United Tractors

Indonesia, Industrials

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<tr><td colspan="7">Summary view:
• With the bulk of United Tractors' revenues either directly or indirectly derived from coal mining (equipment sales, mining contracting and mine ownership), its carbon emissions are substantial and the risks from the energy transition are clear.
• Despite this, the financial statements are silent on climate-related considerations and assumptions, while the discussion in the narrative reporting is relatively superficial.
• The efforts to diversify away from thermal coal mining do appear to be motivated by the long-term structural decline in global coal demand, which, in turn, is in large part driven by global concerns over carbon emissions. However, many of the growing revenue sources for the company are also likely to have high carbon emissions.</td></tr>
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Background

The Business

- United Tractors is listed on the Indonesia Stock Exchange with local business group Astra International as the controlling shareholder with a 59.5% shareholding. Astra International is ultimately a subsidiary of Jardine Matheson, a Hong Kong-based Bermuda-domiciled conglomerate controlled by the Keswick family.
- It is an industrials company in Indonesia, with the majority of revenues from the coal mining sector. The company operates under five main business segments: sales and maintenance of heavy equipment (especially for the mining sector), primarily as the exclusive distributor of market leader Komatsu in Indonesia (22% of 2020 net revenues); mining contractor, primarily operating third-party owned coal mines (48% of net revenues); coal mining, though ownership of coal assets (16% of net revenues); gold mining, through ownership of gold assets (12% of net revenues); construction industry (2% of net revenues); and energy, initially in 2021 through a partnership with Sumitomo Corp and Kansai Electric to own a coal-fired power station but with ambitions to expand into renewable energy.
- In 2020, United Tractors suffered a 29% decline in net revenues and 47% drop in net profit mainly due to the fall in global coal prices as a result of the global pandemic, which impacted the three leading segments.

Approach to climate change

- Given the lack of any reference to climate issues in the financial statements and only brief passing comments in its narrative reporting, United Tractors gives the impression of paying little attention to climate-related considerations. However, central to the company's strategy is a diversification away from thermal coal, which provides the bulk of current revenues. This diversification may be partly due to the sharp contraction in coal demand in 2020 due to the economic downturn, but also appears to be in recognition of the fact that coal demand will face headwinds in the longer-term due to climate concerns. Coal carbon emissions, and their impact on coal demand, are also cited in the risk section of the narrative reporting.
- This diversification is away from thermal coal activities, rather than necessarily away from carbon-emitting activities. Among the various new areas of focus are metallurgical coal, and the company's first venture into power production is through a joint-venture operating a coal-fired plant notwithstanding a stated ambition to be a centre of excellence in renewables.
- Furthermore, while acknowledging that "the proportion of coal in the world's energy mix is predicted to decline in the long-term due to global pressures related to coal carbon emissions … and growth or renewables", United Tractors remains confident in the shorter-term growth

outlook for coal in Indonesia and developing countries. 33% of Indonesian coal exports go to China and 27% to India, with growth in energy demand in these countries likely to be the main driver of regional demand.

Accounting: judgements and consistency with other reporting

Accounting judgements		Significant concerns

- United Tractors reports under Indonesian Financial Accounting Standards (IFAS).[1]
- There is no reference in the notes to the financial statements that accounting judgements have been impacted by climate-related considerations – even though there are a number of judgements that might be expected to be impacted for a company operating primarily in the coal sector, such as impairments and estimated useful lives of mining assets.
- Under Critical Accounting Estimates and Judgements, the company states that the coal and gold reserves estimates are based on principles incorporated in the Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves of the Australasian Joint Ore Reserves Committee (JORC), but there is no indication that this factors in climate change considerations in any way.

Consistency with other reporting		Significant concerns

- United Tractors produces both audited Consolidated Financial Statements and a separate Annual Report. The annual report only includes short-format financial statements without the accompanying notes.
- United Tractors also publishes a Sustainability Report. This, but not the Annual Report, provides some data on scope 1 and 2 emissions (with 96% of emissions being scope 1 from mining), but not scope 3. The Sustainability Report also declares that "our business will remain consistent with … the Paris Agreement on Climate Change" but provides no evidence of how this might be the case. This aim does not appear to be reflected in the financial statements in any way

Climate assumptions in accounts: visibility and Paris alignment

Visibility of climate assumptions in accounts		Significant concerns

- There are no apparent climate-related assumptions. There is thus no sensitivity analysis.

Paris alignment		Significant concerns

- With no visibility of climate assumptions, there can be no alignment with the goals of the Paris Agreement.

Audit: visibility in KAMs and consistency check

Audit firm: Tanudiredja, Wibisana, Rintis & Rekan, a member of the PwC network	Responsible partner: Lok Budianto
Audit standards: Standards on Auditing established by the Indonesian Institute of CPAs	

[1] Indonesia has not adopted IFRS Standards for reporting by domestic companies. Indonesia has been converging its national standards toward IFRS Standards, but without a plan for full adoption of IFRS Standards. (https://www.ifrs.org/use-around-the-world/use-of-ifrs-standards-by-jurisdiction/view-jurisdiction/indonesia/)

Visibility in Key Audit Matters		Significant concerns

- There is no reference to climate change in the auditor’s report.
- There are no KAMs highlighted in the auditor’s report. This is despite the significant accounting judgements inherent in the financial reporting for a company of this nature.

Consistency check		Significant concerns

- The Auditor’s Report does not describe the scope of the auditor’s work and does not indicate that the auditor reviews or provides assurance over any other information disclosed by the company, such as the narrative reporting in the annual report or the Sustainability Report.
- Elsewhere, in the narrative reporting of the annual report, it states that PwC “did not provide other services to the company other than financial statements audit service”.

The Climate Accounting Project is an independent investor-led project to reinforce the statements of the IASB and IAASB that material climate change issues are incorporated within their standards. This analysis seeks to understand the extent to which companies and auditors are delivering against this aspect of these standards and similar local standards.		**Key**
		Good practice
		Few concerns
		Some concerns
		Significant concerns

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