholders) show a clear upward trend. The net income margin improves to around 8.3% in 2017. Return on Assets remains low at 2.4% while Return on Equity improves to 17.2% in 2017. The leverage (debt-equity ratio) further rises to a high level of around 6 in 2015-2017.

However, Triputra's financial development in the baseline scenario is assessed without considering the reality of No Deforestation, No Peat, No Exploitation policies, and is therefore not seem as being plausible. The company will inevitably face these changing market forces. This will either lead Triputra to lose customers or adopt comprehensive sustainability policies to mitigate these risks. If the company does commit to a strong policy, it would have to be implemented at the expense of its land bank expansion targets. As a result, there would be less forest clearing, less peatland development, less local conflicts, and generally less risk for the company.

The following sections will analyse three alternative scenarios, indicating how the company's financial indicators might be impacted by the sustainability issues described in chapter 2.

3.4 Scenario 1: Loss of customers

Wilmar's landmark No Deforestation policy in December 2013 started a wave of commitments from global palm oil traders to improve sustainability in their supply chains. These policies have focused on eliminating deforestation, protecting High Conservation Value (HCV) and High Carbon Stock (HCS) areas, avoiding peatlands, and respecting the concept of Free, Prior and Informed Consent (FPIC) for communities.

CRR estimates that customers comprising at least half of Triputra's revenue have committed to No Deforestation, No Peat, No Exploitation policies. These include Triputra's customers Wilmar, Golden Agri-Resources, and Musim Mas.[80] These three companies also require third-party suppliers to apply the same policies and practices – in Wilmar's case, for example, all suppliers must be compliant with its policy by the end of 2015 or their partnership will be terminated.

Triputra stands in clear violation of these policies, and risks being terminated as a supplier. If Triputra were to lose one or more of its major customers, this could have a serious impact on its net income. Increasingly, the global marketplace is increasingly demanding palm oil that is produced responsibly, and Triputra's lack of safeguards (including its lack of RSPO certification) could severely restrict the company's access to international markets going forward.

In this scenario, we estimate that Triputra could lose 40% of its existing customer base by January 1, 2016. The company would be able to reduce costs to some extent, by stopping FFB procurements from external suppliers; however, finding new customers would be difficult in the short term. As a result, we assume that Triputra would only be able to replace 20% of its lost sales in 2016, and 40% in 2017.

Based on these assumptions, we modelled the impacts of this scenario on the key financial indicators for Triputra in 2016 and 2017. The results are presented in Table 13.

Table 13 Scenario 1: Triputra loses customers with non-deforestation policies

Indicator		FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Revenues	IDR million	2,551,906	3,211,562	4,075,011	3,383,923	4,245,344
Net income	IDR million	87,189	172,865	288,809	-352,647	-29,049
Net income margin	%	3.4%	5.4%	7.1%	-10.4%	-0.7%
Return on Assets	%	0.8%	1.4%	2.0%	-2.3%	-0.2%
Return on Equity	%	5.3%	10.1%	15.3%	-22.9%	-1.9%
Debt-equity ratio		5.08	5.86	6.23	8.79	10.11

Source: Triputra, "Annual Report 2012"; CRR model calculations.

In this scenario, sales drop dramatically by 20% in 2016. In 2017, net income improves, but remains negative. The net income margin, Return on Assets and Return on Equity are all substantially negative in 2016. These indicators improve in 2017, but are still are below zero. As equity deteriorates, the leverage (debt-equity ratio) further rises to dangerous heights (above 10) in 2017.

3.5 Scenario 2: Triputra legalizes its occupation of forestland estates

Triputra's past forestland occupation comes with a future financial risk. As described in section 2.5.1, Triputra has applied for the legalisation of up to 24,400 ha of palm oil plantations, which were developed without forestland release permits. Indonesia's Government Regulation No. 60/2012 requires the company to acquire and reforest an equivalent area to legalize its occupation of these forestland categories.

In this scenario, the costs of acquiring and reforesting compensation land to be handed over to the government are estimated at USD 3,000 per hectare. These compensation payments are modelled as a one-time large cost of USD 73.2 million (IDR 967 billion). This loss is partially compensated by a reduction in taxes and a reduction in the profit attributable to minority shareholders, resulting in a net loss of IDR 489 million in 2016.

Table 14 Scenario 2: Triputra legalizes its occupation of forestland estate

Indicator		FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Revenues	IDR million	2,551,906	3,211,562	4,075,011	4,834,176	5,306,680
Net income	IDR million	87,189	172,865	288,809	-404,378	442,743
Net income margin	%	3.4%	5.4%	7.1%	-8.4%	8.3%
Return on Assets	%	0.8%	1.4%	2.0%	-2.6%	2.5%
Return on Equity	%	5.3%	10.1%	15.3%	-27.2%	22.9%
Debt-equity ratio		5.08	5.86	6.23	9.10	7.91

Source: Triputra, "Annual Report 2012"; CRR model calculations.

In this scenario, revenues remain stable and the company incurs a one-time loss of IDR 404 billion in 2016. This creates a significantly negative net income margin, Return on Assets and Return on Equity in 2016, but all these indicators return to black figures in 2017. But as equity deteriorates, the leverage (debt-equity ratio) rises to dangerous heights (above 9) in 2016, and only improves slightly in 2017.

3.6 Scenario 3: Triputra pays to compensate for RSPO non-compliance

As described in Section 2.2, satellite images show that 37,300 ha of deforestation occurred in Triputra's plantations from 2006 to the present. According to the Remediation and Compensation procedures of the RSPO, Triputra could choose to contribute to a conservation fund in proportion to the area deforested.[81]

In this scenario, we assess the impact on Triputra's financial indicators if RSPO compensation costs were to be paid for 20,000 hectares, which are estimated at USD 3,000 per hectare when compensation is settled in cash terms.[82]

Coefficients are applied by RSPO for different kinds of forests cleared prior to completing HCV studies, ranging from 1:1 (primary forests) to 1:0 monocultures. Based on analysis of forest types generally cleared by Triputra, we apply a coefficient of 1:0.5. Hence, the compensation costs are modelled as a one-time cost of USD 30 million (IDR 396 billion). Compensation can also be settled both on site and ex situ.

Table 15 Scenario 3: Triputra pays to compensate for RSPO non-compliance

Indicator		FY 2013	FY 2014	FY 2015	FY 2016	FY 2017
Revenues	IDR million	2,551,906	3,211,562	4,075,011	4,834,176	5,306,680
Net income	IDR million	87,189	172,865	288,809	212,981	442,743
Net income margin	%	3.4%	5.4%	7.1%	4.4%	8.3%
Return on Assets	%	0.8%	1.4%	2.0%	1.3%	2.4%
Return on Equity	%	5.3%	10.1%	15.3%	10.1%	17.4%
Debt-equity ratio		5.08	5.86	6.23	6.43	5.99

Source: Triputra, "Annual Report 2012"; CRR model calculations.

In this scenario, revenues remain stable and a one-time drop in net income to IDR 109 billion (compared with IDR one billion in the base scenario) occurs in 2016. This creates a temporary drop in the net income margin, Return on Assets and Return on Equity in 2016, but all these indicators return to normal levels in 2017. The impact on the leverage (debt-equity ratio) is not dramatic, although this indicator remains above 6 in 2016 and 2017.

3.7 Conclusion of the Financial Risk Assessment

Since Triputra is an upstream palm oil company that is dependent on processors and traders to buy its products, poor management of sustainability and governance issues on its plantations could have potentially significant negative financial impacts. This underscores the fact that addressing current and past sustainability issues – such as deforestation, peatland development, social conflicts – will be critical to Triputra's financial stability. The extent to which the company is able to successfully resolve these issues could significantly affect its financial performance in the coming years.

As shown in Table 16, in all three scenarios, Triputra's key financial indicators (net income margin, RoA, RoE) are depressed in comparison to the baseline scenario, while the debt-equity ratio increases to dangerously high levels. The analysis shows that the largest impact could come from the loss of Triputra's main customers that require strong sustainability policies (Scenario 1). In this scenario, Triputra's revenues would drop significantly and its net income would be negative in 2016, and only improving gradually in 2017.

Chapter 2 also shows that Triputra could face considerable compensation costs to legalize its occupation of forestland without the necessary permits (Scenario 2), as well as compensation costs to the RSPO for the are the company has deforested since 2006 (Scenario 3). Both scenarios would cause a drop in net income in 2016, with the largest impact coming from repaying forestland compensation costs (Scenario 2). In both scenarios, the net income margin, RoA and RoE would rebound in 2017, but the impact on Triputra's weak leverage would have a longer-term impact.

Table 16 Summary of key financial indicators per scenario in 2016

Indicator		Key financial indicator per scenario in 2016			
		Baseline	1: Loss of customers	2: Forestland legalization	3: RSPO compensation
Revenues	IDR million	4,834,176	3,383,923	4,834,176	4,834,176
Net income	IDR million	388,045	-352,647	-404,378	212,981
Net income margin	%	8.0%	-10.4%	-8.4%	4.4%
Return on Assets	%	2.4%	-2.3%	-2.6%	1.3%
Return on Equity	%	17.8%	-22.9%	-27.2%	10.1%
Debt-equity ratio		6.21	8.79	9.10	6.43

Source: Triputra, "Annual Report 2012"; CRR model calculations.

There is also a possibility that these different scenarios could occur simultaneously, creating cumulative and more serious impacts on the company's bottom line. In addition, a significant risk embedded in all scenarios is that they could result in further serious damage to Triputra's reputation among customers, investors, and the public. This could trigger further scenarios with negative consequences on the financial health of the company, such as major customers cancelling purchasing contracts, or banks and investors denying financing and investments. CRR's financial risk analysis therefore underlines that addressing current and past sustainability issues – deforestation, peatland development, land disputes – will be directly relevant for Triputra's future financial health.

This analysis is also relevant for Indonesian and foreign banks that have financed Triputra, as well as for the pension funds and other investors that are, indirectly, major shareholders in the company through their participation in one of Northstar's private equity funds. Moreover, the exit strategy of Northstar and the foreign wealth fund of Singapore, with upcoming IPOs in 2016 and 2017, could easily be jeopardized if Triputra does not address its sustainability risks in an effective, timely manner.

Colophon

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Appendix 1 Palm oil land bank of Triputra Agro Persada per subsidiary

Subsidiary	Controlled via	Province	Regency	Land bank (ha)
PT Anugerah Agung Prima Abadi	AMP	East Kalimantan	Berau	8,410
PT Brahma Binabakti	AMP	Jambi	Muaro Jambi	11,600
PT Buana Hijau Abadi	AMP	West Kalimantan	Sintang	19,837
PT Duta Agro Prima	AMP	West Kalimantan	Sintang	13,714
PT Dwiwira Lestari Jaya	AMP	East Kalimantan	Berau	12,000
PT Etam Bersama Lestari	AMP	East Kalimantan	Kutai Timur	12,000
PT First Lamandau Timber International	AMP	Central Kalimantan	Lamandau	6,001
PT Gawi Bahandep Sawit Mekar	AMP	Central Kalimantan	Seruyan	19,648
PT Graha Cakramulia	USTP	Central Kalimantan	Sukamara / Lamandau	12,000
PT Hamparan Perkasa Mandiri	AMP	East Kalimantan	Kutai Timur	12,180
PT Hanamas Jaya Abadi	AMP	Central Kalimantan	Lamandau	3,000
PT Harapan Hibrida Kalbar	USTP	Central Kalimantan	Kotawaringin Barat / Lamandau	10,274
PT Harapan Hibrida Kalbar	USTP	West Kalimantan	Mentan	6,000
PT Kedap Sayaaq Dua	AMP	East Kalimantan	Kutai Barat	19,940
PT Kiara Sawit Abadi	AMP	West Kalimantan	Sintang	20,755
PT Mega Ika Khansa	AMP	Central Kalimantan	Seruyan	5,957
PT Muara Toyu Subur Lestari	AMP	East Kalimantan	Pasir	12,000
PT Natura Pasific Nusantara	AMP	East Kalimantan	Berau	4,840
PT Pinang Witmas Abadi	AMP	West Kalimantan	Kubu Raya	3,150
PT Salonok Ladang Mas	USTP	Central Kalimantan	Danau Sembuluh / Seruyan	15,134
PT Sawit Emas Persada	AMP	West Kalimantan	Sintang	5,000
PT Subur Abadi Wana Agung	AMP	East Kalimantan	Kutai Timur	14,118
PT Sukses Karya Mandiri	AMP	Central Kalimantan	Sukamara	14,600
PT Sumber Mahardhika Graha	USTP	Central Kalimantan	Sukamara / Lamandau	17,500
PT Trieka Agro Nusantara	AMP	Central Kalimantan	Lamandau	10,771
PT Yudha Wahana Abadi	AMP	East Kalimantan	Berau	9,120
Total				**299,549**

Sources: Triputra Agro Persada, “Annual Report 2012”, p. 125-129; Kementerian Pertanian, “Perizinan”, Website Kementerian Pertanian, Direktorat Jenderal Perkebunan, Direktorat Pasca Panen dan Pembinaan Usaha (http://ditjenbun.pertanian.go.id/pascapanen/statis-10-perizinan.html), Viewed in March 2015.

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