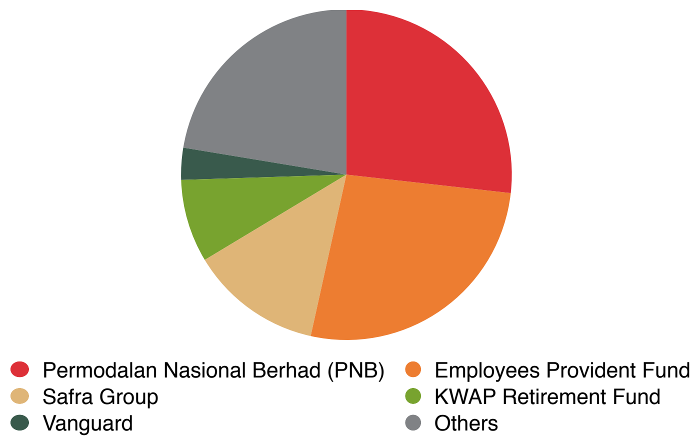
FINANCIERS OF IOI AND ASIA PULP & PAPER (APP) FACE MATERIAL ESG RISKS FROM FAILURE TO RESPECT LAND TENURE RIGHTS

March 2017

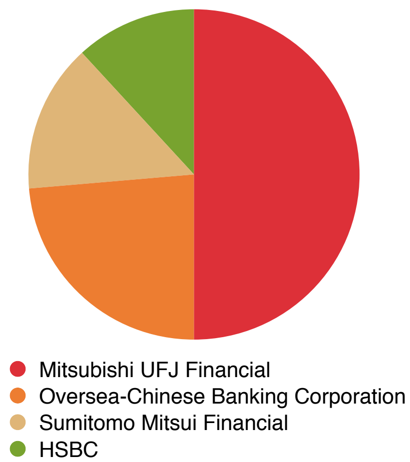
Major palm oil producer IOI Group and pulp and paper producer APP are currently involved in separate community land rights conflicts, exposing their financiers to the risk of complicity in human rights violations and material ESG risks. Companies that fail to respect legitimate land tenure rights can face community protests, work stoppages, and damaging campaigns, leading to direct financial losses through reduced productivity, reputational damage or potential loss of customers. Furthermore, financial losses can affect the ability of companies to repay their debt and impact dividend pay-outs and share prices. Failing to respect land tenure rights also has devastating impacts on local communities by causing displacement, food insecurity and poverty. The Voluntary Guidelines on the Responsible Governance of Tenure (VGGT) states that businesses have a responsibility to respect human rights and legitimate tenure rights.

On March 8th, a civil society coalition published a letter to the IOI Group, expressing shared concerns about a decade-long community land conflict in Sarawak, Malaysia. Since IOI's acquisition of palm oil plantations in 2006 that were developed without the free prior and informed consent (FPIC) of the Long Teran Kenan communities in Sarawak, Malaysia, the communities have been fighting for over a decade to ensure that IOI respects their customary rights to their lands. The letter calls for the resolution of the land dispute in accordance with the RSPO Principles & Criteria and sets out recommendations on short-term actions IOI must take to resolve the dispute. For more information, read the letter here.

Bond- & shareholdings* of IOI Group (forest-risk sector adjusted[i]), as of April 2016 (USD MM)



Commercial loans & underwriting to IOI Group (forest-risk sector adjusted[i]), 2010-2015 (USD MM)

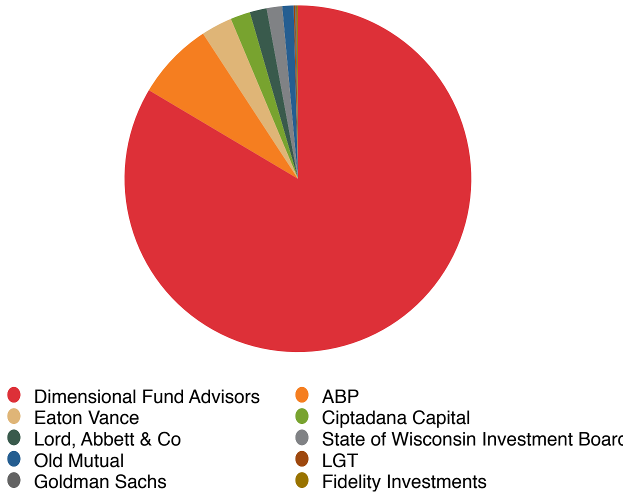


Source: forestsandfinance.org 'Explore the data'.

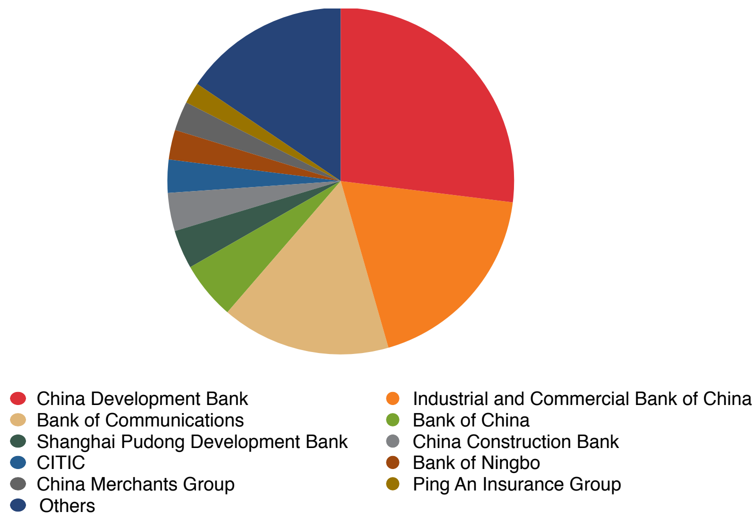
APP is considering taking on a wood supplier who is operating without the consent of local communities and facing escalating protests. APP, a subsidiary of the Sinar Mas Group, is eyeing PT. Bangun Rimba Sejahtera (BRS) as a Tier 1 fiber supplier to feed its newly constructed Ogan Komering Ilir (OKI) mill in Sumatra, now one of the world's largest capacity pulp and paper mills. The massive conversion of land to monoculture pulpwood plantations proposed within the PT. BRS concession is being strongly rejected by a majority of the impacted communities living within and adjacent to the concession area.

The APP owned OKI mill has been previously scrutinized over concerns that its high added demand for plantation wood fiber would drive further plantation expansion, new land conflicts, peatland drainage, forest fires and greenhouse gas emissions, and violate APP's zero-deforestation pledges. PT. BRS's plantation expansion plans to supply fiber to the OKI mill would affect 100,000 people who secure their livelihoods in and around the concession area. Should APP bring PT. BRS on as a fiber supplier, it would be in breach of its Forest Conservation Policy, which includes a commitment to respect human rights, including the right to free, prior and informed consent of local impacted communities. For more information, read the report here.

Top shareholders of APP subsidiaries* (forest-risk sector adjusted[i]), as of April 2016 (USD MM)



Commercial loans & underwriting to APP subsidiaries (forest-risk sector adjusted[i]), 2010-2015 (USD MM)**



Source: forestsandfinance.org 'Explore the data'
*APP's publically listed mills: PT Indah Kiat Pulp & Paper and PT Pabrik Kertas Tjiwi Kimia. Top public shareholders.
** APP China Group, Gold Hongye Paper, Hainan Jinhai Pulp & Paper, Ningbo Asia Pulp & Paper & Sinar Mas Paper China

Financiers of IOI and APP share responsibility for their contributions to the social and environmental impacts of the company's operations, which continue to be exposed to serious ESG risks resulting from a legacy of failures to respect legitimate land tenure rights. Enhanced environmental and social due diligence by financial sector institutions is required to manage these increasingly material forest-risk commodity issues.

[i] Companies with diversified interests had identified financial totals reduced to more accurately capture the proportion of financing that can be reasonably attributed to the forest-risk sector production or primary processing operations of the selected company. Where available financial information did not specify the purpose of investment or receiving division within the parent company group, reduction factors were individually calculated by comparing a company's forestry assets relative to its parent group total assets.

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