One of the largest trading houses in Japan, Itochu is exposed to widespread social conflict and deforestation risks through its investments in rubber processing as well as trade with companies involved in illegal and unsustainable pulp & paper, timber, palm oil, and natural rubber productions. Itochu makes no commitment to no deforestation for its procurement of pulp & paper, timber, or rubber, and it lacks transparency on supply chain ESG risks and due diligence measures.

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**Forest Risk Commodities**
- Palm oil, pulp & paper, timber, rubber

**Supply Chain Exposure**
- Processing, trading, manufacturing, wholesale, retail

**Affected Tropical Forest Areas**
- Indonesia, Malaysia, Thailand, Myanmar & Brazil

**Relevant Group Companies**
- PT. Aneka Bumi Pratama (rubber processing & sales), RubberNet (rubber sales), Itochu Kenzai (wood products), Daiken (building materials), Fuji Oil (TYO: 5017) (palm oil), Itochu Pulp & Paper

**Known Business Relationships**
- Joint Venture Partners: APP (APP Japan), Sri Trang (Thai Tech Rubber)
- High risk suppliers: APP and APRIL (paper), Wilmar, Golden Agri Resources and Musim Mas (palm oil), Shin Yang (timber) (Jakarta Post, 2016; Sri Trang, Global Witness, 2016; personal communications with Itochu)

**Third Party Verification**
- Partial - prioritizes procurement of certified wood products (Itochu, 2017). Itochu and Fuji Oil are RSPO members, but supply chains are not 100% RSPO certified (RSPO, 2015 & RSPO, 2016a). Lack of adequate information on verification of NDPE compliance.

**Traceability**
- Weak - some traceability achieved for timber (Global Witness, 2016) and palm oil (Fuji Oil, 2016).

**Transparency**
- Partial - inadequate disclosure of supply chain information or ESG risks.

**Investors and Financiers**

**Bond and Shareholdings in Itochu Corporation**
854 million USD
(May 2017, Forest-risk sector adjusted, institutional investors only)*

**Loans & Underwriting to Itochu Corporation**
2,804 million USD
(2010 - 2016, Forest-risk sector adjusted)*

**Sources:** Explore The Data | forestsandfinance.org
*Forest-risk adjusted financing at group company level. See methodology note on summary page.
HUMAN RIGHTS

» Pulp & paper suppliers Asia Pulp & Paper (APP) and Asia Pacific Resources International (APRIL) are embroiled in numerous land conflicts with local communities (see APP profile). As of June 2016, APRIL had 42 land conflicts outstanding, and 84,699 ha of APRIL and supplier concessions were inactive due to unresolved conflicts (KPMG, 2016).

» Timber supplier Shin Yang has been in a 30-year conflict with the Penan communities of Sarawak, Malaysia and is currently in the midst of a lawsuit for violating the community’s native customary rights to their land (Global Witness, 2015).

» Palm Oil suppliers Wilmar and Golden Agri Resources (GAR) have a significant number of unresolved social and land conflicts. Wilmar was recently documented to be engaged in child labor and forced labor practices (see Wilmar profile).

» Rubber business partner Sri Trang was implicated in labor abuses, including child labor, at its Thai-based factory Siam Sempermed (FinnWatch, 2015). Through its joint venture with Ayeyar Hinthar Holdings, Sri Trang is rapidly expanding its rubber operations in Myanmar, where commercial rubber production is closely linked with widespread land grabbing (Global Witness, 2015 & Oxfam, 2017).

CLIMATE AND BIODIVERSITY

» Pulp & paper suppliers APP and APRIL are responsible for large-scale conversion of Sumatra’s endangered forests (see APP profile). Between 2008 and 2011 alone, APRIL cleared over 140,000 hectares of tropical forest, most of which would likely be considered High Conservation Value Forest (Eyes on the Forest, 2012).

» Timber supplier Shin Yang has been carrying out highly destructive logging of intact rainforest in Sarawak, Malaysia, in a transboundary conservation area known as the Heart of Borneo (Global Witness, 2015). Shin Yang supplies tropical plywood to Itochu and exposes Itochu to a very high risk of sourcing from this highly sensitive area (Global Witness, 2016).

» Palm Oil suppliers Wilmar, GAR and Musim Mas are at risk of sourcing palm oil linked to the destruction of the Leuser Ecosystem (RAN, 2016) (see Wilmar profile).

» Itochu’s sourcing of rubber through its JV Thai Tech exposes it to risks of deforestation, especially in Myanmar (Woods, 2015 & The Straits Times, 2016). Commercial rubber is a major driver of deforestation in Southeast Asia, leading to significant biodiversity loss and ecosystem degradation (Mongabay, 2016).

GOVERNANCE

» Itochu’s sourcing of timber from Sarawak, Malaysia, exposes it to a high risk of purchasing illegal timber. Evidence of illegal logging in Sarawak, including by supplier Shin Yang, has been verified by several independent sources (Global Witness, 2016).

» Pulp & paper suppliers APP and APRIL are at risk of violating Indonesia’s recent regulations prohibiting new land clearing and canal development in peatlands. In October 2016, the Indonesian Government cancelled the 10-year workplan of an APRIL subsidiary due to plans to expand on peat. Government field investigations in November found APRIL engaged in illegal land clearance and canal development on peat (EcoDaily, 2016; see also APP profile).

» Palm Oil supplier Wilmar may have violated numerous Indonesian labor laws, including child labor, and relies extensively on third party suppliers without sufficient oversight of compliance with social and environmental standards (see Wilmar profile).

» Sri Trang’s rubber sourcing from Myanmar exposes Itochu to significant corruption risks. Myanmar ranks 136 out of 176 countries in the Corruption Perception Index (Transparency International, 2016), and investigations have revealed how the Myanmar army collaborated with the district government and private companies to confiscate large swathes of land for commercial rubber production (Global Witness, 2015). Sri Trang’s joint venture partner in Myanmar, Ayeyar Hinthar Holdings, has been evaluated poorly by the Myanmar Center for Responsible Business (Pwint Thit Sa Project: Transparency in Myanmar Enterprises, 2016, p. 22).

» Itochu’s Procurement Policy on Wood and Paper Products fails to commit to no deforestation or protection of peatlands, and it has no policy on the procurement of rubber. Itochu’s sourcing from Shin Yang, APP and APRIL are in clear violation of its policy to not “procure[] from any suppliers who contribute to serious environmental or social problems.”

» Itochu lacks transparency on its supply chain risks and risk mitigation measures. It makes limited disclosure of its supply chain, and provides inadequate information on its due diligence including third party verification. Its 2016 survey of suppliers found “no serious problems requiring immediate response” despite the high ESG risks highlighted above (Itochu, 2016).

Note: for the full reference list, see the original report ‘Every Investor Has A Responsibility’