



RLU EVALUATION REPORT

Executive Summary

Loan structure

In early 2019, &Green financed the development of three sustainable natural rubber concessions operated by PT Royal Lestari Utama (RLU) in the Indonesian provinces of Jambi and East Kalimantan. The finance was provided through the purchase of 15 and 7 year Notes issued by a vehicle established by the Tropical Landscape Financing Facility (TLFF), a platform conceived by UNEP, BNP Paribas, CIFOR-ICRAF and ADM Capital.

TLFF's inaugural financing transaction involved the creation of a special purpose financing vehicle incorporated in Singapore and named TLFF I Pte. Ltd. (TLFF I). In February 2018, TLFF I issued several classes of Notes to finance its provision of a loan of USD 95 million to RLU to refinance existing loans and to expand their rubber plantations. &Green purchased approximately 25% of the issued Notes in February 2019, following the completion of its due diligence assessment.

In 2022, the two shareholders of RLU, Michelin and Barito Pacific, agreed that Michelin would purchase the shares owned by Barito Pacific to give it 100% control of RLU. Following that decision, RLU informed TLFF I that it would prepay the entirety of the outstanding USD95 million loan, which included the Notes held by &Green. TLFF fulfilled this obligation and the &Green exposure was entirely redeemed on 18 August 2022.

Investment Rationale

RLU set out to establish a large-scale industrial scale plantation which expected to take advantage of the forecast long-term rubber demand-supply gap. The company was developed as a best-in-class example of sustainable land-use through identification of set aside and conservation areas, originally in collaboration with WWF, engagement of communities under a Community Partnership Program ("CPP"), restoration of critical habitat, and shared responsibility with other parties in the landscape.

RLU operates two concessions, totalling 71,872 hectares, in Jambi, Sumatra. A third concession of 19,639 hectares is located in East Kalimantan, where RLU built a re-milling facility, the first in the province. The improved rubber production techniques from Michelin are expected to lead to better efficiency of land use for rubber. RLU sought significant technical assistance from Michelin to ensure rubber yields would reach global plantation standards – circa 100% higher than Indonesian averages.

RLU's concessions are located in tropical rainforest landscapes which, in their natural state, support high levels of biodiversity and provide ecosystem services of global importance. The Jambi concessions border two protected areas, both facing a high risk of deforestation and forest degradation. As part of RLU's Landscape Protection Plan (LPP), developed together with &Green, RLU committed to work together with other actors in the landscape to form a buffer zone, protecting the forested areas from further degradation. In East Kalimantan, RLU



committed to the protection of significant areas of natural forest within their concession area, and to eliminate deforestation from the supply chain into their re-milling facility.

Beyond the direct conservation and restoration of forest benefits, to help diminish pressure on the remaining forested areas across the landscapes, the project also set targets to generate better and sustainable livelihoods for approximately 10,000 households (50,000 people given an average family size of 5). RLU intended to establish so-called “Plasma” schemes for an estimated 3,500 smallholder farmers to receive training and other support in managing their own rubber farms, production from which would be purchased by RLU. Manpower required for the rubber plantations would be sourced from the 18 villages surrounding the concession, providing employment for an estimated 13,200 people.

During the loan period, &Green attended RLU’s Environmental and Social Advisory Board, a governance body for RLU senior management and independent experts to evaluate progress and effectiveness of the ESAP and LPP, and other sustainability ambitions.

Impacts realized

At the heart of RLU’s ambition was the establishment of a Wildlife Conservation Area (ca 10,000ha) on the company’s Jambi concessions as a buffer to the Southern border of the Bukit Tigapuluh National Park (BTNP), which is a habitat for several critically endangered species. The WCA was set aside in 2017 and put under active patrol by RLU in 2018. Data from UNEP showed that the protection mechanism was effective in halting deforestation in BTNP, in stark contrast to areas of the national park that don’t benefit from RLUs buffering function, where heightened deforestation was evident.

As part of their Indigenous Peoples Engagement and Livelihoods Framework, RLU set up several agroforestry programs with the indigenous Orang Rimba group living in the WCA. RLU provides regular health checks, ongoing education support and facilitates national ID Card issuance in partnership with the government, as part of the WCA program. The WCA-led programs are also supported by Partnerships for Forests (P4F).

RLU has worked with several partners towards the expansion of its Community Partnership Program (CPP), targeting the inclusion of local, small-scale farmers in the rubber supply chain. Although the number of people that were reached through this program has been small, the CPP has made a positive impact on the livelihoods of hundreds of people.

Co-funded by &Green, RLU developed a Land Return Framework together with MFC consultants, which provides an IFC PS compliant, comprehensive framework to secure additional land for planting and to enhance livelihood benefits for people living inside RLU’s concessions.

RLU has publicly committed to continuing their environmental and social impact ambitions following the prepayment of the loan. However, &Green will no longer have any direct influence or leverage over RLU’s sustainability commitments and reporting obligations.

Lessons learned

The completion of the planned plantation development plan was expected to be critical to achieve the economic, environmental and social returns that the project would be able to deliver. None of the pillars could benefit long-term – i.e. be sustainable – unless all were robust and interlinked. In that sense, the project was in the sweet spot of the investment philosophy of &Green. The critical question was whether the development plan was suitable to deliver this



long-run sustainable outcome, and if the Sponsor, and its Shareholders, were equally committed to do so.

Investing in a greenfield rubber operation is a long-term play. There are limited short-term benefits, as cash flows remain negative for prolonged periods. And in this instance, social upheaval and uncertainties were present while the concession holder sought to establish itself. Moreover, securing a suitable forest protection strategy and forest management requires inherent culture change.