IOI Sustainability Consultation Forum: Climate Strategy and Net-Zero

21 November 2022

Project No.: 0642344

1. BACKGROUND

Following the success of IOI Corporation Berhad's ("IOI's") first Sustainability Consultation Forum (SCF) in 2021, IOI planned to organise an SCF for 2022 under the theme "Net-Zero." IOI engaged Environmental Resources Management (M) Sdn. Bhd. ("ERM"), a global sustainability consultancy, to develop and facilitate the SCF Net-Zero. The objective of the 2022 SCF was to gather experts and thought-leaders' feedback and suggestions on climate strategy best practices, to enable IOI's achievement of Net-Zero and address challenges of the palm oil sector.

The SCF was held on 19 May 2022 in a hybrid format. The attendance included 12 external stakeholders from Malaysian government agencies, certification bodies, customers, rating and assessment agencies, academia and members of IOI's Sustainability Advisory Panel, and 28 internal stakeholders from the board members, senior leadership from different departments, and operational management representatives from IOI, while over 50 IOI colleagues joined the forum virtually as observers. To create a safe environment for participants to share honest feedback and suggestions, SCF was held under the Chatham House Rule, meaning the identity of stakeholders are not disclosed in this Executive Summary.

Prior to the Forum, ERM had conducted pre-engagement sessions with stakeholders to establish common expectations in preparations for the forum's discussion. As an outcome of the forum, IOI has identified actions and next steps for addressing the gaps identified to operationalise their Net-Zero ambition.

2. DISCUSSION POINTS

2.1 IOI CLIMATE STRATEGY AND NET-ZERO TARGET

Table 1: IOI's Current Performance, Gaps and Solutions - Climate Strategy and Net-Zero Target

IOI Current Performance	Solutions to be Addressed	Solutions	Timeline
Greenhouse Gas (GHG) Emissions Accounting & Disclosure • IOI disclosed both absolute and intensity-based Scope 1 and 2 emissions for each operation group. • Carbon reduction targets set by each operation group are intensity-based • IOI has a clear time-bound emissions reduction plan for short term (2025) • IOI uses the Palm GHG tool to calculate GHG emissions contributed by plantation sites. • Scope 1 and 2 GHG emission from plantations are verified by certification bodies (e.g., RSPO and ISCC).	• The Palm GHG Tool does not accurately reflect carbon sequestration in IOI's plantation sites, as it does not include sequestration from palms that are over 25 years old, conservation areas such as, riparian buffer zone, tree crops, etc. • Carbon reduction targets set by IOI for Scope 1 and 2 are not absolute-based. • IOI has not set emissions reduction target (mid & long term – Net Zero) and verification plan for Scope 3. • Consistent methodology used in measurement and improved reporting of performance over time.	**Follow-ups and clarifications** • To explore relevant methodologies applicable for the palm oil sector in emissions reduction target setting (e.g., absolute- or intensity-based pathway). For example, Science Based Target initiative's (SBTi) net-zero standard, SBTi Forest, Land, and Agriculture (FLAG) requirement, Palm GHG calculation tool and GHG Protocol Land Sector and Removals Guidance. • Advocate RSPO Palm GHG to be reviewed to reflect current changes and advancement in GHG emissions data.	**Immediate**
		Reporting and Public Communication • Continue to disclose IOI's current GHG emissions data and reduction targets as intensity-based.	**Year 2022**
		Baseline, methodology and verification for GHG inventory • Clarify the GHG calculation method IOI intends to adopt with consideration for the level of acceptance and effectiveness when calculating GHG emissions, including: a) Tracking updates to the Palm GHG tool to include output based on emissions category (i.e., Scope 1, 2 and 3) and in alignment with GHG Protocol. b) Take into account of sequestration from palms over 25 years, other conservation areas, tree crops as well as from soil carbon c) Separate accounting for FLAG and non-FLAG emissions.	**Year 2022-23**

IOI Current Performance	Solutions to be Addressed	Solutions	Timeline
GHG Emissions Reduction • IOI has activities and initiatives in place to reduce GHG emissions. • IOI has a Sustainable Palm Oil Policy, which includes the commitment to no deforestation and GHG reduction. • IOI has set short term 2025 target of 40% operational GHG reduction from 2015 baseline, which exceeded the government's commitment of 45% GHG reduction by 2030. • Investors are generally satisfied with IOI's current GHG Emissions Reduction Plan.	• Disclosure of detailed emissions reduction strategies, the methodologies used, the timeline it requires, the results and lessons learned during the execution process. • EPF's requirement to include emission reduction plan for achieving Net-Zero to be part of IOI's Climate Change Action Initiative ("CCAI").	**Net-zero roadmap development** • Establish a time-bound Net-Zero roadmap that includes projected Scope 1, 2 and 3 emission reductions, and the emissions reduction initiatives in place. • Collaborate with partners (e.g., Nestle) on carbon reduction and sequestration projects	**Year 2022-23**
		Reporting and public communication • Disclose IOI's Net-Zero target, with a clear explanation of methodology and baseline calculations. • Disclose IOI's Net-Zero roadmap to communicate IOI's credibility for emissions reduction initiatives.	**Year 2023**

Scope 3 Inventory
• IOI has conducted 'hotspot analyses of the Scope 3 categories with the majority of Scope 3 emissions coming from purchased goods and services, particularly the purchase of oil and raw materials.
	• IOI has not publicly reported their Scope 3 emissions and reduction plan
	• Challenges for IOI when calculating and reporting on Scope 3 emissions include:
	  ○ Identifying contribution of GHG emissions by the supply chain
	  ○ Possibility of double counting.
	• How to reduce emissions from Scope 3 specifically for purchased goods and services.
		Scope 3 Data collection & inventory
		• Assess the suggested data collection approaches for Scope 3 (e.g., activity-based, spend-based, credible public databases, obtaining supplier data, and conducting lifecycle assessment).
			Year 2022

		Scope 3 baseline establishment and verification • To establish baseline and obtain verification for Scope 3 emissions	**Year 2022-23**
		Reporting • Disclose the Scope 3 emissions baseline and roadmap in line with overall net-zero disclosures.	**Year 2023**

IOI Current Performance	Solutions to be Addressed	Solutions	Timeline
		Scope 3 mitigation plan development • To work with downstream partners to reduce their emissions by sharing best practices on decarbonization initiatives. • To explore knowledge-sharing of regenerative agriculture practices with suppliers like smallholders and out-growers to reduce IOI's Scope 3 emissions.	**Year 2022-23**

2.2 LAND USE EMISSIONS AND REGENERATIVE AGRICULTURE

Table 2: IOI's Current Performance, Gaps and Solutions – Land Use Emissions and Regenerative Agriculture

IOI Current Performance	Solution to be Addressed	Solutions	Timeline
Existing regenerative agriculture practices • Existing IOI practices that could be considered regenerative agriculture include: a) Sustainable agricultural practices (e.g., safeguarding HCV sites, integrated pest management, planting of cover crops and beneficial plants, recycling and pulverisation of palm biomass) b) Conservation and reforestation of riparian buffers and other conservation areas.	• Data measured in IOI's current best practice should be in alignment with regenerative agriculture practices. • Practices and activities in Regenerative agriculture to help IOI reduce GHG emissions and contribute to sustainable agriculture.	**Further invest in regenerative agriculture practices improvement by undertaking collaborative effort with:** • **Academia:** To further refine existing databases and file more research initiatives to close data gaps on measuring soil health improvements. • **Experts and agronomists:** To seek professional advice on implementing regenerative agriculture practices within IOI's plantations. • **Roundtable on Sustainable Palm Oil (RSPO):** To contribute to the improvement of the Palm GHG tool to ensure all conditions within the plantation setting are accounted for within regenerative agriculture practices and able to claim carbon credits.	**Year 2022-23**