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SUSTAINABILITY REPORT



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<http://vimeo.com/user4811621>

External frameworks

The content and quality of this report is guided by the Global Reporting Initiative (GRI) Sustainable Development Reporting Guidelines (version 3.1). The report had been externally assured to the internationally recognised AA1000(AS) and meets the requirements of GRI Application Level A+. Our intention is to continue to seek external assurance for future sustainability reports and respond as appropriate to any areas of improvement identified in the assurance statements.

The assurance statement covering this report content is presented on page 98.



SUSTAINABILITY REPORT

2013

CONTENT

| | |
|--|-----|
| ▶ 01 INTRODUCTION | 8 |
| ▶ 02 COMPANY PROFILE | 10 |
| ▶ 03 CHAIRMAN'S STATEMENT | 18 |
| ▶ 04 OUR PRODUCTS | 22 |
| ▶ 05 OUR SUSTAINABILITY STRATEGY | 26 |
| ▶ 06 SUSTAINABLE FIBRE SOURCING | 46 |
| ▶ 07 OUR PEOPLE | 70 |
| ▶ 08 OUR MILLS | 84 |
| ▶ 09 DATA TABLES AND ASSURANCE STATEMENT | 92 |
| ▶ 10 GRI INDEX | 102 |
| ▶ 11 GLOSSARY | 110 |



CHAPTER 1

INTRODUCTION

WELCOME TO OUR SIXTH SUSTAINABILITY REPORT,
COMMUNICATING THE CONTINUING STORY OF ASIA PULP
& PAPER (APP) INDONESIA'S SUSTAINABILITY JOURNEY
DURING 2013.

CHAPTER
01

The report provides coverage of data and activities in the 2013 calendar year, continuing our annual reporting cycle. This report focuses on two key themes from 2013; our progress against our Vision 2020 Roadmap and, within the roadmap, our Forest Conservation Policy (FCP) commitment.

The content and quality of this report is guided by the Global Reporting Initiative (GRI) Sustainable Development Reporting Guidelines (version 3.1). We apply the guidelines and associated indicators to ensure we report against our relevant economic, social and environmental impacts and mitigation activities.

This report also serves as our Communication on Progress (COP), as part of our commitment to the UN Global Compact, its ten principles and additionally the CEO Water Mandate.

The report has been externally assured to the internationally recognised AA1000(AS) 2008 standard and meets the requirements of GRI Application Level A+, demonstrating the highest level of disclosure. We continue to use independent external assurance of our report to ensure its credibility and the accuracy of our data and claims.

The assurance statement covering this report is presented on page 98.

We welcomed the comments from our assurance provider in our 2012 Sustainability Report, and have taken steps to respond to their recommendations during 2013. During 2013 we have developed a scorecard system to enhance implementation of our commitments on the ground, including sustainability reporting. We have completed the development of APP Sustainability Database System, a web-based data collection system that aims to improve consistency across our mills with respect to sustainability related data. These will be rolled out across all of our mills during 2014. We have also deployed our internal audit function to all mills, to improve the accuracy of our data and information, and we ran GRI training in Jakarta in February 2013, to help raise awareness about the type of information required for our sustainability reporting.

REPORT SCOPE AND BOUNDARY

Asia Pulp & Paper (APP) is a brand name under which our products are sold. Purinusa Ekapersada is the brand holder of APP. The scope of this report covers APP pulp and paper operations in Indonesia, specifically the following pulp operational facilities.

| LEGAL ENTITY | MILL |
|---|--|
| PT Indah Kiat Pulp & Paper TBK | Indah Kiat Perawang Indah Kiat Serang Indah Kiat Tangerang |
| PT Pabrik Kertas Tjiwi Kimia TBK | Tjiwi Kimia |
| PT Pindo Deli Pulp and Paper Mills | Pindo Deli Karawang (mill 1 & 2) Pindo Deli Perawang |
| PT Lontar Papyrus Pulp and Paper Industry | Lontar Papyrus |
| PT Ekamas Fortuna | Ekamas Fortuna |

One of the highest priority issues for our stakeholders is the activities of APP pulpwood suppliers. Sinarmas Forestry is the management team that represents APP pulpwood suppliers, currently covering 33 pulpwood suppliers who between them manage 38 concessions (forest management units based on government forest concession licenses). Despite not being under APP's direct ownership (although we have shared ownership in six of our suppliers), we have a responsibility to manage and monitor their activities. Therefore, we include details of our approach within the scope of this report.

DEFINING REPORT CONTENT

APP has applied both formal and informal mechanisms to define the content of this report, guided by the GRI Reporting Principles of Defining Content. In 2011 we carried out a survey of 260 stakeholders, both internal and external, to determine and prioritise the issues most material to them. In 2012 we introduced a more formal method of gathering feedback from our Sustainability and Stakeholder Engagement team, in order to understand the topics of greatest interest to our stakeholders across the regions where we operate. In 2013 we consulted with our global Sustainability and Stakeholder Engagement team who are directly responsible for day to day engagement with our stakeholders, seeking to understand issue prioritisation from the perspectives of local communities, NGOs, local government and local media. We used the outputs from this exercise to inform our materiality assessment for 2013, which has informed the development of this report.

We monitor global trends in sustainable development, both within and outside of the forest products sector, to ensure global issues and those more relevant to local stakeholders are reported adequately. For further details on how we determine which issues to report on, see Stakeholder Engagement and Materiality in the Our Sustainability Strategy section.

If you have any questions or feedback on our Sustainability Report we would be pleased to hear from you.

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CHAPTER 2

COMPANY PROFILE

APP AT A GLANCE

ASIA PULP & PAPER GROUP (APP) IS ONE OF THE WORLD'S LARGEST PULP AND PAPER PRODUCERS, DELIVERING TISSUE, PACKAGING AND PAPER TO CUSTOMERS IN OVER 120 COUNTRIES, SPANNING SIX CONTINENTS.



CHAPTER 02

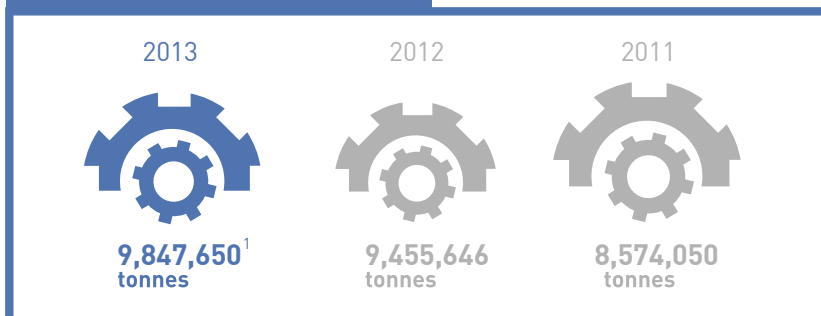
Headquartered in Jakarta, we have nine pulp and paper mills on both Java and Sumatra. Another of our mills, Univenus Perawang, is outside of the scope of this report. Our unique combination of Eastern traditions and the modern values of innovation and efficiency ensure that we meet the expectations of our customers whilst also embracing the challenges associated with our journey to become a truly sustainable company.

A GLIMPSE AT 2013

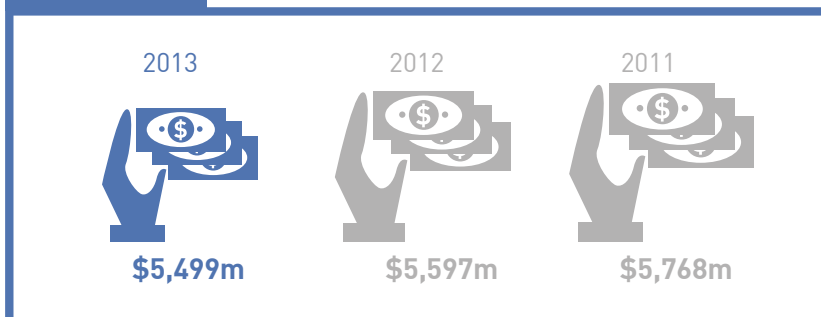
EMPLOYEES



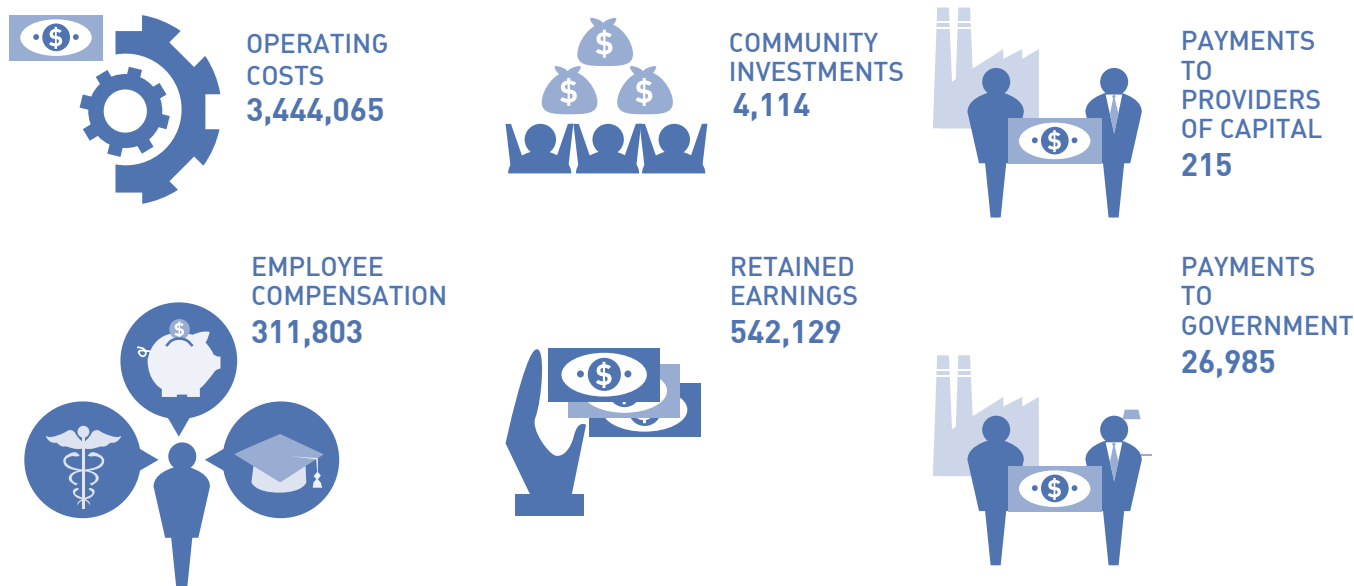
PRODUCTION CAPACITY



REVENUE



2013 IN NUMBERS (\$'000)



¹ The production capacity in 2011 was re-calculated using the same methodology we used in 2012 and 2013.

OUR PRODUCTS

In 2013 our mills generated a total of \$5,499m in sales revenue, producing 8,858,000 tonnes of pulp and paper products, a decrease of 2% and increase of 6% respectively from 2012.

COATED PAPER
Premium magazines and packaging



UNCOATED PAPER
Books, catalogues



INDUSTRIAL PACKAGING
Carton packaging



OFFICE PRODUCTS
Copier paper



TISSUE
Hygiene products



SPECIALITY
Receipts, stickers



STATIONARY
Notepads, envelopes



PUBLISHING
Encyclopaedia, dictionaries



SERVICE
Shopping bags, food boxes





We serve markets in over 120 countries, including North America, Japan, Australia and countries in Europe. We sell our products through both our own sales offices and sales agents across the globe, to customers including multinational companies through to paper merchants and smaller, bespoke converters, printers and publishers.

OUR MILLS

2

Mill:

LONTAR PYPYRUS

Employees: 2,704

Production capacity: 1,081,000 tonnes

Production lines: 2 pulp lines, 6 tissue machines

Key products: LBKP and tissue

Lontar Papyrus is an integrated pulp and paper mill, which mainly produces pulp for use by other APP mills. It also has a tissue machine that produces jumbo rolls, which other APP mills then convert into saleable products. In 2013 Lontar Papyrus began a \$7m investment programme to optimise the wood chipping process. Power consumption reduced by 55% while at the same time increasing capacity and chip quality. For the second year running, Lontar Papyrus won the Green Industry Award in recognition for its sustainability programmes. In 2013, Lontar Papyrus renewed their Halal Certificate for pulp and tissue product and achieved Halal Assurance System with the category "Excellent".

3

Mill:

PINDO DELI PERAWANG

Employees: 2,147

Production capacity: 407,000 tonnes

Production lines: 15 tissue machines

Key products: tissue

Located in the remote region of Riau Province, Pindo Deli Perawang focuses on the production of jumbo roll to the paper converting market. Improvements in 2013 centred on efficiency improvements and cost reductions; one tissue machine project reduced water consumption intensity by 17%.

4

Mill:

INDAH KIAT TANGERANG

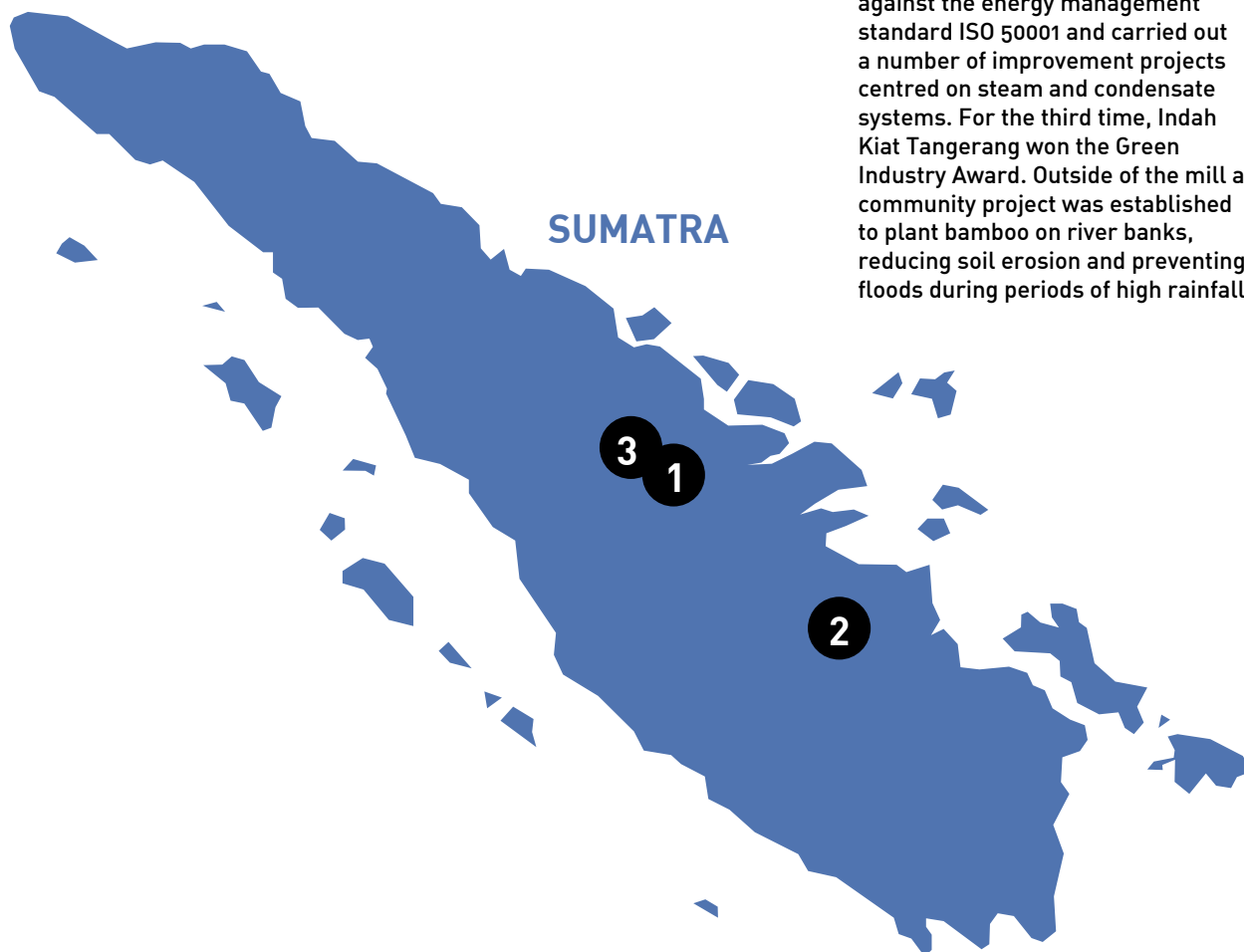
Employees: 1,195

Production capacity: 105,000 tonnes

Production lines: 3 paper machines

Key products: coloured printing, writing and copier, computer and duplicator paper

Indah Kiat Tangerang is the smallest of APP's mills. Located 30km west of Jakarta, the mill specialises in the production of coloured paper to the extent that it has become one of the largest producers in the world. Its raw material sourcing includes both pre-consumer waste and purchased pulp and it exports 85% of its products to a global client base. In 2013 the mill achieved certification against the energy management standard ISO 50001 and carried out a number of improvement projects centred on steam and condensate systems. For the third time, Indah Kiat Tangerang won the Green Industry Award. Outside of the mill a community project was established to plant bamboo on river banks, reducing soil erosion and preventing floods during periods of high rainfall.



1

Mill:

INDAH KIAT PERAWANG

Employees: 9,735

Production capacity: 3,710,650 tonnes

Production lines: 4 pulp lines, 9 paper machines

Key products: LBKP pulp, wood free printing, writing, copier and coated papers

Indah Kiat Perawang is an integrated mill, producing both pulp and paper. Located in a rural region of Riau Province, Sumatra, the mill produces 2,541,000 tonnes of pulp annually. Highlights in 2013 include installation of a new wash press across 4 paper machines, reducing chemical use and improving the quality of waste water. In an effort to reuse more heat energy and in turn reduce steam use, the mill installed a flue gas heat recovery system in three boilers, achieving a 9% reduction in steam requirements.

5

Mill:
TJIWI KIMIA
 Employees: 11,670
 Production capacity: 1,677,000 tonnes
 Production lines: 13 paper machines
 Key products: printing, writing, copier, carbon-less, exercise books, writing pads, envelopes, computer forms, gift wrapping paper and shopping bags

Tjiwi Kimia is located near Surabaya in East Java. The mill is equipped with 13 paper machines and over 100 converting units, and it produces a diverse range of value added products including books, calendars, stationary and recycled products, all of which are sold globally. In 2013 a rotary drier was installed in order to enable the mill to utilise sludge as an alternative fuel. Located next to the belt press, the rotary drier reduces the water content in the sludge, which is then mixed with coal as a fuel for the boiler.

6

Mill:
INDAH KIAT SERANG
 Employees: 5,524
 Production capacity: 1,570, 000 tonnes
 Production lines: 6 paper machines
 Key products: coated boxboards, test linerboards, corrugating medium, corrugated cartons

Indah Kiat Serang is located 60km west of Jakarta. It is unique amongst APP's mills, sourcing the majority of its raw material from post-consumer waste, which is supplemented by virgin fibre to improve the strength of the paper products. The mill serves a global client base, but sells its products primarily to the Asian and Pacific market.

Indah Kiat Serang received Halal certification in 2013 and is currently working towards achieving PEFC recycling certification in April 2014.

7

Mill:
PINDO DELI KARAWANG MILLS
 Employees: 6,438
 Production capacity: 1,117,000 tonnes
 Production lines: 10 paper machines, 2 tissue machines
 Key Products: writing, printing, copier, pre-print and other premium wood-free papers, cast-coated paper, paperboards, carbon-less, thermal and art paper and tissue.

Comprised of two mills, Pindo Deli Karawang produces paper from purchased pulp and pre-consumer waste. Products produced include paper, tissue and packaging products largely for export. Many of the product lines include specific certifications, such as ISO 22000 for food safety and ISO 9706 for permanent acid free papers suitable for archiving purposes.

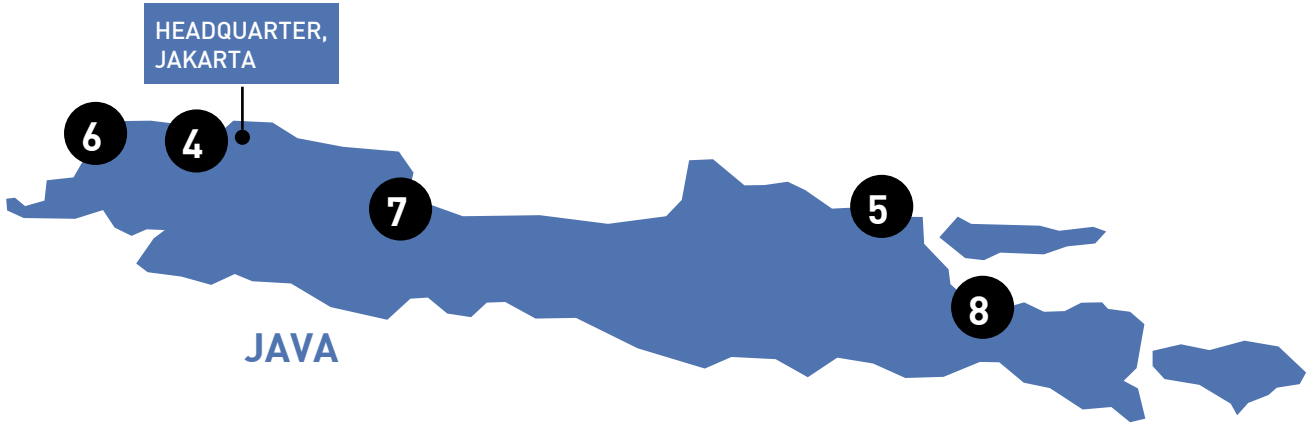
During 2013 the mill achieved certification against the energy management standard ISO 50001 for its power generation and distribution, and won an award for Green Industry for the third time.

8

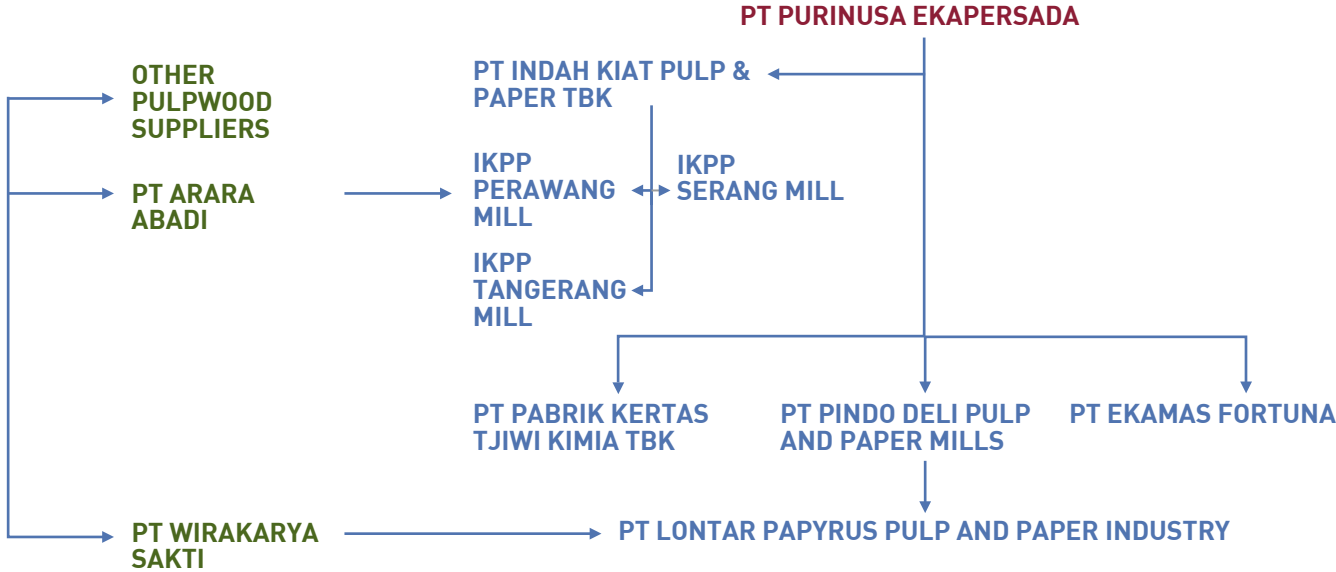
Mill:
EKAMAS FORTUNA
 Employees: 731
 Production capacity: 180,000 tonnes
 Production lines: 2 paper machines
 Key products: corrugated medium, wrapping papers, chipboard, Kraft liner, paper core, paper tube and heavy board

Ekamas Fortuna is situated in East Java. Supplied mostly by post-consumer waste, the mill produces corrugated and Kraft liner board grades, most of which is used as layers in container board and carton boxes. Products are largely sold to the Indonesian domestic market, with 10% exported to more than 10 countries worldwide.

In 2013 the mill was awarded with the Indonesia Green Awards for pioneering waste-utilisation of coal ash waste into bricks, utilising ash waste from the mills power station that otherwise would have gone to waste.



COMPANY STRUCTURE



Indah Kiat and Tjiwi Kimia are publically listed and trade on the Jakarta and Surabaya Stock Exchanges.

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CHAPTER 3

CHAIRMAN'S STATEMENT

DEAR STAKEHOLDER,

2013 WAS ONE OF THE MOST
SIGNIFICANT YEARS IN APP'S
HISTORY AS IT STRENGTHENS
OUR COMMITMENT TO
ADDRESS CLIMATE CHANGE
BY IMPROVING THE WAY WE
OPERATE AS A BUSINESS.

CHAPTER
03

On February 5th, I announced the introduction of our Forest Conservation Policy (FCP), which saw the immediate introduction of a moratorium on all natural forest clearance across our wood supply chain, two years ahead of schedule.

This announcement was welcomed by stakeholders globally, from customers to governments.

The FCP was, in effect, an update to our Vision 2020: Sustainability Roadmap, and at its heart lies a company-wide commitment to zero deforestation throughout our supply chain. Such a commitment was truly ground-breaking in Indonesia, and requires that we find a new business model to ensure we are able to continue to trade for many years to come.

With the moratorium in place, APP and our partners have carried out High Conservation Value and High Carbon Stock assessments to determine which parts of our concessions and those of our suppliers contain high conservation values and high carbon stock forest. All areas identified will be permanently protected.

The FCP also included a commitment to protect forested peatland and to manage peat-based plantations according to best-practice peatland management.

We have also committed to respect the rights of local and indigenous communities who live around the production forest area by enhancing our engagement with them and ensuring that any new developments are undertaken in line with Free, Prior and Informed Consent (FPIC).

You will read in this report the detail behind how we intend to deliver against our Vision 2020 Roadmap and the FCP, and what it means to Indonesia's forests. However, no report can truly express the challenges associated with implementing a zero deforestation business model. To succeed we must work closely with our own employees, the communities where we operate, our stakeholders and crucially, our suppliers. Achieving such a transition requires a transformation in the way that we manage and engage with these important stakeholder groups.

I'm very encouraged by the collaborative relationships we have developed through 2013, particularly with those who were once our harshest critics. Greenpeace's Progress Review, published in October 2013 was a milestone for APP. I support the review's findings and we are responding to each and every recommendation made in the report.

Despite the positive change of position from Greenpeace, some critics still remain and I reiterate our pledge to openly engage with these organisations as their input can often help improve the way we operate.

One area where we fell short in 2013 was the speed at which we carried out the HCV assessments. HCV assessments of this scale and complexity have never been carried out before, so it is not surprising that there have been some bumps in the road. In response, we have increased our resources and aim to have the final reports for all assessments by the third quarter of 2014.

A central part of transparency at APP is our new monitoring dashboard, which is unique in the pulp and paper sector and I'm pleased that it has been received well by stakeholders. I believe the dashboard approach can be used by any company committed to addressing supply chain traceability and sustainability and I encourage other industries to use it as template.

Looking forward, we must continue on the path we have set as we work towards a more integrated approach to forest management. We seek to bring together all of the elements we have been focussing on through our FCP to create Integrated Sustainable Forest Management Plans for each of the major landscapes in which our pulpwood supplier concessions sit.

The success of these plans will be dependent on global support from all stakeholders with an interest in tropical forests. We need others to follow our commitments, cutting across all industry sectors and geographies. No single company can protect these vital ecosystems alone, which is why we are calling upon others to help us. We hope that the FCP becomes a driver for change, not just within APP but for other organisations.

Outside of our FCP, APP's Vision 2020 Roadmap incorporates a range of sustainability issues which must be addressed. While it would be fair to say our focus in 2013 has been on the FCP, we are actively addressing other key issues too.

We have developed a mill sustainability scorecard to help us understand the relative performance of each of our mills. It incorporates an assessment of the management approach for all environmental and social issues, drawing upon various international standards such as the United Nations Guiding Principles on Business and Human Rights, UN Water Mandate principles, and internationally recognised management certification systems. The scorecards will help us gain a clear understanding of where we need to focus our efforts and will also support us in monitoring progress against our Roadmap goals.

In 2013 we finalised our pulp and paper mills baseline carbon footprint assessment and continue to work on our water footprint assessments. Our ultimate goal is to arrive at a clear baseline which will allow us to set a challenging group-wide target for 2020.

Community engagement continues to form a central part of our business; it is an essential part of the long term sustainability of APP and is a key component of our FCP. We are constantly working with our suppliers to ensure they respect the communities in which they operate and enhance the standard of living for local people. Our mills oversee a range of CSR programmes, designed to address the needs of local communities. Common themes you will read about in this report centre around empowerment, education and infrastructure development.

Reflecting a steadily improving global economic outlook, APP saw sales increase 6% in 2013 from 2012 levels. Sales value remained constant, reflecting the pressure on pricing within the pulp and paper market. Our share of export sales grew in 2013, representing 59% of our net sales, with growth concentrated in emerging markets surrounding Indonesia.





Companies today widely acknowledge that sustainability underpins business performance and this is an idea that we fully embrace and we believe the market is beginning to respond to our efforts. This is very encouraging as it is only by demonstrating the economic benefits of sustainability, that other industry players will be prompted to follow similar paths.

Our message to them is that joining the zero deforestation movement is good for business as well as the worlds' forests.

Chairman
Teguh Ganda Wijaya

CHAPTER 4

OUR PRODUCTS

PROVIDING A DIVERSE RANGE RESPONSIBLY AND SUSTAINABLY PRODUCED PRODUCTS IS THE CORE DRIVER THAT UNDERPINS OUR BUSINESS MODEL.



CHAPTER
04

Fibre-based products have a strong sustainability advantage. They are wood based, therefore renewable, produced in facilities where renewable energy can be utilised, and they can be recycled where the infrastructure allows.

APP supplies a diverse range of customers to a global client base. Some are business-to-business (B2B) relationships where our customer further converts the product into a final saleable end product, for example tissue or packaging. Others include the sale of finished products direct to brand owners, either through our mills or through our sales representatives located around the world. In total our products are sold in over 120 countries across the globe.

Stakeholder communications are led by our Sustainability and Stakeholder Engagement team in Jakarta who are supported by regional representatives across our key overseas markets; Europe, US and Australasia. This dedicated regional stakeholder engagement team work to support the sales function, handling customer enquiries and working with local stakeholders in the market, such as NGOs and trade associations.

PRODUCT SPOTLIGHT

At Pindo Deli Karawang we introduced a new line of paper called Golden Plus Extra during 2013. This high quality brand of paper was developed to fulfil the requirements of the European Eco Label certification.

Our customers are predominantly interested in information regarding the fibre source of the products they buy. We communicate to these stakeholders in direct meetings, through our sustainability reports, newsletter and other publications, our corporate website, and our FCP monitoring dashboard. As the profile of Vision 2020 and our FCP gathers pace, we are seeing a rise in interest from global paper buyers keen to engage with us and see for themselves the progress we are making in our commitments.

Kokoru, produced at Indah Kiat Tangerang is designed to inspire creativity in children. It also has a strong sustainability story behind the brand. The product is made from excess material from paper production, such as paper trimming, diverting material that would previously have been wasted. It is also certified to European Standard EN-71, the Safety Standard for Toys.



APP MILLS CERTIFICATION STATUS

| CERTIFICATION | MILLS | | | | | | | |
|--------------------|--------------------------------|---------------------------------------|----------------------|--|---------------------|----------------|---|----------------|
| | Indah Kiat Perawang | Indah Kiat Serang | Indah Kiat Tangerang | Pindo Deli Karawang | Pindo Deli Perawang | Lontar Papyrus | Tjiwi Kimia | Ekamas Fortuna |
| Quality Management | ISO 9001 | ISO 9001 | ISO 9001 | ISO 9001 | ISO 9001 | ISO 9001 | ISO 9001 | ISO 9001 |
| Product Quality | ISO 9706 | Halal | Halal | SNI | Halal | Halal | ISO 9706 | |
| | Ecolabel - Indonesian Standard | | | Ecolabel - Indonesian Standard | | | Ecolabel - Indonesian Standard | |
| | SNI 7174 : 2008 | | | Ecolabel - EU Standard | | | | |
| | | | | Green Mark - Taiwan Eco label Standard | | | | |
| Environment | ISO 14001 | ISO 14001 | ISO 14001 | ISO 14001 | ISO 14001 | ISO 14001 | ISO 14001 | ISO 14001 |
| | PROPER (blue) | | PROPER (blue) | PROPER (PD I: blue, PD II: green) | | PROPER (blue) | | PROPER (blue) |
| | | | ISO50001 | ISO50001 | | | | |
| Health & Safety | SMK3 | SMK3 | SMK3 | SMK3 | SMK3 | SMK3 | SMK3 | |
| | | | OHSAS 18001 | OHSAS 18001 | | | | |
| Chain of Custody | PEFC | PEFC | PEFC | PEFC | PEFC | PEFC | PEFC | |
| | LEI | | | LEI | LEI | LEI | LEI | |
| | SVLK | SVLK | SVLK | SVLK | SVLK | SVLK | SVLK | SVLK |
| Product specific | RoHS | RoHS | RoHS | | | | RoHS | |
| | REACH/ SVHC screening | REACH | SVHC screening | | | | | |
| | | Food Packaging Direct Contact-FDA USA | | | | | Food Grade Paper/Board - FDA USA & Germany Recommendation XXXVI | |
| | ASTM and EN71 Part 3 & 9 | ASTM and EN71 Part 1 2 3 9 | EN71 part 3 | | | | Green Seal | |
| | | ISO22000 | | | | | Green Label Singapore | |
| | | ISPM (Phytosanitary) | ISPM (Phytosanitary) | | | | ISPM (Phytosanitary) | |

Across our product range we use third party certification labels and other globally recognised standards such as ISO14001 and eco-labels specific to the region in which a product is sold. Specialist packaging products typically receive more specific information requests, including food health and safety certification that focusses predominantly on the safe use and end use (disposal or reuse) of our products. There were no incidents of non-compliance concerning either health and safety impacts or labelling of our products in 2013.

Customer satisfaction is monitored closely, both through our sales offices daily activity and through our annual survey. Now in its 13th year, the annual Customer Satisfaction Survey is a vital tool to gather global opinion of APP, our service and products. We are pleased to see our efforts in improving lead times in export markets has been recognised by our customers and scores improved from 2012. "Accuracy, speed and delivery", our metric that refers to our service quality from the time a sales order is placed, to the point at which the customer receives their product, was our top performing area of performance in 2013. The main area for improvement for both local and export markets is the quality of our sales offices. We will seek to understand and address this feedback during 2014.

A new set of questions asked in the 2013 survey sought to assess the visibility of APP's sustainability activity and whether we are meeting the expectations of our customers. The familiarity of our customers with the Forest Conservation Policy was 'average', largely because of the technical nature of many of the issues involved. We aim to see improvements throughout 2014, as communications around the initiative gather pace and through additional training and awareness raising amongst our sales teams.

CHAPTER 5

OUR SUSTAINABILITY STRATEGY

OUR VISION IS TO BECOME A LEADING AND RESPECTED GLOBAL PULP AND PAPER COMPANY THAT PROVIDES SUPERIOR VALUE TO CUSTOMERS, COMMUNITY, EMPLOYEES AND SHAREHOLDERS, RESPONSIBLY AND SUSTAINABLY.



CHAPTER
05

SUSTAINABILITY MANAGEMENT

It is through our strategy that we address and mitigate against our key impacts and risks. The most significant for APP's operations are the environmental impacts of our pulp and paper mills through emissions to air and water, and the associated fuel used to generate the energy required for our operations. We are also responsible for managing the impacts of our suppliers, the most significant of which are the activities associated with our pulpwood supply chain, specifically the environmental impacts of plantations, land use change and forest management practices. In terms of social impacts, we employ a large number of people, and with this comes the responsibility to provide a safe and healthy working environment. Sustainability at APP is not only about risk. We seek to use our influence positively to identify economic, environmental and social opportunities that we can create or stimulate through our strategy.

We manage our own climate change impacts through our sustainability strategy, seeking to minimise the carbon emissions related to our own operations, predominantly through efficient production processes and the increased use of less carbon intensive fuel sources. Our products, particularly packaging products based on renewable and recyclable materials, offer a less carbon intensive solution when compared to other materials. We also recognise the responsibility we have in protecting and enhancing forestry in Indonesia, which plays a crucial role in tackling global climate change. Through sustainable forest management our suppliers encourage carbon sequestration through tree growth and protect against the negative impacts of deforestation.

Climate change presents a financial and environmental risk to APP. We monitor the impact that changes in climate patterns could potentially have on the availability and cost of our main raw material, wood fibre, and the subsequent impact on our wider supply chain. Potential negative impacts include incidents of forest fires, flood and drought, changes in disease and pest resistance of tree species and decreasing growth yields. Our property in low-lying regions also presents a risk in the event of sea level rises as a result of climate change. Regulatory risk was considered in the development of our sustainability strategy, The President of Indonesia committed to a 26% reduction of national GHG by 2020, resulting in government regulation on carbon reduction targets and a mandatory national energy management and reporting scheme.

Our sustainability strategy is tightly aligned to our Sustainability Roadmap 2020. Our goals and focus areas are clear, and our response to each and every aspect of the Roadmap has been developed and communicated. Our strategy reflects both the global sustainability issues faced by the wider business community and society, and those specific to a company producing paper products in Indonesia.

No one standard or overarching guidance is available that adequately provides for our needs. Therefore, our approach is to select the components of recognised national and international standards and guidance, and apply them in the most appropriate way to manage our social and environmental impacts. As a minimum requirement we comply with national legislation, but our goal is to strive for global best practice in all aspects of our strategy. We play an active role in supporting organisations such as the United Nations Global Compact, Indonesian Business Cooperation for Sustainable Development (IBCSD), Indonesia Pulp and Paper Association (APKI) and The Sustainability Consortium.

| | |
|-------------------------------|--------------------------------------|
| Materiality assessment | Stakeholder engagement survey |
| | Stakeholder report review |
| | Stakeholder Engagement team feedback |

| | |
|--|--------------------------|
| Independently verified sustainability reporting | GRI reporting guidelines |
|--|--------------------------|

| | |
|----------------------------|--|
| Carbon footprinting | WRI / WBCSD Green House Gas Protocol |
| | ICFPA / NCASI carbon footprinting tool |
| | IPCC standards |
| | ISO 14064 |

| | |
|---|--|
| Social footprinting and human rights assessments | UN Millennium Development Goals |
| | United Nations Human Rights Council endorsed guiding principles for business on human rights |
| | Free and Prior Informed Consent (FPIC) principles |

| | |
|---------------------------|---|
| Management systems | ISO 9001 Quality Management |
| | ISO 14001 Environment Management System |
| | ISO 26000 guidelines for CSR Management |

| | |
|-------------------------------------|---|
| Health and safety guidelines | National Occupational Health and Safety standard (SMK3) |
| | OHSAS 18001 |

| | |
|---|---|
| Environmental emissions and waste management | National compliance |
| | IFC / World Bank Environmental, Health and Safety guideline for pulp and paper industry |

| | |
|---------------------------------------|--|
| Sustainability of fibre supply | National mandatory legality and sustainable Forest Management (SFM) requirements |
| | High Conservation Value Forest (HCV) Principles |
| | Chain of custody standards (PEFC, FSC, LEI) |

VISION 2020 ROADMAP

COMMUNITY

Employee welfare
Community development

ENVIRONMENT

Mill's environmental performance
Fibre sourcing
Climate change
Water management
Biodiversity & conservation

GOVERNANCE

Board oversight
Corporate policy and management systems
Stakeholder engagement and disclosure

MONITORING AND REPORTING TOOLS

**EXTERNALLY VERIFIED
SUSTAINABILITY
REPORTS**

SUSTAINABILITY WEBSITE

MONITORING DASHBOARD

**MILL SUSTAINABILITY
SCORECARD**

**SUPPLIER SUSTAINABILITY
SCORECARD**

HCV & HCS ASSESSMENTS

**CHAIN OF CUSTODY
CERTIFICATION**

**SUSTAINABLE FOREST
MANAGEMENT
CERTIFICATION**

**INDEPENDENT OBSERVER
PROGRAMME**

APP SUSTAINABILITY ROADMAP – VISION 2020

THE ROADMAP IS CENTRAL TO OUR SUSTAINABILITY STRATEGY. IT PROVIDES OUR MILLS AND OUR SUPPLIERS WITH A CLEAR PICTURE OF OUR GOALS, AND DELIVERS THE CONTEXT THEY REQUIRE TO SUPPORT US IN REALISING OUR VISION.

| | |
|--|---|
| <p>PHASE 1: by 2015 increase efficiencies and accelerate implementation of key sustainability initiatives</p> | <p>PHASE 2: by 2020 become the global sustainable leader in our industry and a key creator of sustainable value where we operate</p> |
|--|---|

The Roadmap will develop over time; as we learn more about the challenges we must overcome we will update our goals as required. We will communicate our progress through quarterly progress reports on our website and via our annual sustainability reports.



SUMMARY OF COMMITMENT

| FIBRE SOURCING. VISION 2020 COMMITMENTS | STATUS | ACHIEVEMENTS IN 2013 |
|--|-----------------|---|
| 100% independent 3rd party verification (minimum requirement is verification against at least one scheme) for pulpwood legality. | Achieved | Accelerated progress and achieved by end 2012 |
| Zero High Conservation Value Fibre | On track | APP pulp wood suppliers in January 2013 stopped all conversion of natural forest to allow for HCV and HCS assessments |
| 100% sustainable plantation wood for pulp by 2015, subject to maximum tolerance of 5% for waste and residue (2012 target 12%) | Ahead of target | APP pulp wood suppliers ended delivery of natural forest wood to APP pulp mills by end of August 2013. |
| 100% Sustainable Forest Management (SFM) certified pulpwood. | On track | 46% |
| Maintain a sustainable proportion of recovered fibre in addition to renewable virgin Fibre. | On track | In 2013, 36% of our raw material was from recycled sources (37 % in 2012) |
| INDIGENOUS PEOPLE | STATUS | ACHIEVEMENTS IN 2013 |
| Adopt international guidelines for the protection of indigenous people's customary rights in the forest. | On track | <p>Commitment to Free Prior Informed Consent through the implementation of four pilot projects.</p> <p>Social conflict mapping training provided for 400 supplier employees & APP senior management</p> <p>100% land claim conflict mapping completed</p> |
| CONSERVATION AND BIODIVERSITY | STATUS | ACHIEVEMENTS IN 2013 |
| Support the national target to preserve designated protected and conservation areas. | On track | Highlights in 2013 include HCV and HCS assessments, inauguration of Ramin nursery and ongoing development programmes within the GSK-BB Biosphere Reserve |
| Support the national target to increase by 3% the population of 14 specified endangered species. | On track | Highlights in 2013 include Javan Rhino monitoring, Sumatran tiger population studies and elephant conservation programme collaboration with our supplier TMA. |
| EMISSIONS | STATUS | ACHIEVEMENTS IN 2013 |
| Reduce the impact of mill's greenhouse gas emissions. | On track | Carbon emissions intensity decreased 2% in 2013 from 2012 levels |
| WATER MANAGEMENT | STATUS | ACHIEVEMENTS IN 2013 |
| Improve management of water use in line with the UN Global Compact CEO Water Mandate program. | On track | Pilot water footprint assessment underway |

ACHIEVEMENTS AND CHALLENGES IN 2013

- Announcing in February 2013 our Forest Conservation Policy (FCP), and simultaneously halting all natural forest conversion operations in our suppliers' concessions whilst HCV & HCS assessments are carried out
- Establishing sustainability scorecards for our suppliers and our mills, thus setting a baseline for understanding the gaps we must focus on to deliver on our Roadmap commitments
- Updated APP pulp and paper mills' carbon footprint baseline calculation in line with the latest IPCC and GHG Protocol
- Completed water footprint field assessments at Indah Kiat Perawang, the outputs of which will inform developing group wide water management strategy

Looking forward to 2020 we envisage the following milestones:

- By 2015 APP will be wholly reliant on raw materials from pulpwood plantations
- By 2016 we will complete water footprint assessments and commit to a group wide reduction target
- By 2017 all APP mills will achieve the standard for energy management, ISO 50001
- By 2020 all of APP's suppliers will have credible Sustainable Forest Management (SFM) certification
- As part of our Sustainable Forest Management commitments, APP will introduce carbon measurement and evaluation above and below ground for our suppliers' concessions

The Roadmap is followed by everyone working for APP, from senior management and contractors operating on the mill floor, to those responsible for enforcing the activities of our suppliers. This level of buy-in will ensure that we operate according to the highest international standards to support our goal of becoming a leading and respected global pulp and paper company.





FOREST CONSERVATION POLICY (FCP)

In February 2013, we announced our Forest Conservation Policy. The FCP brought forward by two years fibre sourcing commitments set out in 2012 as part of our Sustainability Roadmap 2020. The most significant element of the FCP was a moratorium on natural forest clearance in the supply chain and a commitment to zero-deforestation.

The next step in our FCP implementation is the development of Integrated Sustainable Forest Management Plans (ISFMP). These plans will bring together all the aspects of our assessment work - HCV, HCS, peatland management best practice, social baseline study, social conflict mapping and plantation fibre availability - into long-term sustainable action plans for our suppliers. ISFMPs will be tailored to take into account their unique environmental and social situation and include an action plan for ongoing forest management. We will take a 'landscape approach', not only looking at the immediate area under management, but also taking into account the current condition and issues of the surrounding landscape.

To implement the FCP we engaged with global experts to help us develop and constructively improve our policy. Because the commitments are so challenging, we require partners to support us. These include The Forest Trust (TFT), Ekologika and Asia Pacific Consulting Services (APCS). We also invited an independent third party, the Rainforest Alliance, to independently verify our progress in implementing the FCP, which will begin in January 2014.

STAKEHOLDER ENGAGEMENT

Stakeholder engagement is embedded within our day to day activities. Our challenge is to harness all of this feedback and ensure we have a clear understanding of our stakeholders' expectations. We must also maintain awareness of changing global opinions, and prepare ahead of time for any effect these may have on our business. Through the development of our Roadmap and more specifically the FCP, we have introduced multiple stakeholder engagement platforms through 2013.

We consider our stakeholders to be the following:



EMPLOYEES



GOVERNMENTS



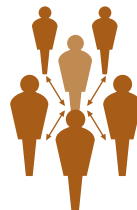
CUSTOMERS



NGOS



CONTRACTORS



SUPPLIERS



EDUCATIONAL ESTABLISHMENTS



HOST COMMUNITIES



UNIONS



MEDIA



Examples of engagement in 2013

- COMMUNITY FORUMS
- INDUSTRY FORUMS
- SUSTAINABILITY REPORT
- TRADE AND INDUSTRY EVENTS
- EDUCATION INSTITUTIONS EVENTS
- MEDIA AND CUSTOMER TOURS
- WORKSHOPS
- SUSTAINABILITY WEBSITES AND MONITORING DASHBOARD
- FOCUS DISCUSSION GROUPS
- SOLUTIONS WORKING GROUP

Through activities related to our FCP, the scope of our stakeholder engagement activities has increased considerably, particularly with local and international NGOs. This has resulted in an increased level of community engagement, in particular through the stakeholder consultation undertaken as part of the HCV assessments.

Following the announcement of FCP, APP initiated a series of Focus Group Discussions (FGD) where we update Indonesian civil society on implementation of the FCP and gain feedback to strengthen its implementation. Through this platform, we also invite active participation of civil society through FCP implementation monitoring process.

The Solutions Working Group (SWG) meets quarterly, bringing together APP and external experts with an interest in conservation of Indonesia's forests in an informal setting. The group provides a platform to discuss and address concerns in relation to APP's Sustainability Roadmap, Forest Conservation Policy and the performance targets and milestones developed by the Environmental Paper Network (EPN). The first meeting took place in December 2013. Agenda items included updates on key aspects of the FCP, independent evaluation update, a development request received by a community within our suppliers' concession and the status of quarantined natural forest wood material.

The APP Independent Observer programme (IO) was established in 2013 to facilitate independent monitoring of our FCP implementation. The programme allows stakeholders to participate in on-the-ground monitoring, either through flyovers or field trips to witness the FCP in action for themselves. The results are reported via TFT progress reports and APP's Sustainability Roadmap updates.



MATERIALITY

In 2013 we carried out a formal internal materiality process, using APP's Sustainability & Stakeholder Engagement team to provide feedback on each group of APP's stakeholders and the level of importance they place on each issue. The results align with previous materiality exercises, including the extensive assessments undertaken to develop the areas of focus for the Roadmap.



HIGH MATERIALITY

- Reforestation
- Conservation & Biodiversity
- Fibre Sourcing
- Community Empowerment and Welfare



MEDIUM MATERIALITY

- Indigenous Peoples
- Human Rights
- Climate Change
- Emissions
- Employee Welfare
- Water Management

LOW MATERIALITY

- Business Ethics
- Product Safety
- Solid Waste
- Corporate Governance
- Research and Development

MONITORING

Progress against our Roadmap goals are communicated through dedicated updates and our annual Sustainability Reports. A separate monitoring dashboard was launched in June 2013 to provide a more up to date overview of progress against the Forest Conservation Policy. The dashboard is a first in the pulp and paper sector and is open to any stakeholder to access.

Welcome to the APP Forest Conservation Policy (FCP) Dashboard

News: Welcome to Version 2.0 of our FCP monitoring dashboard.

Dashboard

This monitoring dashboard provides an online reporting system that allows users to track the implementation of our FCP.

Please click [here](#) for more

| Indonesia | | | China | | |
|--------------------|--------------|-------|--------------------|---------------|-------|
| 38 | 2.6 | 17 | 40 | 300 | 5 |
| Forest Mgmt. Units | Ha(millions) | Mills | Forest Mgmt. Units | Ha(thousands) | Mills |

Quick Links

- Transparency & Monitoring
- Third Party Evaluation
- NFW Tracking
- Stakeholder Engagement Updates
- Social Conflict Progress
- Forest Management Planning
- Grievance List
- Give Feedback

Supplier Concessions

Map showing concession locations in Indonesia (Shah Awar, North Sumatra, Johor, Riau, Padang) and Malaysia (Kuching, West Kalimantan, East Kalimantan).

Latest updates

- 04-06-2014**
Stakeholder Consultation Schedule for Riau Region will be held on 5 - 6 June 2014 in Riau. [Read more](#)
- 27-05-2014**
TFT-APP sixth update report. [Read more](#)
- 28-04-2014**
APP to support the protection and restoration of one million hectares of forest in Indonesia. [Read more](#)
- 22-04-2014**
Verification of RPHK report – PT. DTK, Kalbar. [Read more](#)

FCP in Numbers

Click image below to expand

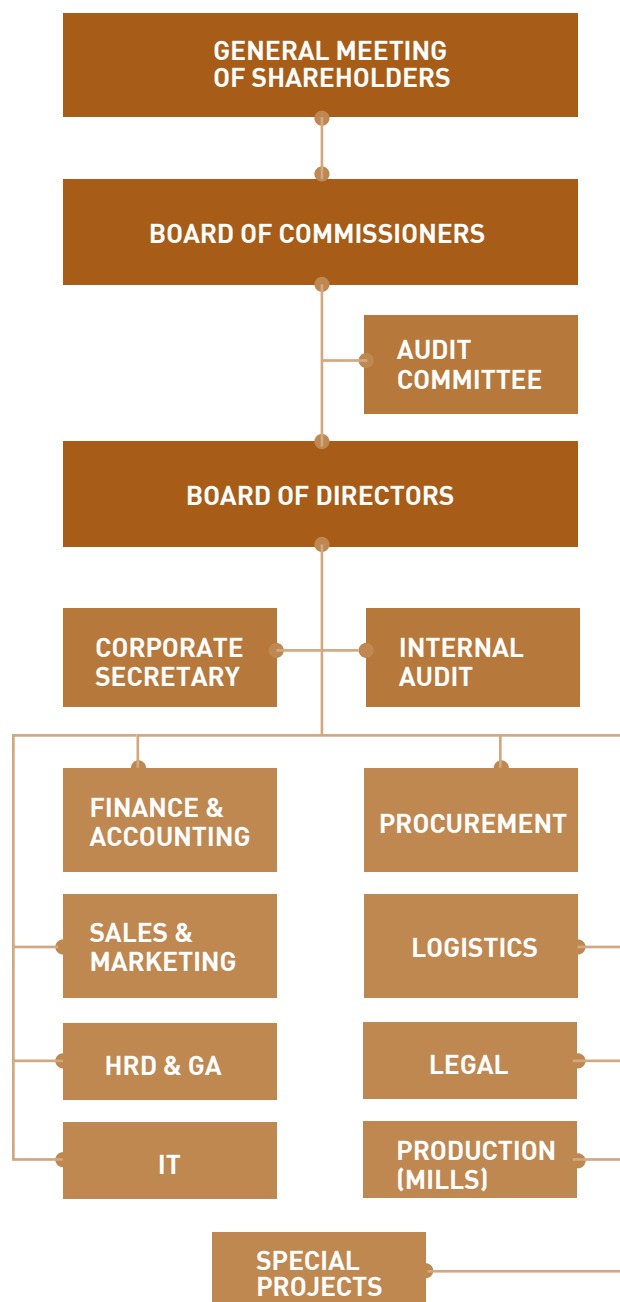
APP Forest Conservation Policy in Numbers

2.6, 2.6, 38, 427

CORPORATE GOVERNANCE

APP applies a number of governance arrangements to oversee our business. At a corporate level we centrally manage semi-autonomous mill units, each with their own board, governance arrangements and independent financial reports.

MILL GOVERNANCE STRUCTURE

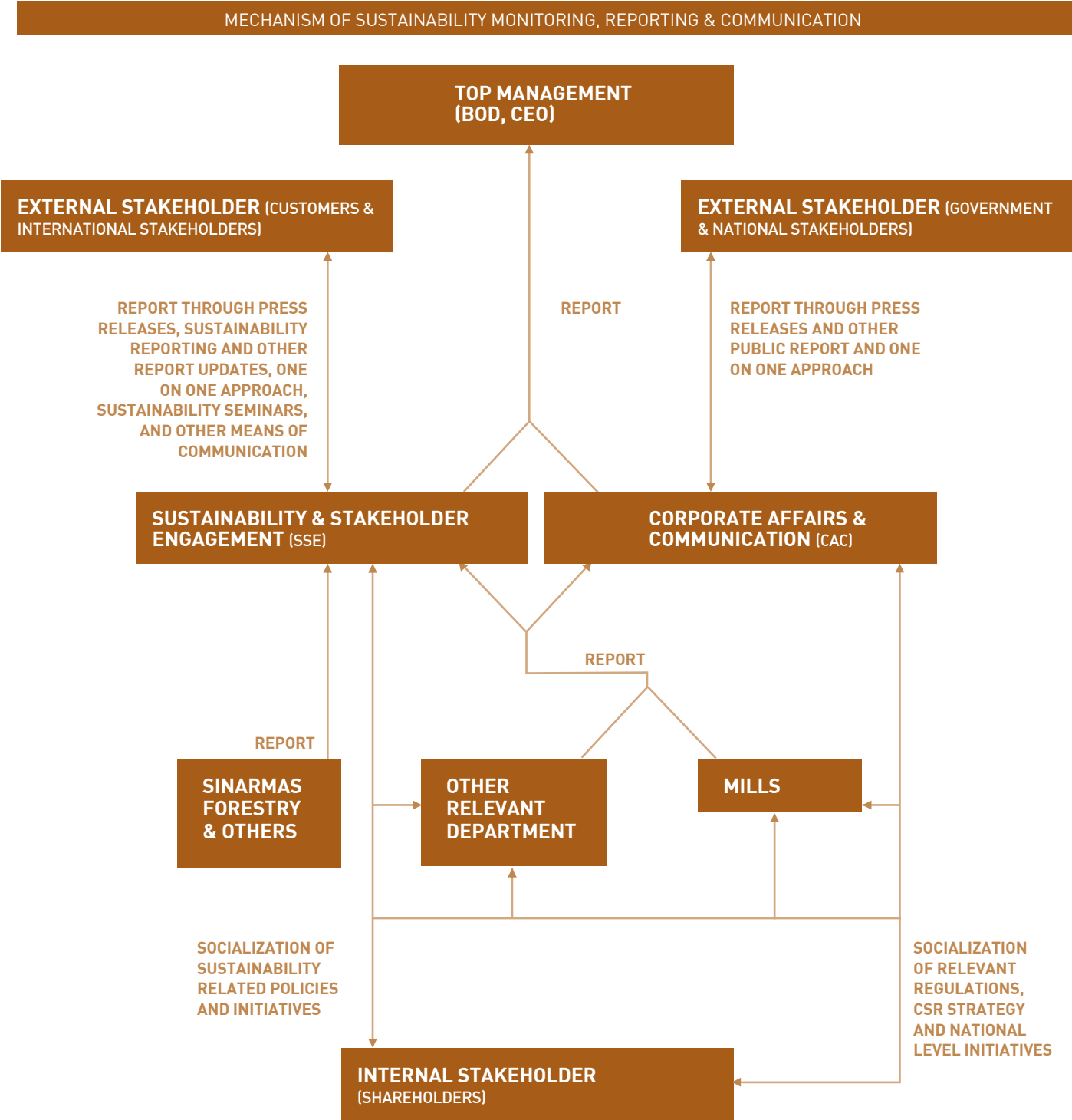


The supervisory Board of Commissioners holds ultimate responsibility for the delivery and management of our financial, economic and social programmes. Their role incorporates formulating and implementing the company's policies and strategy, risk management, Good Corporate Governance (GCG), and continuously monitoring the performance of the Board of Directors.

The composition of the board, including specific roles and remuneration, is described in the respective mills' annual reports, which are available to view at our website². Diversity at board level is addressed with the same approach that we use across the organisation; we appoint the most appropriate people for each role, irrespective of gender or other measure of diversity.

²<http://www.asiapulppaper.com/investors>

SUSTAINABILITY GOVERNANCE



APP's Top Management team, comprising the CEO, APP Board of Directors, and share owner representatives are the drivers for APP's sustainability performance and management.

Two key teams form part of the sustainability governance structure of APP. The Sustainability and Stakeholder Engagement (SSE) team are responsible for the development of APP's sustainability strategy and the implementation and monitoring of sustainability initiatives. They are also responsible for communications to all international stakeholders. Based in Jakarta, the team have a network of representatives across the world that supports local stakeholder engagement in their respective regions. The team is responsible for stimulating and facilitating these conversations, being both responsive and proactive in their approach.

The Corporate Affairs and Communications (CAC) team are responsible for corporate communications, governance and CSR. They engage in the regulatory landscape, monitoring trends and engaging government via industry associations on various policy issues related to pulp and paper manufacturing and product export. Issues of a more regional nature, such as minimum wages and labour unions are handled by each mill respectively. National media relations are handled by the CAC team, whereas local media is the responsibility of each mill individually. In terms of CSR, the CAC team have the oversight of all the mills' individual initiatives and support them through elevated exposure of their programmes, particularly with local and national government.

Given the importance of the FCP in 2013, a Joint Steering Committee meet monthly to assess the implementation progress of the FCP. APP, Sinarmas Forestry and TFT form the core team of this committee which takes a practical focus on how the FCP is being implemented, raises any challenges for discussion and develops action plans in response to any issues raised. Highlights of each meeting are fed back to APP top management.

Due to the decentralised nature of APP, a dedicated Strategic Human Assets Re-assessment Key Squad (SHARKS) plays a vital role in maintaining alignment of the mill business units from top management. The function is responsible for setting targets and KPIs at the mills, monitoring their performance and reporting the mills' progress to APP management. The data not only provides management with a view on progress, it also supports investment decisions that will be vital in realising our Roadmap commitments. Making targets relevant to each mill is a complex task. Given the unique nature of each production unit or function it would be inappropriate to set group wide targets for each mill to adhere to. Careful consideration is given to the type of product produced, technological maturity of assets, and economic and market climate before targets are set. The process also facilitates knowledge sharing sessions, bringing the similar functions at each mill together to share best practice and discuss process improvements.

MEMBERSHIP ASSOCIATIONS

Through a diverse range of membership associations, APP engages in the latest sustainability debate, both in the pulp and paper sector and the wider global community.



APP has been a member of UNGC since 2008. Starting 2011, major APP mills have committed to the UN CEO Water Mandate, in which APP were elected as chair of the Indonesia working group. We are also supporting the Business for Peace initiative, a new platform to assist companies in implementing responsible business practices



Ms Aida Greenbury, APP Managing Director for Sustainability & Stakeholder Engagement is an elected board member of the Lembaga Ekolabel Indonesia (LEI)

Indonesian Forestry Certification Cooperation (IFCC)

APP is involved in the multi-stakeholder process to support the IFCC in obtaining full PEFC endorsement for Indonesia's sustainable forest management schemes.



Mills in the APP group that are members include Indah Kiat, Tjiwi Kimia and Pindo Deli Mills.



Indah Kiat and Tjiwi Kimia have been members since 2012



Sets voluntary industry standards that members, representing over 100 of the world's largest organisations, agree to adhere to. APP is a member of the Paper, Pulp and Forestry Working Group.

Asosiasi Emiten Indonesia

A non-profit organisation whose members are public companies or companies listed on the Jakarta Stock Exchange, the Surabaya Stock Exchange and / or other securities exchange



WATER – EVERYBODY'S BUSINESS

In 2011 APP was elected as Chair of the Indonesia Water Mandate Working Group. Our role; facilitate learning and encourage the group to share best practice amongst its members. A highlight of 2013 was celebrating World Water Day in March, collaborating with the Indonesia Global Compact Network (IGCN), UNESCO and Clean Ciliwung Movement (Gerakan Ciliwung Bersih/GCB) to support a series of events aimed at raising public awareness of water issues. One of the outcomes was the formation of a group 'Together let's save our water', inspired by the UN theme of 'International Water Cooperation'. The group will focus on river preservation in Jakarta, whose main water source, the Ciliwung River, is heavily polluted.

The Working Group, led by APP, worked with World Vision Indonesia on a sanitation project in a slum area in Jakarta, seeking to put in place preventative measures for the annual flooding the area experiences.

MANAGING RISK

The Internal Control and Audit Division (ICAD) plays a critical role in monitoring compliance and business ethics across APP. They are responsible for checking compliance across all our mills against the full range of Standard Operating Procedures (SOPs) that must be adhered to. These SOPs cover the full spectrum of a mill's operations, from finance, through to human resources and environmental management. The findings of ICAD are disclosed in a monthly feedback report unique to each mill, and made available to management and shareholders.

ICAD is responsible for undertaking group wide risk analysis. As part of this role ICAD ensures and assesses that control procedures are aligned with SOPs. APP's Code of Business Ethics sets out how all employees and directors should behave, covering Standards of Conduct, Compliance with Laws, Conflicts of Interest and Business Integrity.

Following the launch of our Roadmap, ICAD identified a clear need to improve the procedures used at the mills, in order to achieve these new, stringent goals. For example, ICAD started to audit health and safety in 2013, whilst simultaneously reviewing and improving SOPs across all mills.

Our Whistle-blower Programme, which we established in 2008, is key to enhancing, controlling and monitoring our operational procedures around fraud and anticorruption. It is underpinned by our core policies, including Standards of Conduct, Compliance with Laws, and Conflict of Interest and Business Integrity.

Alongside the programme we established the Ethics Call Centre as a channel to provide feedback to the Head of ICAD. Our Ethics Call Centre provides an anonymous channel for stakeholders, both internal and external, to report any concerns they have regarding the activities of our company, our suppliers, our partners or our employees. In addition to issues raised through the Ethics Call Centre, ICAD also carries our regular internal audits.

In 2013 we reviewed 121 new cases through the Ethics Call Centre, up from 71 the previous year. As awareness of ICAD and the work carried out by the team increases, in conjunction with growing recognition of the Ethics Call Centre, we have seen a rise in the number of reported incidents. We believe this reflects increased awareness of anti-corruption and how to report it. We terminated the employment contracts of 38 employees and issued 119 warning letters in response to issues raised. In 2013, 19 cases were passed to the relevant authorities to be further processed.

In 2013 we assessed all of APP's mills for risks relating to corruption, in an effort to further enhance our monitoring of the Whistle-blower Programme, and to improve the way that we conduct business across the entirety of our operations. Based on the result of the assessment, we improved several Standard Operating Procedures to further enhance anti-corruption practices.

All employees receive anti-corruption training as part of their induction when they join APP.

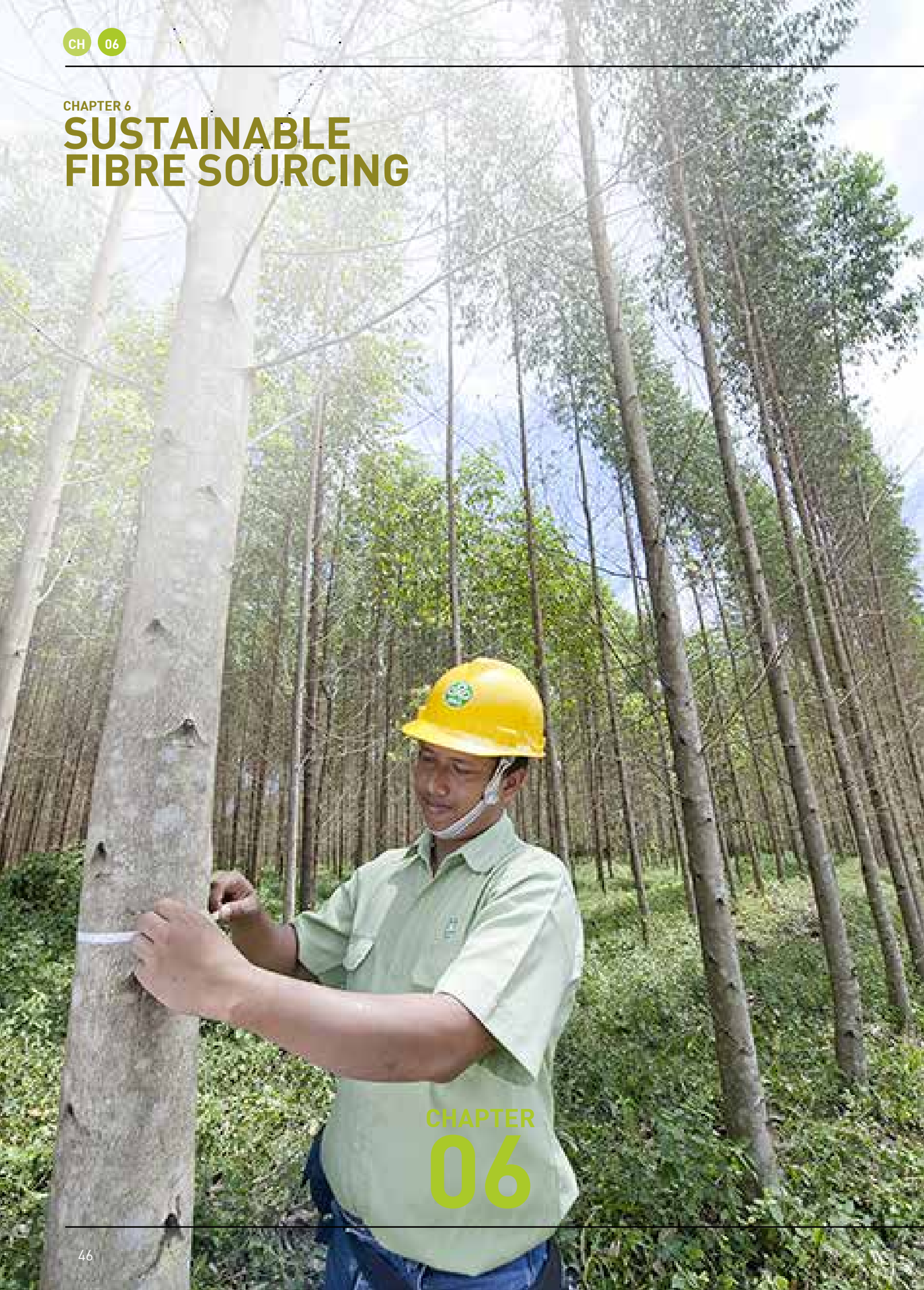
Financial risk analysis related to corruption and fraud practices across all business units are the responsibility of ICAD. Each unit is assessed against the control procedure to monitor the risk, before being categorised into high, medium and low risk to focus business prioritisation. In collaboration with the finance department, factors that are monitored include pricing, competition, foreign exchange fluctuations and other related economic risks, as well as the availability of raw material and environmental factors including climate change. Risks and control procedures are monitored monthly and managed through appropriate management systems.

To further ensure independence, the audit team will be split into two separate divisions in 2014. One team will serve as controller, assisting APP mills to comply to relevant standards and regulations –while the other will serve as the independent internal audit team responsible for ensuring the consistency of the implementation of those standards including the Whistle Blowing Programme. There will also be further improvement in the categorisation of case handling to enhance the way each case is investigated.



CHAPTER 6

SUSTAINABLE FIBRE SOURCING



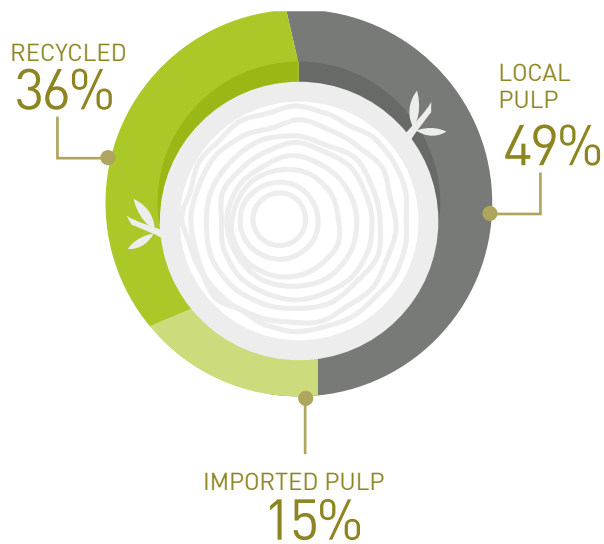
CHAPTER
06

Sourcing sustainable raw material is at the core of APP's approach to operating responsibly. We do this through progressive management, intensive monitoring and support of our suppliers, engaging independent experts to support us, and reassuring stakeholders through verification and certification.

In producing paper based products our paper mills use virgin pulp from two sources. The majority is supplied through our own pulp mills, Lontar Papyrus and Indah Kiat Perawang. The remainder is purchased from external suppliers, and in the case of two of our mills, Ekamas Fortuna and Indah Kiat Serang, supplemented with recycled fibre.



FIBRE SOURCES FOR PAPER PRODUCTION



Lontar Papyrus and Indah Kiat Perawang supply the majority of virgin pulp to our paper mills. It is here where we concentrate significant efforts to ensure the raw material, plantation fibre from Indonesian forests, and 'local virgin pulp' entering these sites is responsibly sourced. APP itself does not directly manage any forest area; we procure wood fibre entering our pulp mills via Sinarmas Forestry (SMF), who is responsible for the direct relationships with the forest concession holders.



MAP OF APP CONCESSIONS



SUSTAINABLE FOREST MANAGEMENT

Our Vision 2020 Roadmap includes four commitments related to our fibre sourcing. We are on track or ahead of target for all four of these commitments.

| FIBRE SOURCING. VISION 2020 COMMITMENTS | | |
|--|-----------------|---|
| 100% independent 3rd party verification (minimum requirement is verification against at least one scheme) for pulpwood legality. | Achieved | Accelerated progress and achieved by end 2012 |
| Zero High Conservation Value Fibre | On track | APP pulp wood suppliers stopped all conversion of natural forest in January 2013 to allow for HCV and HCS assessments |
| 100% sustainable plantation wood for pulp by 2015, subject to maximum tolerance of 5% for waste and residue (2012 target 12%) | Ahead of target | APP pulp wood suppliers ended delivery of natural forest wood to APP pulp mills by end of August 2013. |
| 100% Sustainable Forest Management (SFM) certified pulpwood. | On track | 46% |
| Maintain a sustainable proportion of recovered fibre in addition to renewable virgin Fibre. | On track | In 2013, 36% of our raw material was from recycled sources (37 % in 2012) |



FOREST CONSERVATION POLICY COMMITMENTS AND PROGRESS

Incorporated into Vision 2020 and central to our commitments to demonstrate a sustainable source of raw material is our Forest Conservation Policy (FCP). Announced in February 2013, bringing forward our fibre sourcing commitments by two years, it applies to APP and all our suppliers.

2013 was a year of practical implementation, taking our commitments and implementing them on the ground within our suppliers' concessions. It is a huge challenge that involves a change in mind-set right from top management down to the forestry workers.

This chapter includes information on our progress against these commitments, and the approach we intend to take in the future to ensure that we reach our ambitious goals.

Specific and up to date details about our progress are always available on our Sustainability Monitoring Dashboard³. Developed with our partners The Forest Trust (TFT) the dashboard allows stakeholders to monitor our progress for themselves, providing the in-depth data, reports, coverage of the challenges we face and remedial action we take.

TFT – A CRUCIAL PARTNER

APP has been working with The Forest Trust (TFT), a global non-profit organisation, since February 2012. Their role is to provide technical and strategic advice on and monitor the implementation of our FCP commitment, including issues around High Conservation Value Forests, community conflicts and wider social and environmental issues. They supported us through the development of some of the key aspects of our Sustainability Roadmap Vision 2020: APP Responsible Fibre Procurement and Purchasing Policy, scorecard development, and HCV and Forest Moratorium. The aim of our partnership is to increase transparency with our stakeholders. TFT has full access to our data and operations, and to our suppliers, to allow them to advise and critically assess our progress. Their involvement is vital to the success of APP's FCP.

³ Refer to APP Sustainability Dashboard at <http://www.tft.chainfood.com/>

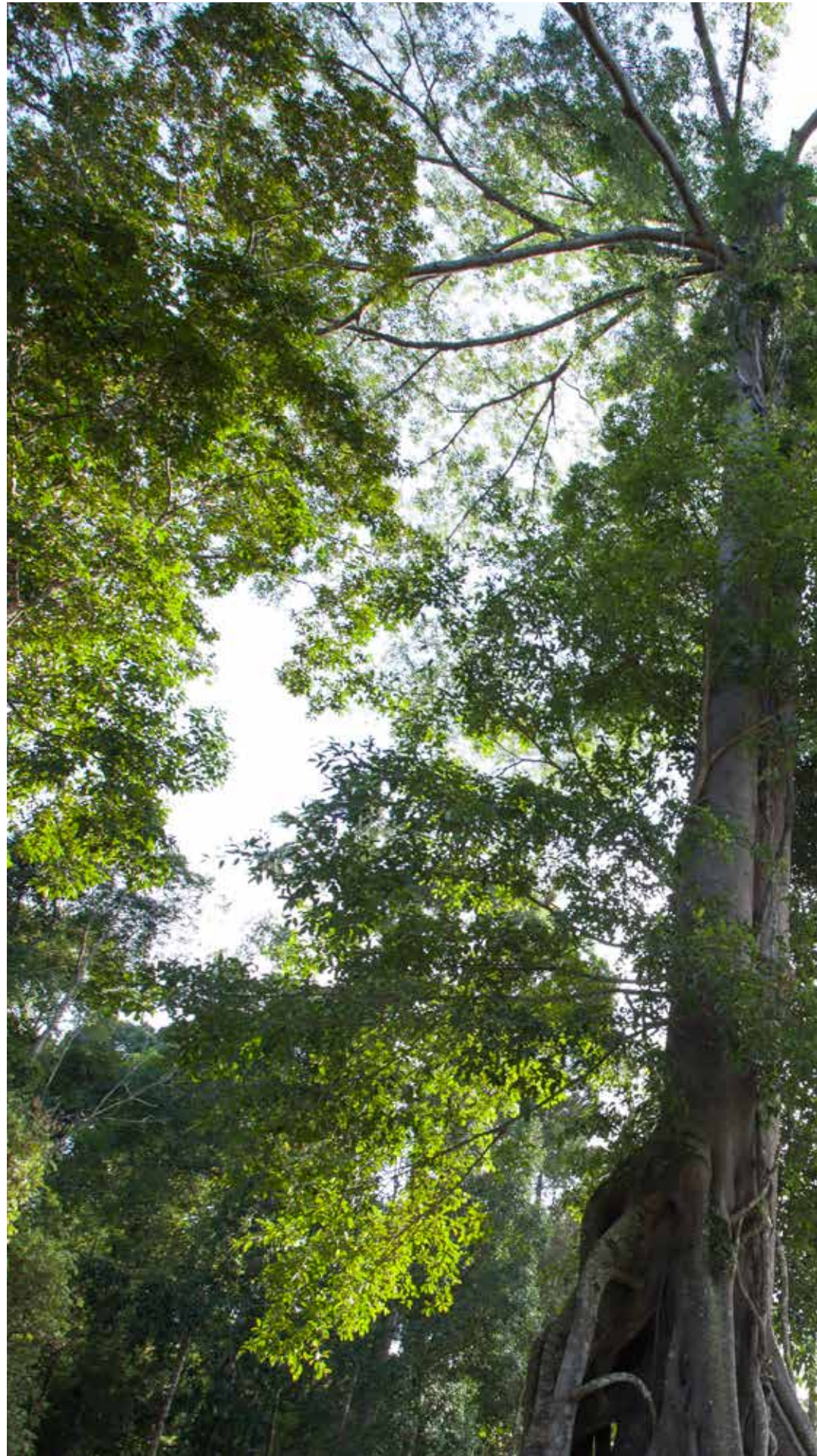
OUR FOREST CONSERVATION POLICY COMMITMENTS

APP and its suppliers will only develop areas that are not forested, as identified through independent HCV and HCS assessments.

APP will support the Government of Indonesia's low emission development goal and its target to reduce greenhouse gas emissions.

In order to avoid and resolve social conflicts across its supply chain APP will actively seek and incorporate input and feedback from a wide range of stakeholders, including civil society.

APP sources fibre from all around the world and is developing measures to ensure that this sourcing supports responsible forest management.





HIGH CONSERVATION VALUE (HCV) AND HIGH CARBON STOCK (HCS) ASSESSMENT

APP made the commitment to end deforestation across its supply chain on February 1st 2013. The first step APP needed to take was to identify areas of high conservation value, including natural forest areas inside its suppliers’ production forest concession area. To do that APP adopted High Conservation Value and High Carbon Stock assessments. A moratorium on natural clearance forest clearance was imposed to allow for these assessments.

• **HCV**

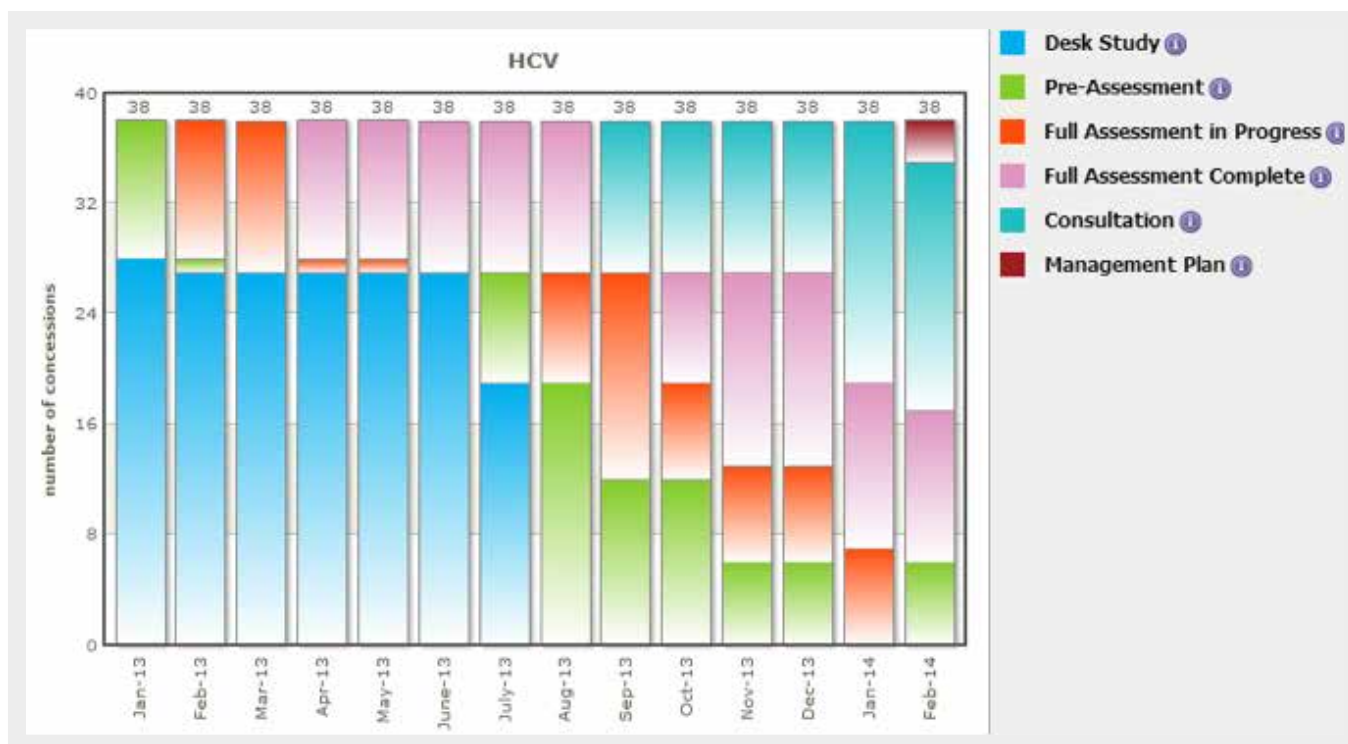
High Conservation Value areas are those that contain biological, ecological, social or cultural values which are considered critically important or outstandingly significant. The concept was originally developed by the Forest Stewardship Council (FSC). HCV describes an area categorised by one or more of the following indicators⁴:

| INDICATOR | DEFINITION | PRESENT IN ASSESSMENT AREA |
|-----------|---|--|
| HCV 1 | High biodiversity value | Species diversity |
| HCV 2 | Significant ecosystem with high ecological value | Landscape-level ecosystems and mosaics |
| HCV 3 | Rare or endangered ecosystem | Ecosystems and habitats |
| HCV 4 | Provides high value environmental services | Ecosystem services |
| HCV 5 | Critical for meeting basic needs of local people | Community needs |
| HCV 6 | Critical for maintaining cultural identity of local communities | Cultural values |

⁴ http://www.hcvnetwork.org/resources/folder.2006-09-29.6584228415/2013_commonguidancev5

Identification of these sensitive areas underpins the ongoing management of the forest area. Asia-Pacific Consulting Solutions (APCS) and Ekologika have undertaken independent assessments, using on-the-ground data collection to categorise the forest area, the outputs of which determine the location of these high conservation values within the production forest area and what management plans need to be in place to maintain and/or enhance those values. The assessments are not limited to technical evaluation. They involve a critical stakeholder consultation stage with the community and other stakeholders with an interest in the assessment area to provide input on areas considered of high conservation values, and to discuss and resolve any issues identified. Assessments always apply the precautionary principle; if there is any doubt as to the status of a particular area of land; activities are halted until this is clear and agreed between all parties.

38 concessions, totalling 2.6 million Ha are undergoing evaluation. By July 2014, full HCV assessments for all 38 concessions will be completed. At the end of 2013, seven of these concessions were undergoing full assessment, while the remaining 20 were in the pre-assessment stage. The target completion date for the first 11 concessions was pushed back from October 2013 to June 2014 due to the complexities of managing multiple HCV assessment teams across four provinces simultaneously over one million Ha of land. The multi-stakeholder consultation and peer review process also took more time than originally forecast. We took the view that the priority was to carry out the assessment in the detail required and move back the original deadline.



Our FCP Dashboard includes more information on our HCV assessments. The overall results will go through a period of consultation with key stakeholders, before being fed into our Integrated Sustainable Forest Management Plans (ISFMP). Read more about our ISFMPs on page 56.

• **HCS**

High Carbon Stock areas are those where the land has a high concentration of organic matter above ground. As organic matter stores carbon, the protection of these areas is critical in mitigating against climate change.

Conducting HCS assessments across all our pulpwood suppliers' concessions assists us in identifying natural forest areas, which we have committed to protecting. The HCS approach, which was initially developed by Greenpeace, Golden Agri Resources (a sister company of APP) and TFT, involves a combination of satellite analysis, observations on the ground and aerial surveys, to categorise the land owned by our concessions into six classes. These classes are used to distinguish natural forest which has a high carbon stock, from degraded land and former forest, where only small trees, scrub or grassland remain. The six classes of vegetation are:

- HIGH DENSITY FOREST
 - MEDIUM DENSITY FOREST
 - LOW DENSITY / OLDER REGENERATING FOREST
- THRESHOLD**
- OLD SCRUB / RE-GENERATING FOREST
 - YOUNG SCRUB
 - CLEARED/OPEN LAND

HCS assessments began in January 2013 and were completed for 20 priority concessions by the end of 2013. However, they required additional refinement to improve the correlation between desktop and the field level data. HCS is a new concept in forestry, and the methodology used has been developed for palm oil plantations. We revise the methodologies we use to better align to plantation forests to ensure that we achieve the highest quality results. We have communicated these delays to our stakeholders via our Roadmap Progress Update reports, and through our Dashboard.

Assessments in the remaining 18 concessions are expected in the third quarter of 2014 and we have commissioned Ata Marie Group to provide additional resource to our assessment work.

Once we have completed the HCS assessments we intend to develop a methodology and the necessary tools to account for above and below ground carbon balance of our suppliers' forests in Indonesia. By 2015 we plan to identify and share best practice and by 2020 we plan to incorporate our findings into our ISFMPs.

MORATORIUM BREACHES

Two forest moratorium breaches took place in 2013, resulting in a total forest clearance of 140 Ha. APP self-reported these breaches through our Roadmap Progress Update reports and our Dashboard. As a result of these breaches we have introduced new procedures to prevent the same issues from re-occurring, and we have used the findings to improve the FCP. More information can be found in our Roadmap Progress Update reports.

ENDING THE USE OF NATURAL FOREST WOOD

A key aspect of the moratorium is the monitoring of the natural forest wood (NFW), also known as mixed tropical hardwood (MTH), that was cut before the February 2013 moratorium. APP, with the support of TFT, developed a robust inventory system called Stock Opname, which allowed us to track the movement of NFW cut before the moratorium on its journey along the supply chain to the mills. At the launch of the FCP in February 2013, it was agreed that all NFW that had already been felled prior to the moratorium would be consumed by our mills. However, further consultation with our stakeholders identified the need for a clear cut-off date for the receipt of the NFW by our mills. In June 2013, APP set 31st August 2013 as the deadline after which no NFW felled prior to the moratorium could enter APP's pulp mills.

In 2013, 56% of the NFW was delivered to the mills before the cut-off. The remaining timber has been sold to third parties (2%), allocated to internal use such as infrastructure (4%), and lost in handling (4%). We are working with NGOs and stakeholders to find an alternative use for the remaining 34%, stockpiled at APP's suppliers' concessions. The results of our monthly inventory of remaining NFW are published on our Dashboard. Under no circumstances will this material be used for pulp production.

SUSTAINABLE PEATLAND MANAGEMENT

Peatlands store a significant amount of carbon, both above and below ground. Responsible management of these areas maintains this vital global carbon stores and minimises emissions from decaying biomass.

We have pledged to protect areas where our forest concessions are found on peatland across APP's supply chain, a commitment which aligns to the Government of Indonesia's low emission development goal. Our efforts include the adoption of best practice management to reduce and avoid greenhouse gas emissions within the peatland landscape.

In September 2013 we identified a team of independent peat experts to help us identify and establish best practice with respect to the management of plantations and natural forests on peatland. Many of these experts are hydrology professionals with extensive experience working in the area of peat soil science. The independent peat expert team is being led by the Wageningen University and Research (WUR) centre and will begin working with APP in January 2014. During a three month Inception Phase, the team will analyse current peat management issues and opportunities in APP supplier concessions. The result of the Inception Phase will be used by the peat expert team to propose an outline plan for a follow-up second phase of the work, which will involve developing an approach for moving towards responsible peat management. Along with the results of the HCV and HCS assessments, recommendations from the peat expert team will be used to develop APP's Integrated Sustainable Forest Management Plans (ISFMPs).

2013 saw us working with all our suppliers to halt any further canal or infrastructure activities within undeveloped concessions on non-forested peatland until independent HCV assessments, including input from peat experts, have taken place.

RESPONSIBLE WATER MANAGEMENT

A vital part of sustainable forest management is managing water responsibly. This is particularly important for the forest concessions that are situated in peatland areas and we expect our suppliers to manage and mitigate impacts on the quality and quantity of ground and surface waters.

In peatland forests the water table level is managed through a system of canals with flow gates, allowing control of both the water level and quality in distinct zones. Water level management also helps to protect the delicate ecosystem and limit the amount of carbon dioxide released from the peat deposits. It also improves the fertilisation process; ground water is required for the ion exchange process between fertiliser and plants. Flow management is also considered on a wider landscape scale, helping to control flow outside of the concession boundaries during periods of rainfall. Water quality is continuously monitored, the results of which must meet government standards.

In non-peatland forest concession areas our suppliers monitor ground water levels and minimise fertiliser and water use during the initial planting phase.



FOREST FIRES

Forest fires are a major concern to APP. They threaten the source of our raw material and put our suppliers' employees at risk. APP's position is clear. We operate a No Burn policy (introduced in 1996) across all our suppliers' concessions and invest heavily in prevention, detection and suppression of fires. We install and maintain fire lookouts, aerial patrols, ground patrols and engage with local communities, spending \$4m on such activities in 2013.

The majority of fires are caused by individuals who want to clear land using the cheapest method available to them, the driver being to prepare land for subsistence farming or agriculture. To reduce fire incidents we must target these cultural and economic root causes. We work with the Community Fire Awareness (MPA) programme, set up across over 120 communities surrounding concession areas, tasked with conducting fire patrols and fire suppression. By engaging with the community our goal is to change the mind-set and show by example that fire is not an acceptable land clearance method.

Satellite data is provided daily by the ASEAN Specialised Meteorological Centre, identifying hotspots and providing early warning of a fire developing. This is backed up by on the ground patrols that verify the satellite data and prompt the necessary response. If a fire is confirmed and is small enough to be dealt with locally, crews work with land based equipment to extinguish it. Larger fires or those which threaten critical areas require additional support from helicopters equipped with specialised buckets for dropping water. For communities affected by poor air quality caused by fires, we distribute face masks and support local hospitals in providing necessary treatments. We also distribute water pumps to affected communities which are used to extinguish small fires.

INTEGRATED SUSTAINABLE FOREST MANAGEMENT PLAN (ISFMP)

2013 has been a year of monumental change within APP, and as you have read in this report, we have undertaken extensive assessment work that will allow us to operate our business more profitably and sustainably. The next stage is to combine the results of all this assessment work into a robust and cohesive approach towards achieving sustainably and responsibly managed plantations.

This will be done through the development of Integrated Sustainable Forest Management Plans (ISFMPs). ISFMPs will combine the results of all assessment work – HCV, HCS peatland, social conflict mapping and growth and yield – into long-term action plans for our suppliers.

In developing these ISFMPs, we will look at priority landscapes rather than simply looking at management within the concession boundaries. Concessions will be grouped according to their role in these priority landscapes thus ensuring a more holistic approach to conservation and land management. We call this the ‘landscape approach’. We will introduce two pilot schemes in Jambi Province in 2014, after which we will roll out to other concessions.



SUPPLIER MONITORING

The development of our pulpwood supplier scorecards during 2013 will help us implement the ISFMPs during 2014. Incorporating seven elements – social, environment, health and safety, planning, human rights, chain of custody and administration – the scorecards include over 800 criteria that every supplier is expected to meet, aligned to the necessary certification schemes. Each of the criteria will be assigned a weighting according to its relative importance.

Our suppliers will be monitored every three months to assess compliance against the scorecard. Where suppliers do not score well, our response will not be to immediately withdraw from the relationships. Rather, an action plan will be drawn up for each concession to assist them in meeting the requirements over an agreed timeframe. If they continue to fail to meet the agreed action plan it may result in the termination of our supply contract. In 2013 we piloted the scorecards across all 38 concessions using 100 checkpoints to reflect priority issues. Within this period we were forced to take action on one occasion and the supplier in question has been delisted for not complying with our FCP commitments. During 2014 the full scorecards will be fully rolled-out across our concessions.

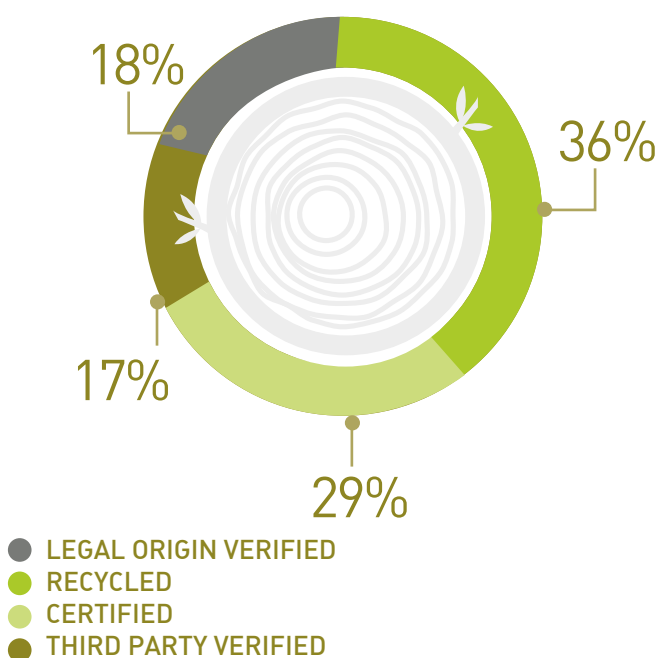
CERTIFICATION AND VERIFICATION

Third party certification is a vital tool for our suppliers to demonstrate to APP, and in turn APP's stakeholders, the sustainability credentials of the raw materials supplied to our pulp and paper mills. Third party certification covers two related aspects of our supply chain: sustainable forest management, covering all aspects of a well-managed forest; and chain of custody, covering the traceability of pulpwood from the forest through to our customers as an end product.

Today, one certification standard does not exist that adequately addresses the unique nature of plantation forestry in Indonesia. We therefore embrace a number of relevant credible schemes to certify and verify our sustainable forest management, as well as the sustainability of the wood entering our mills, recognising that certification is a key aspect of our Forest Conservation Policy.

Our customers and other stakeholders are increasingly requesting more detail fibre traceability information from APP. To speed up our response to their enquiries we are working with TFT to refine our chain of custody procedures.

ENVIRONMENTAL CREDENTIALS OF APP FIBRE SOURCE, 2013

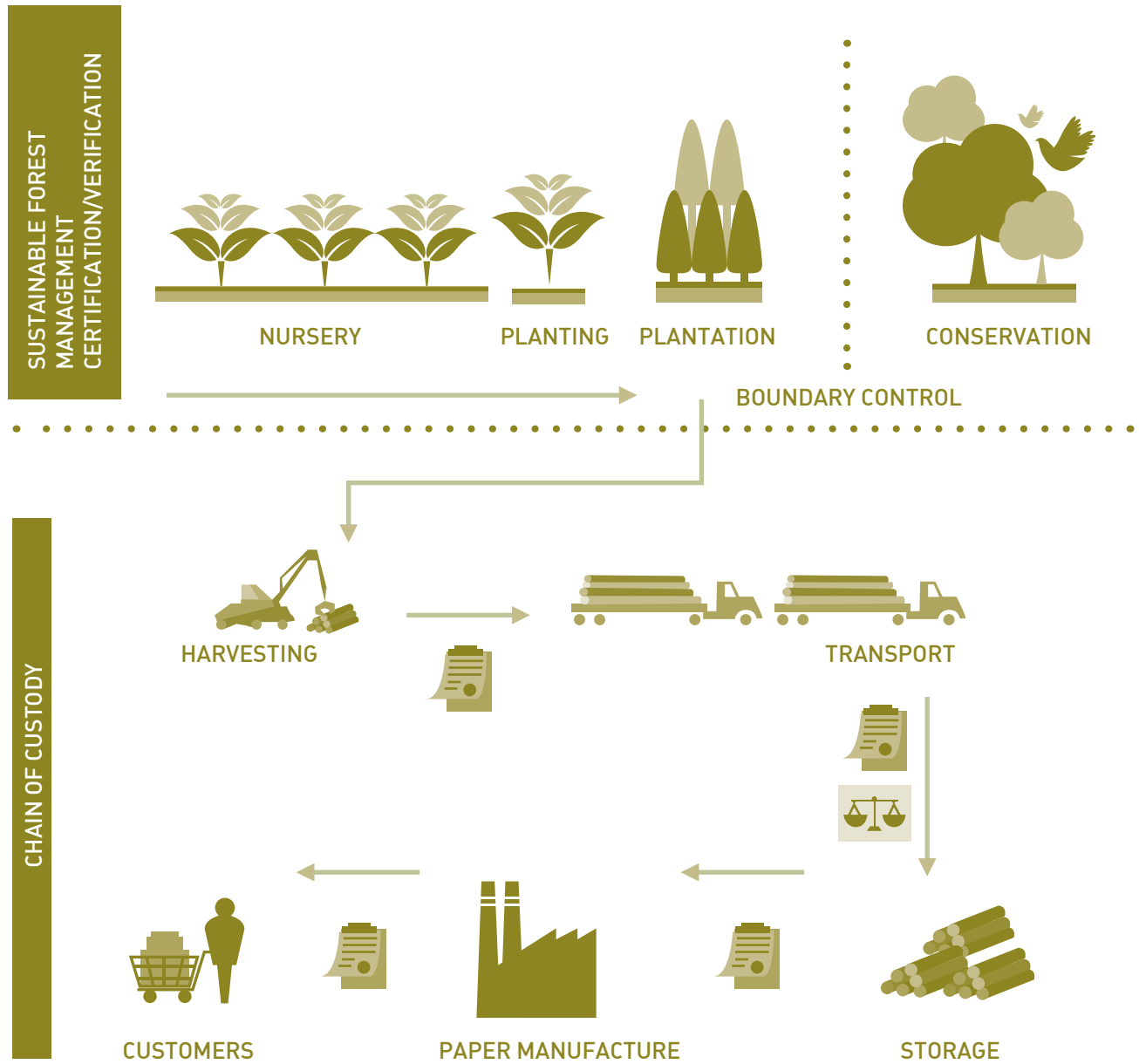


SUSTAINABLE FOREST MANAGEMENT CERTIFICATION AND VERIFICATION

- SVLK (Timber Legality Verification System) is a government mandatory certification scheme that ensures that wood products are produced, distributed and marketed legally, based on Indonesian laws and regulations. It is a stepping stone to achieving the full mandatory sustainable forest management certification. The system has been approved by the European Union as Indonesia's Voluntary Partnership Agreement (VPA) to meet the due diligence requirement of EU's Forest Law Enforcement, Governance & Trade (FLEGT) regulation.
- PHPL (Sustainable Production Forest Management) certification is a mandatory Sustainable Forest Management scheme that is independently verified by a nationally accredited certification body.
- LEI SPFM (Indonesian Eco label Institute Sustainable Plantation Forest Management) is a voluntary scheme that includes indicators that examine the sustainability of production and its environmental, social and economic impact. Currently it is the only voluntary national standard that is applicable and credible for forest plantation management in Indonesia.
- In October 2007 the Forest Stewardship Council (FSC) dissociated with APP due to concerns regarding our forest practices. Following the implementation of our FCP we approached FSC with a request to enter constructive dialogue with the organisation. APP was pleased to learn that the FSC publicly welcomed APP's FCP and is willing to engage with us to understand more about its implementation. APP's goal is to be formally re-associated with FSC and will work with the organisation to achieve this.

CHAIN OF CUSTODY

To demonstrate traceability of fibre from the forest through to end product a robust chain of custody must be in place. Essentially these systems establish procedures to document and physically manage material through the supply chain. The various Sustainable Forest Management schemes used by APP have chain of custody standards which each APP mill and suppliers must be independently certified to. Such schemes also stipulate all fibre must be legally sourced, or from 'non-controversial' sources.



SOCIAL CONFLICT MANAGEMENT

| INDIGENOUS PEOPLE | | |
|--|----------|---|
| Adopt international guidelines for the protection of indigenous people's customary rights in the forest. | On track | <ul style="list-style-type: none"> • Commitment to Free Prior Informed Consent through the implementation of four pilot projects • Social conflict mapping training provided for 400 supplier employees & APP senior management • 100% land claim conflict mapping completed |

Social conflict across our supply chain is an ongoing challenge for us at APP, and one that we actively seek to address. In order to do so, we have developed a number of protocols, which are living documents, designed to be continuously updated. We have sought external stakeholder feedback on these protocols through focus group discussions, and have incorporated many of the resultant recommendations within the documents.

Land tenure is where the majority of the conflicts arise between our suppliers and communities in and around the concession areas. The main issue is lack of clarity around land allocation and precise boundaries. This makes the process of clearly identifying community boundaries within a concession area during license application difficult. The original boundary agreements and approvals by the Ministry of Forestry are also challenged in some cases, making dialogue to resolve the conflict necessary.

In order to help avoid and resolve social conflict, we consulted with NGOs in 2013 to develop a procedure for conflict resolution, which includes Free, Prior and Informed Consent (FPIC), before trialling it at four pilot sites where social conflict has been a significant issue. Through on-going engagement with local and national NGOs, the government and local communities, we are pleased to have resolved a long-standing land tenure issue between Senyerang village and one of APP's pulpwood suppliers, PT Wira Karya Sakti (WKS). TFT facilitated the discussions, helping the two parties to arrive at a Memorandum of Understanding. Conflict resolution at our other pilot sites in Jambi, Riau and South Sumatra is still underway using the new social protocols and procedures. Our progress can be tracked through our Dashboard.

With the new procedure in place, we provided social conflict mapping training for more than 400 of APP's suppliers' staff, as well as providing social conflict resolution training materials for our own senior managers and teams at APP headquarters. A total of 389 employees have received this training to date. This training has been put to the test across all 38 of our suppliers' concessions; all those trained were asked to carry out conflict mapping using our new methodology, and we now expect each concession to update their map as and when new conflicts arise. Our partner, TFT, has analysed the results of the initial mapping exercise and we are in the process of developing action plans for all APP suppliers to address any identified conflict with the community.

Consistent with our approach to training and continual development, we will use each case of social conflict as a learning and capacity building opportunity, to assist us in better dealing with situations as and when they arise in the future. More detail can be accessed through our Dashboard.

CONSERVATION & BIODIVERSITY

| CONSERVATION AND BIODIVERSITY | | |
|--|----------|---|
| Support the national target to preserve designated protected and conservation areas. | On track | Highlights in 2013 include HCV and HCS assessments, inauguration of Ramin nursery and ongoing development programmes within the GSK-BB Biosphere Reserve |
| Support the national target to increase by 3% the population of 14 specified endangered species. | On track | Highlights in 2013 include Javan Rhino monitoring, Sumatran tiger population studies and elephant conservation programme collaboration with our supplier TMA. |

With such a high proportion of our raw material being sourced from plantations in Indonesia, home to some of the world’s most diverse and valuable natural forests, our responsibility to protect and enhance biodiversity is considerable. Based on the Environmental Impact Assessment conducted prior to plantation development, one potential impact of our suppliers’ operations, both in terms of plantation development and ongoing management, is the loss of diversity. To manage these impacts we enforce sustainable forest management, built into the licensing of our concessions, which includes provision for preserving natural forest adjacent to plantations. The way this is enforced varies by concession, depending on the landscape characteristics of the area. The HCV assessments also include biodiversity aspects and form part of the biodiversity management tool post-assessment.

For our mills located in Sumatra, biodiversity protection is linked to the activities of our pulpwood suppliers.

The animals inhabiting Indonesia’s forests are not confined to the boundaries of human land ownership. As such, we will evaluate the wide range of species present and collaborate with all our stakeholders to protect these species across their entire habitat.





Coupled with this, we are in the process of establishing a foundation to fund these extensive conservation initiatives, to encourage involvement from third parties. The four key objectives of the foundation will be to:

- Maintain viable populations of the four key species (orangutans, rhinos, elephants and tigers);
- Identify, protect and where necessary restore critical habitats;
- Stabilise and then increase key species populations over time;
- Secure the funding and capacity required to meet these objectives.

Additional information on the foundation will be available on our Dashboard, once it is established.

PROTECTING ENDANGERED SPECIES

In 2009 APP carried out an in-depth assessment to identify IUCN Red List species within our supplier's concession areas⁵. We intend to repeat this study during 2014 to refresh our inventory. Throughout 2013 we used our results from 2009 to inform our investment in a number of initiatives to protect Javan and Sumatran rhinos, Sumatran tigers, orangutans, Sumatran elephants, and ramin. These species are at the heart of our conservation efforts.

TIGER CONSERVATION IN FOREST PLANTATION LANDSCAPE

The Sumatran tiger is one of five remaining tiger species. With an estimated population around 400, it is categorised as a critically endangered species on the IUCN Red list. During the first half of 2013 we conducted an exercise to mitigate the conflict between human and tigers in our wood supplier concessions and surrounding landscape in Jambi and South Sumatra, together with our partner Sumatran Tiger Foundation (YPHS) and Natural Resources Conservation Agency (BKSDA) Jambi. Later in the year we continued the programme, educating all workers and contractors in two concessions in South Sumatra, teaching them the importance of tiger conservation, and how to avoid and minimise conflict with tiger while they are working in the field. In the later part of 2013 we conducted a study on tiger and prey population using a camera traps method. This 16 week study using 30 camera traps stations helped us to identify at least four tigers roaming within one of our suppliers concession.

RAMIN CONSERVATION

Building on the success of our ramin conservation project, established in October 2012 in collaboration with Center for Biotechnology and Forest Tree Improvement (BBPBPTH) and the Ministry of Forestry, we collected 13,875 wild seedlings of ramin from West Kalimantan, Central Kalimantan and Riau. We conducted research on ramin's macro-propagation and tissue culture techniques both in the laboratory of our pulpwood supplier, Arara Abadi and in BBPBPTH, Jogjakarta. We established a new 500m² nursery with a capacity of 65,000 seedlings that was inaugurated by the Director of Biodiversity Conservation and by the Head of Research & Development Center for Forest Productivity Improvement, Ministry of Forestry, in December 2013.

PROTECTING JAVAN RHINO

The Javan rhino is another critically endangered species; it is the most threatened of the five remaining rhino species. Today they are only found in the western-most tip of Java Island in Ujung Kulon National Park with the population estimated to be between 38 and 65. During 2013 our collaboration programme with Office of Ujung Kulon National Park (BTNUK) and Javan Rhino Conservation Working Group (Pokja AKBJ) included conducting a three month survey to establish an inventory of Javan rhinos using 60 camera traps throughout the Ujung Kulon National Park. The survey identified 18 individuals of rhinos. We also conducted a Javan rhino behaviour study, as well as support in controlling the growth of the langkap trees in a 10ha area of Ujung Kulon National Park, so that the area can be re-utilised by the rhino in their exploration, and can also be used as corridor to facilitate movement between the north-western and eastern area of the park. During the programme we receive support from the communities living within the national park. In return we provided clean water facilities in two villages, Desa Cibadak and Desa Rancapinang.

BORNEAN ORANGUTAN CONSERVATION

The Kutai National Park in East Kalimantan is one of the last remaining habitats of the morio sub species of orang-utan. As one of our wood suppliers concession, SRH, is adjacent to the park, we have established an orangutan conservation programme focusing on education and awareness as well as human-orangutan conflict mitigation. In collaboration with OFI we provided education and awareness raising on orangutan conservation to 100 students of junior and senior high schools in Sebulu village, Kutai Kartanegara district. We also provided training to 135 employees and 90 contractors on our zero tolerance policy on harming endangered animals. We also supported a collaborative orangutan conflict mitigation team between SRH, Kutai NP and BKSDA Kaltim. In central Kalimantan, we assisted OFI in releasing 32 captive orangutans back to the wild in Seruyan forest.

⁵ available in Sustainability Report 2010/11



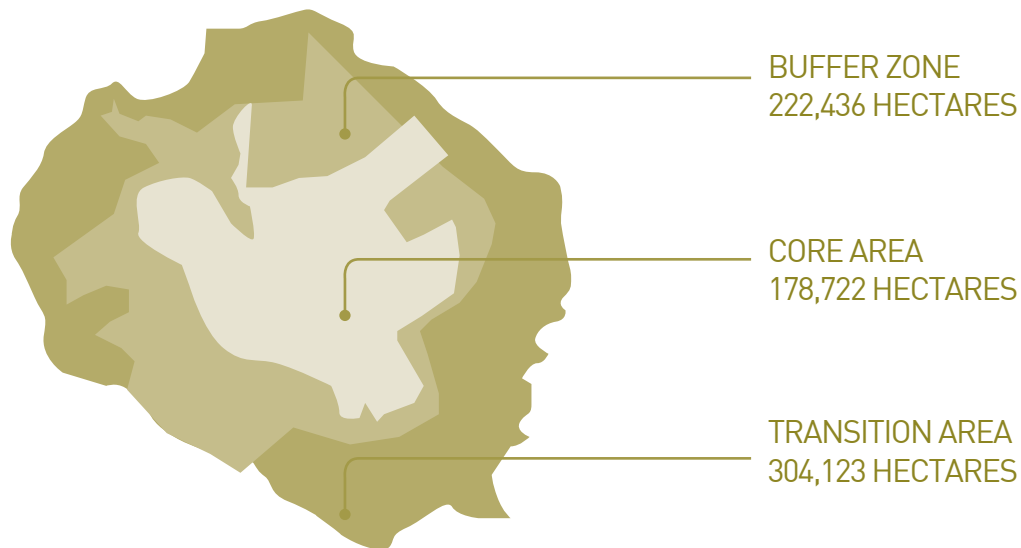
In developing countries such as Indonesia, social awareness and community empowerment is crucial in ensuring that conservation efforts are sustainable. This is why in addition to biodiversity protection initiatives we also implement community development programs.

Some of our social initiatives link directly to our flagship conservation programmes, such as those in the Giam Siak Kecil-Bukit Batu (GSK-BB) biosphere reserve in Sumatra. Others relate to our conservation efforts and those of our suppliers, but are not specifically aligned to our flagship conservation programmes. We provide many community initiatives that do not link directly to our conservation work, for which more information can be found in our People and Community section of this report.

FLAGSHIP CONSERVATION PROGRAMME GOES FROM STRENGTH TO STRENGTH

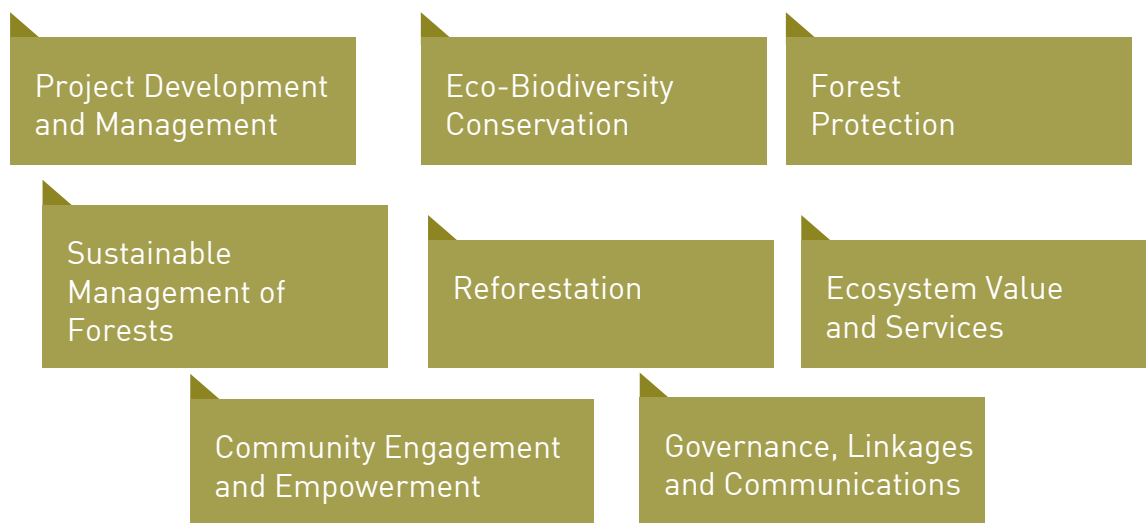
The Giam Siak Kecil-Bukit Batu (GSK-BB) Biosphere Reserve in Sumatra is one of our flagship conservation programmes. Located in central Sumatra the reserve represents a UNESCO concept for a landscape level approach to conservation. It is characterised by distinct zones which are central to effective conservation management.

In our two previous sustainability reports we reported on management and ownership structure of the reserve, and a number of conservation and wider initiatives that have been executed. The ambition of the programme is for it to become a global model biosphere reserve, demonstrating how a successful co-management approach led by the private sector can transform communities from dependency on natural resources to sustainable self-sufficiency. The programme also supports research, training and education.



In August 2013 Sinarmas Forestry, in collaboration with UNESCO MAB, LIPI, Ministry of Forestry and the local government of Riau, launched the GSK-BB Biosphere Reserve Vision 2020 Roadmap to Sustainable Co-Management. The plan sets out key milestones in the continuing development of the reserve.

COMPONENTS OF THE GSK BR VISION 2020 ROADMAP TO SUSTAINABLE CO-MANAGEMENT





THE GSK-BB BIOSPHERE RESERVE IS A SOLID DEMONSTRATION OF SUSTAINABLE DEVELOPMENT IN ACTION. I APPLAUD THE EFFORTS OF THE PRIVATE SECTOR IN TAKING THE INITIATIVE, AND LINKING UP WITH OTHER RELEVANT STAKEHOLDERS TO IMPLEMENT THE GSK-BB BIOSPHERE RESERVE MASTER PLAN.”



Ir Ahmad Saerozi,
Head, Natural Resources Conservation
Agency of Riau (BBKSDA Riau)

Specific activities in 2013 included preparations for developing a central field station within the reserve. It will serve as a research centre, training facility and offer accommodation for visitors. It will also act as a hub for many of our community programmes based within the reserve, we intend for it to be operational by the end of 2014.

GSK-BB BIOSPHERE RESERVE FACTS

- Covers a total are of 705,000 hectares, almost the same as Jakarta
- Most of the land is covered by tropical peat forests, with the water table close to the surface
- The world's first co-managed biosphere reserve
- Home to 195 plants, 173 trees and 46 mammal species
- Preliminary assessments show the forest biomass to contain between 28 and 58 million tonnes of CO₂, with the peat soil containing between 1.3 and 2.1 billion tonnes CO₂.

RESEARCH & DEVELOPMENT

Through dedicated forest research and development centres at two of our main suppliers' sites we support tree production and improvement programmes. These centres provide most of the cultivated trees that are planted in their concessions, which are grown from cuttings or tissue cultures. Incorporated into this process is the ongoing development of species with enhanced properties to protect against disease and reduce chemical and water requirement. APP has a clear position on Genetically Modified Organism (GMO), incorporated into our Responsible Fibre Procurement and Purchasing Policy, which our suppliers must adhere to.

GROWTH AND YIELD

APP is a growing business, and we rely on a continuous and reliable supply of fibre to maintain sustainable business operations over the long term. In 2013 we asked TFT to conduct an independent assessment of the long-term availability of sustainably sourced raw materials for our pulp mills, to determine whether we have sufficient access to plantation fibre to meet our demand in the future. We also engaged independent experts from Ata Marie Group, who specialise in forest inventory, growth and yield monitoring and wood supply forecasting.



SUPPORT TO REACH OUR VISION 2020 ROADMAP GOALS

After the initial implementation of a new policy, roadmap or strategy, it is vital that we monitor our progress against it, both within our own operations and across our supplier base. We recognise that for many of our suppliers, our commitments and targets can be a daunting task, and we are fully committed to assisting them in reaching these goals. After all, we are reliant on the support of our suppliers if we are to achieve the ambitious nature of our Roadmap.

We have implemented a series of protocols to help guide our suppliers on the moratorium of natural forest clearance within their concession areas. These documents are living documents, subject to continual improvement, and include: moratorium and implementation; grievance; independent observer; social and community engagement; and new area development.

TRANSPARENT PLATFORM TO ENGAGE

In developing both our Vision 2020 targets and the FCP, we drew upon the opinions and feedback from our stakeholders. This approach did not stop once the commitments were published; we want to bring stakeholders with us on our journey, using their insight to strengthen our approach.

APP's Independent Observer Programme, introduced in 2013, provides NGOs who wish to observe our operations first hand to visit our concessions and see our FCP in action, offering them the opportunity to assess the implementation for themselves.

In March 2013 we received a report from an NGO Consortium of a breach of the FCP in Kalimantan. Following an investigation by TFT we discovered that the clearing was carried out by a neighbouring oil palm company where the forest boundaries were not clearly defined, so consequently the FCP had not been breached. Our response was to begin a programme to map out boundary overlaps, calling upon government ministries and local authorities for their support. Further information is available on our Dashboard, which plays a key role in not only disclosing grievances but also showing the nature of the complaint, stakeholders involved, how each issue is resolved, and if required, a full verification report from TFT.

The launch of our risk assessment team came as a result of the findings from our grievance process. The team's remit includes identifying potential obstacles to the successful implementation of the FCP, and it will be expected to share the findings within the focus group discussions, seeking stakeholder input and recommendations on solutions to the challenges. In October 2013 Greenpeace published its own review of our progress against the FCP. The report acknowledged the challenges ahead, and made constructive recommendations for tackling them. We are pleased with our progress to date being recognised by external stakeholders and remain committed to continue this trend through clear and transparent communications on our progress and challenges we face on our journey.



THE LONGER-TERM SUCCESS OF THE FCP WILL STAND OR FALL BY HOW APP'S IMPLEMENTATION OF CONSERVATION AND MANAGEMENT PRACTICES CONTRIBUTES TO THE PROTECTION AND REHABILITATION OF THE BROADER FOREST AND PEATLAND LANDSCAPES IN INDONESIA WITHIN WHICH ITS SUPPLIERS OPERATE.



Source: APP's FCP progress review October 2013, Greenpeace

INTERVIEW WITH MR. ZULFAHMI, GREENPEACE INDONESIA

How do you interact with APP?

Greenpeace meets with APP's technical team regularly to ensure the commitments within APP's FCP are being implemented on the ground. We also do independent monitoring in the field and discuss potential social issues with the communities, before providing suggestions to APP for future improvement.

What do you see as the major challenges in the implementation of APP's FCP commitments?

After the FCP was announced in February 2013, the biggest challenge was for APP to ensure its employees and all of its suppliers understand what the FCP means in reality and how to implement the commitments on the ground. The second challenge for APP is to start to build stakeholder confidence in the FCP by demonstrating that it is genuinely implementing these commitments. We believe that if properly implemented, the FCP will have a positive impact on protecting Indonesia's rainforests and also assist the Indonesian government in meeting its targets for reducing its greenhouse gas emissions.

As of 31st August 2013, APP's mills no longer accept wood from areas of natural forest across Indonesia. How significant is this commitment in the context of Indonesia's forestry?

For APP to stop using rainforest fibre is a significant commitment to build public trust in the FCP. This commitment is measurable and easy to monitor by checking all of the incoming timber at each of APP's pulp mills.

APP should increase its transparency about the cut-off date of using Mixed Tropical Hardwood (MTH) in its products. This may influence others to follow their example.

What's your impression of APP's work to resolve land rights issues and what more should the company be doing?

Land rights and conflicts are a significant issue throughout Indonesia, across multiple sectors and industries. Regulation of land tenure is inconsistent in Indonesia and therefore, a huge number of ongoing conflicts over land rights between the state, indigenous people, and companies have yet to be resolved.

Given APP suppliers' concessions covers 2.6 million hectares of land, it is not surprising that a number of conflicts still exist. APP's land conflict assessment and resolution process to respect the international principle of Free, Prior and Informed Consent (FPIC) should, if implemented comprehensively, help to address such conflicts. Already, a case where a social conflict existed in Jambi province was a good example on how APP's conflict resolution process can work in practice.

APP should learn from their experience in the Jambi case and continue to work in this way. However, they should build their internal capacity to identify and negotiate with communities on the ground, on their own. APP's resources are currently coming from partners, such as The Forest Trust (TFT), and suppliers' concessions.

Land tenure is a really important issue for Greenpeace and mainly other NGOs. Greenpeace is pushing the government to develop its land rights policy and will continue to do so.

What's your perception of the Dashboard?

The Dashboard is a valuable tool for APP to promote transparency in its delivery of its FCP. However, it is not yet clear how many stakeholders are currently using the Dashboard.

We would like APP to improve its disclosure and communication on forest and peatland fires, especially because there is so much speculation and public attention to this issue at the moment. How big are the areas being burned? Why are there fires in its suppliers' concessions, what are the causes and what is it doing to prevent further forest and peatland fires? APP should take a leadership role with respect to this issue and help provide a solution.



Can you see the positive impacts that the FCP is having with paper buyers?

Yes, the FCP has had a positive impact with a number of APP's customers and former customers. Companies are increasingly thinking for the future and we hope to see more companies in Indonesia follow the approach APP is taking.

What is your message to companies who buy paper from APP?

One of APP's greatest challenges is how the company transparently engage with its stakeholders in order to independently demonstrate its performance against the FCP. We advise companies to seek evidence that APP continues to implement its FCP commitments, and to make this part of their ongoing commercial agreements.

RAINFORREST ALLIANCE – EVALUATING FCP

In September 2013 we began discussions with Rainforest Alliance that resulted in an agreement for the organisation to carry out independent evaluation of FCP implementation progress in Indonesia in 2014, culminating in an independent report to be published in Q4 2014. We agreed on a set of indicators for the evaluation to be made against, covering the key aspects of the FCP and a number of other public commitments APP have made. This evaluation will involve document and map reviews, interviews, and correlating this with direct field observations within a sample set of concessions.

OUR PEOPLE



CHAPTER 07

PEOPLE AT A GLANCE

APP is one of Indonesia's largest employers. The employment opportunities at our mills are especially important in some of the remote regions where we operate. We recognise that our relationship with our employees and with the communities surrounding our mills is intrinsic to the success of our business.

APP's employees drive our business and their welfare is critical, yet this is just part of a much bigger picture. The majority of our employees live in local host communities where our mills are located, and it is therefore in our interests to create a hygienic, safe and prosperous environment around our mills, to maintain our social licence to operate and to enable both our employees and local residents to thrive. We achieve this through actively engaging with our internal and external stakeholders, and building capacity within local host communities through various initiatives, the most recent of which are described on page 78.

The effects of our operations don't stop there. We indirectly support a much wider community through the opportunities created by our suppliers, and other services required to sustain a growing population around each of the mills. Our approach is to select suppliers primarily on price, quality and availability, however the majority of our suppliers are local to our mills, with 77% procured within the same islands.

In 2013 we employed 40,072 staff directly and 8,391 indirectly⁶. All of our employees work on a full time contract either at our mills or at our head office in Jakarta. Fixed term contracts apply to 8% of our workforce; typically they are on a two year employment contract as a probationary period before moving to a full time contract, in line with Indonesian employment law.

EMPLOYEE COMPOSITION BY TYPE OF EMPLOYMENT

| | | 2013 | | 2012 | 2011 |
|----------|---|--------|--------|--------|--------|
| Direct | M | 40,072 | 34,774 | 36,813 | 34,427 |
| | F | | 5,298 | 6,130 | 6,145 |
| Indirect | M | 8,391 | - | 4,819 | 15,588 |
| | F | | - | 2,624 | |

EMPLOYEE COMPOSITION BY LEVEL

| | | 2013 | | 2012 | 2011 |
|----------------|---|--------|--------|--------|------|
| Management | M | 1,545 | 2,015 | 1,524 | |
| | F | 112 | 335 | 315 | |
| Non-management | M | 33,250 | 34,798 | 32,903 | |
| | F | 5,110 | 5,795 | 5,830 | |

EMPLOYEE COMPOSITION AT MANAGEMENT LEVEL

| | | 2013 | | 2012 | 2011 |
|---------|---|-------|-------|-------|------|
| <30 | M | 7 | 13 | 39 | |
| | F | 1 | 2 | | |
| 30 - 50 | M | 1,183 | 1,287 | 1,559 | |
| | F | 98 | 95 | | |
| 50 + | M | 355 | 354 | 241 | |
| | F | 13 | 14 | | |

EMPLOYEE WELFARE

Our employees are guided by the APP Employee Welfare Policy, which was updated as part of our Roadmap commitments in 2012.

We strive to remain competitive in the marketplace with respect to the remuneration and benefits offered to our employees. The base pay for our employees across all of our mills is equal to local minimum wage. APP also provides annual holiday entitlement and medical benefits, in addition to pension provision for all employees, which follows Indonesian government regulation. Our incentive plans for outstanding achievement link to our continual efforts to retain talented employees.

As part of our long-term commitment to our employees, we offer end-of-career support aimed at helping their transition to retirement, or re-training to develop additional skills required to embrace a career change. The nature of this support varies at each of our mills and includes both internal and external training courses, and retirement pay that accounts for age and length of service. In the event of operational changes, APP allows a minimum of seven days' notice, as per Government of Indonesia regulation.

Historically APP has always attracted a high proportion of male employees due to the manual nature of much of the work available, which is typical of the global pulp and paper industry. We are working to encourage a greater number of female employees to join the company, and we offer equal opportunities to all employees, including identical basic salaries for male and female employees, as stated in our Employee Welfare Policy. We do not currently have a specific policy for recruiting women into senior management roles, other than the general Equal Opportunities Policy that applies across the organisation. The male to female ratio across our group is 87:13, which is consistent with 2012. Women represent 7% of management roles; an increase from 6% in 2012⁷.

⁶ Direct employees are employees hired under APP (permanent employee and contract-based employee). Indirect employees are outsourced employees. APP does not have part-time employees. ⁷ Normalised 2012 data to exclude HQ.

Hiring local employees is very important at APP. It is our policy to hire based on suitability for the role available, and to favour local applicants where candidates are of equal skill. Not only does this cement our support to the local communities where we operate, but it also ensures that our employees have first-hand knowledge of the local culture. In 2013, 8% of our senior management team were hired locally, ensuring the senior team are representative of the local community.

APP believes that all employees have the right to establish and join organisations of their own choice. Our employees are free to join labour unions, and our management teams work closely alongside union representatives. During 2013, issues raised by labour unions included welfare costs and housing loans, suboptimal health benefits, and wage raises in line with government regulations. We responded to the new wage regulations issued by the government, and some of our mills have adjusted their health care policies. All our employees are covered by collective bargaining agreements.

HEALTH AND SAFETY

| | | 2013 | 2012 | 2011 |
|--------------------------|---|------|------|------|
| Injury rate ⁸ | M | 4.6 | 5.7 | - |
| | F | 2.4 | 1.8 | - |
| Lost day rate | M | 146 | 54 | - |
| | F | 24 | 260 | - |
| Fatalities | M | 9 | 5 | 8 |
| | F | 0 | 1 | 0 |
| Absentee rate | | 118 | 437 | |
| Frequency rate | | 22 | 21 | |
| Severity rate | | 19 | 315 | |

At APP we are committed to providing the safest working conditions possible, which is reinforced by our goal of zero accidents. The use of chemicals and heavy, potentially dangerous machinery is inherent to many of the jobs within our mills, and it is our duty to ensure that our employees receive the correct equipment and training to carry out their jobs safely and effectively.

Our management approach at group level includes the adherence of every one of our mills to SMK3, which is a mandatory management system in Indonesia for companies that employ over 100 workers to enforce health and safety standards. We also aim to achieve OHSAS18001 certification in all of our mills by 2020. During this reporting period, Indah Kiat Tangerang and Pindo Deli 1 and 2 held OHSAS18001 certification. Indah Kiat Serang aims to become OHSAS 18001 certified during 2014. Meanwhile, Tjiwi Kimia is in the process of revising its health and safety documentation, and has conducted health and safety awareness training and auditor training within each department during January 2013. The mill's target is to achieve ISO 18001 in 2015.

In addition to this group level approach, each mill has a specific team responsible for managing health and safety in their own way. This decentralised management system allows each mill to focus on the high priority issues unique to their operations. Through the APP Health and Safety Improvement Program every mill shares their best practice approaches to health and safety with other mills to facilitate cross learning and overall improvements across the company. We also have a project in place whereby each mill safety team is reviewed at HQ level, and points of improvement are identified. These improvement areas are then monitored by HQ. Labour unions also play a role, facilitating agreements between APP and our employees on issues such as Personal Protective Equipment, training and complaint mechanisms.



During 2013 nine of our employees tragically lost their lives in work related incidents. Two fatalities at Indah Kiat Perawang were as the result of chemical contact, and one as a result of an electrical fault. Traffic accidents off-site Indah Kiat Serang, Tjiwi Kimia and Pindo Deli Karawang resulted in four fatalities, and an accident during construction work, and operating the pulping machine resulted in two fatalities at Lontar Papyrus and Tjiwi Kimia. We continue to provide safety training to mitigate against such incidences from occurring, and we strive to achieve our goal of zero accidents. We are making progress: in 2013 Indah Kiat Tangerang and Lontar Papyrus received a Zero Accident award from the Government of Indonesia in recognition of our success.

Traffic congestion and road safety is an ongoing challenge at many of our mills, particularly during rush hour, and it's an issue that unfortunately lead to fatalities in 2013. Indah Kiat Serang continues to raise awareness about road safety through identification systems for all employees' vehicles, and monitoring of accident prone areas to identify dangerous behaviour, ready to brief the employees in question the following day. Indah Kiat Tangerang adopts a similar approach, conducting vehicle inspections every two months for both employees and contractors, and implementing 25km/hour speed limit within the mill.

Our mill operations rely on a large number of contractors, in addition to our own employees. Our approach to contractor safety varies across each of our mills, and is dependent on the nature of the operations. We are responsible for contractors, unless major investment projects mean that the most effective way to manage it is to have third party assistance for managing health and safety.

Health and safety training is a key way to improve the vigilance and competencies of our employees. The extent and nature of training varies across each of the mills depending on their predominant challenges, but it commonly includes general health and safety, fire safety, first aid, emergency response and road safety. Other important communications channels include screen savers, posters and meetings, used to act as constant reminders to all employees that safety is a priority.

All of our mills have a joint safety committee, representing our entire workforce. The committees' role is to ensure safety concerns and suggested improvements at an operational level are communicated from employees to senior management, and vice versa. They are also responsible for regular updates of incidents, and responding to and communicating improvement measures. Health and safety is also a particularly pertinent topic during the regular engagement between mill management and relevant unions. Typically the issues discussed include training, education and provision of personal protective equipment.

FOCUS ON SAFETY BEHAVIOUR

At Indah Kiat Tangerang a low awareness of safety in the working culture was identified as an area for improvement across the mill. A project was set up to address this, 'total improvement for safety behaviour'. We received the Best Health & Safety Committee award from Banten province government in 2013.

What was achieved?

- 30% reduction in accidents from 2012
- 30% reduction in lost days from 2012
- 37% reduction in frequency rate from 2012
- 20% reduction in severity rate from 2012

Awards achieved

- Zero Accident award in national level in 2012 and 2013, awarded by the Government of Indonesia through Ministry of Labour and Transmigration
- Best Health & Safety Committee award from Banten province government in 2013



It is our responsibility to ensure that we provide sufficient healthcare facilities to help maintain and improve the health and wellbeing of our employees and their families. In turn, this benefits APP by reducing the number of lost days through absence. There is at least one medical clinic on site at each of our mills, available to both employees and their immediate families. Annual health check-ups, which include screening for occupational diseases, are compulsory for all employees working at our mills. We also offer our health programmes to members of the communities surrounding our mills via access to our clinics and a range of health related campaigns.

APP raises awareness of HIV/AIDS, and endemic diseases such as Dengue Fever and Malaria through clinics for employees, their families and the surrounding community. These clinics are usually run in collaboration with relevant government institutions within the region.

ATTRACTING AND RETAINING TALENT

Our employees are crucial to the current and future success of our business, and we work hard to position APP as an attractive place to work. By offering competitive salaries, career development opportunities, paid leave, performance management, health insurance, pensions and scholarship programmes, we strive to attract and retain talent both from the immediate areas surrounding our mills, and from further afield. We also offer life insurance, bonus schemes and sabbatical leave. A number of these benefits are available only to permanent employees, and some vary by mill.

We encourage employee feedback through our portal, i-suggest, which we monitor regularly and address feedback as appropriate. It's an important platform through which we can better understand areas for improvement, while at the same time enhancing employee satisfaction and safety. Submissions range from small suggestions around particular fittings on machinery, to queries relating to employment issues and recommendations to improve performance at the mills. Pindo Deli for example receives on average 1,000 accepted suggestions each month.

The attraction and retention of young people continues to be a challenge for us, largely because of the remote location of many of our mills, and the increasing number of opportunities available to talented young people in Indonesia. Since 2012 we have adjusted our approach to help relieve this issue, by offering increased daily allowances to employees working at mills outside of their local vicinity, and by raising our incentives and rewards for higher performing employees. We will continue with our efforts until we are able to demonstrate an improvement in retention rates for our younger employees.

TURNOVER RATES BY AGE GROUP AND GENDER

| | | 2013 | 2012 | 2011 |
|---------|---|------|------|------|
| Overall | M | 6% | 6% | 5% |
| | F | 5% | 1% | 2% |
| < 30 | M | 11% | 3% | 4% |
| | F | 19% | 1% | |
| 30 - 50 | M | 3% | 3% | 2% |
| | F | 3% | 1% | |
| 50 + | M | 19% | 1% | 0.4% |
| | F | 22% | 0% | |

RATE OF NEW EMPLOYEE HIRES

| | | 2013 | 2012 | 2011 |
|---------|---|------|------|------|
| Overall | M | 5% | 7% | 6% |
| | F | 3% | 1% | 1% |
| < 30 | M | 19% | 5% | 6% |
| | F | 25% | 1% | 0% |
| 30 - 50 | M | 1% | 2% | 1% |
| | F | 0.3% | 0% | 0% |
| 50 + | M | 2% | 0% | 0% |
| | F | 0% | 0% | 0% |

Return to work rates after parental leave in 2013 were 74% and 51% for male and female employees respectively. 86% of our male employees who took parental leave in 2012 were still employed in 2013, this compares to 95% for female employees.

APP does not tolerate any form of discrimination. The APP Employee Welfare Policy includes commitments covering harassment or discrimination, and each mill emphasises this commitment in their Collective Labour Agreements, which also include mechanisms to report any grievances or harassment of any description. There were no reported incidents of discrimination in 2013.

TRAINING

Informed, engaged, motivated and skilled employees are imperative to the continued success of our business. It is therefore very important that we offer continuous learning and development opportunities through various training programmes to instil the right ethos and to nurture the correct expertise in our employees at each of our mills. In 2013 we conducted an average of 50 hours of training per employee, compared to 26 hours in 2012. All of our employees received annual performance reviews. Training included general training on topics such as safety, as well as technical training specific to our employees' different roles, and specialist training such as negotiation and sales training for area and regional managers.

Two APP Skill Development Centres have been established at Indah Kiat Serang and Indah Kiat Perawang. These will become training hubs, attracting employees from other mills across Indonesia, and further afield from our Chinese operations. Not only do the attendees benefit from the high quality of the centres, this form of collaborative training also promotes cross-learning and networking. Students from local communities who are attending on the job training will also have access to the centres, providing technical training and the opportunity for employment at the mill.

Demand is increasing each year, and as such, we intend to roll out more of these training programs in the future. In December construction began on a third training centre, located at Lontar Papyrus.

Employee empowerment is also an important attribute for continued success both within and outside of the workplace. Our personal development training courses, which include Positive Mental Attitude, Family Goal Setting, Pre-retirement Planning, and Financial Management, assist employees in developing the right tools to feel empowered and to prosper.



HUMAN RIGHTS

APP is committed to respecting human rights within all of our operations throughout our business, and also across our wider sphere of influence, including business partners, suppliers and host communities. We adopt the United Nation's "Protect, Respect and Remedy" framework, acting responsibly and with due diligence to avoid infringing on the rights of others. This forms an essential part of our Roadmap commitments.

Our aim with respect to our human rights performance is to align to international best practice, in context with Indonesia's challenges. In our Sustainability Report 2012 we disclosed the results of our company-wide human rights assessment, which assessed the current conditions across our operations and those of our most significant suppliers, and identified areas for improvement. The findings indicated that although we have adequate systems and procedures in place for most aspects of human rights, we need to better integrate these systems to improve our monitoring and our responsiveness to issues when they arise.

The first step to addressing this shortfall was to ensure that our mills understand human rights and the implications to our business. During 2013 we delivered customised human rights training to the Human Resources teams across our mills. APP's human rights commitment is included in the APP Employee Welfare Policy. This forms the umbrella of APP's commitment to human rights. The policy is explained further in APP's Framework on Human Rights Compliance, which was independently audited in 2013. The framework details APP's commitments on human rights and serves as a guideline in implementing the UN Guiding Principles on Business and Human Rights, throughout our day-to-day operations.



In addition to this capacity building, our newly developed Ethical Business Code of Conduct is based on many standards. Among them are the UN Guiding Principles on Business and Human Rights. Each of our mills has tailored the Employee Welfare Policy to their own operations, to express their commitment to human rights. Our Code of Conduct will be distributed in 2014, and employee tested on its content to check their understanding.

Ensuring our operations and those of our suppliers are free from child labor is part of our human rights commitments. The minimum age for employment at our mills is 18, and our Employee Welfare Policy includes specific child labor clauses. The most significant risk to APP in being complicit with child, forced or compulsory labor is within our supply chain; specifically our pulpwood suppliers.

Our template of service agreements has been revised to include human rights compliance. Once the template is approved, all potential vendors undergoing selection will be evaluated on their human rights performance. We are also looking to improve our human rights aspects for our outsourced agencies, across all our mills. While some of our mills already monitor their contractors' human rights, others have not begun to do so, and so we recognise the need for a consistent, best practice approach.

2013 saw us enhance our mill grievance system to improve the way that grievances are recorded, and to ensure that resolutions are documented. Building on this, our new sustainability scorecard will be used as a human rights monitoring system, which will improve consistency in our approach to human rights and wider sustainability issues across all of our mills, and across our concessions, too.

COMMUNITY ENGAGEMENT

We have been engaging with local people in the communities surrounding our mills for years, establishing projects that will support the local economy and enable residents to prosper socially and to become more financially stable. This is vital to secure our licence to operate. Our mills must be responsible neighbours in order to maintain community support and make our mills attractive places to work. A number of our projects have been ongoing for many years and are growing from strength to strength. Some of these are written about in detail in our previous sustainability reports.

We also engage in CSR activities through our pulpwood suppliers, working in partnership to support their community engagement programmes, either through financial support or sharing knowledge and resource in formal joint projects.

Many of these social initiatives go hand-in-hand with our commitment to sustainable fibre sourcing. It's critical that our conservation programs and biodiversity protection initiatives include community development programs, not only to educate and empower people about the importance of conservation and sustainable forest management, but also to support communities with alternative incomes and livelihoods, so that they are better able to earn a living without resorting to illegal logging and other environmentally destructive practices.

In addition, we have a number of flagship CSR projects, such as our collaboration with Habitat for Humanity in Soran village and community development projects built into our conservation work within the GSK biosphere reserve, which you can read about on page 83.

MILLS AND THEIR COMMUNITY

The more we grow as a company, the greater our positive impact on our surrounding communities, both in terms of our CSR contributions and also our ability to provide greater economic opportunities, directly and indirectly. We use the Millennium Development Goals as a reference point in determining how to best invest in the community, as well as specifically assessing local needs. Each mill manages its local community engagement, overseen by the sustainability team at our headquarters in Jakarta.

"Indah Kiat Tangerang is a good neighbour, as head of the local community I can see the positive impact that mill has. They understand the community needs well and listen to the communities thoughts. The negative impacts include air pollution and noise, but we believe the mill manages these well and we have no concerns. The community here needs support in developing infrastructure, public facilities such as mosques and community health centres are supported through payments from APP. In 2013 APP helped the community to renovate the waste water canal that runs through the area, improving drainage and sanitation for the community.

I work closely with the public relations officer, based at the mill. We are in constant dialogue. We also have an annual community forum which incorporates five surrounding communities, it is at this forum that we evaluate all the community programmes and help APP plan the investment for the upcoming year"

**Mr Haerudin,
Local Head of Community, Tangerang**

Indah Kiat Perawang is located in Riau Province, Sumatra. The mill is surrounded by nine villages with a cumulative population of 105,000, the majority of whom depend on the mills either directly or indirectly, to sustain their livelihoods.

Our focus on education is a particular priority, through on-the-job training for students within the mill to gain technical insight of pulp and paper manufacturing process. Recognising increasing number of youth that do not have the opportunity to finish school, the mill put in place a Community Technical Skill Improvement programme. The mill facilitates practical development through coaching and training on subjects such as automotive and welding. The programme also offers development loans without interest through micro financing.

Women empowerment is also an important aspect in Indah Kiat Perawang community development strategy. Through the Women Farmers Empowerment Program, the mill aim to increase skills of local women to be able to not only manage their land but also increase the productivity. In collaboration with local government and micro-finance institutions, the mill provides training, coaching and loans with zero interest.

Over the years Indah Kiat Serang have instigated projects to support the livelihoods of farmers around the mill, particularly in the dry season when water is scarce. A water pumping programme assists farmers in irrigating their land all year round, and we operate a recycled paper programme, Mitra Kreasi Handicraft, to inject alternative sources of income into the community. Education is also a particular priority, which we address by donating funds to the National Foster Parent Movement scholarship scheme, since 1997. With respect to healthcare, we focus a lot of our efforts on reducing child mortality through our mother and childcare programme, which in 2013 introduced individual child development plans to monitor growth and development over time.

Our hand tractor initiative, new to 2013, is destined to help farmers with low productivity. It's our way of giving back to the local farmers, having expanded our mill by purchasing agricultural land in the past. By distributing a hand tractor to a group of 25 farmers, they can maximise the productivity of their land for a small fee to borrow the equipment. The sum of their profits is pooled, and they spend 50% of the money to purchase a new tractor for another group of farmers, growing the initiative with each purchase. It's a way of empowering farmers to collaborate, and to commit to other groups of farmers in need of assistance. The group of farmers who require a hand tractor contributes the remaining 50%. In December 2013 we kick-started the initiative with the purchase of four hand tractors for four groups of farmers, reaching 100 farmers in total. We plan to donate additional tractors through 2014.

An issue for families in the local community surrounding Indah Kiat Serang is the lack of financial resources to support their children at school. Although the government provides each household with a small contribution it does not cover the full cost. APP supports families by providing writing books and scholarships, helping the students to fulfil their potential. The school recently came fourth in regional Mathematics Olympics. In other projects to support local children APP provides donations to a local orphanage, having co-ordinated collecting employee donations for over 10 years, providing for daily needs such as food and more significant investments, which in 2013 included building renovations and new furniture. The facility currently houses 104 children and relies heavily on the donations from companies in the local area.

Tjiwi Kimia has been working with the local community amongst three villages to maintain water supply to productive paddy fields throughout the year, constructing waterways and clearing mud sediment to improve flow. The difference is felt most during dry season, when the communities are able to continue to irrigate the land. Harvests can now take place three times a year, before the project began the area provided one harvest annually.

Ekamas Fortuna is situated within Gampingan Village, 35km south of Malang in East Java. APP's efforts in the community focus on improving access to basic resources and infrastructure. In the past few years we have established a number of projects to improve access to clean water through the construction of water storage tanks and pipeline installation, and the development of a reservoir.

One of our core focus areas since 2012 has been the development of a small scale biogas programme, converting cattle waste into energy to power domestic cooking stoves in the villages of Gampingan and Sumberejo. Before the project was implemented the villagers used firewood to cook; a traditional cooking method, but one that creates smoke that is hazardous to health, particularly in confined spaces where cooking tends to take place.

In 2012 we installed three reactors, each of which produces enough gas fuel for two people to cook all year round. In 2013 we extended the project by installing a new type of 'dome' reactor in two locations, each of which provide enough fuel for five people. Any remaining waste that cannot be utilised for gas production is used as a fertiliser. In addition to the clear environmental benefits, the project has empowered the surrounding community to become energy independent, and it has boosted the local economy.

ENGAGING COMMUNITIES THROUGH OUR PULPWOOD SUPPLIERS

One of our greatest achievements this year was the completion of the installation of our community-based water purification project in Tanjung Leban village, supported by APP and our suppliers Sinarmas Forestry. The water purification system provides the local community with 60 litres of clean, safe, potable water per minute; enough to provide 100 families with an ongoing supply. We have trained local community members in how to operate and maintain the device, as part of our efforts to ensure the system is sustainable over the long-term, and improves the self-sufficiency of the villagers who have benefited from the project.





FOR A LONG TIME, COMMUNITIES IN THE TRANSITION AND BUFFER AREAS OF GSK-BB HAVE HAD TO USE PEAT WATER FOR THEIR DAILY CONSUMPTION. THIS IS NOT HEALTHY AS PEAT WATER IS VERY ACIDIC AND CONTAINS HAZARDOUS MINERALS. USING SCIENTIFIC STUDY AND TECHNOLOGY, THE SYSTEM THAT WE BUILT, IPAG60, WILL PROVIDE CLEAN, HEALTHY WATER FOR COMMUNITIES AROUND THE GSK-BB BIOSPHERE RESERVE.



Prof. Dr. Ir. Y. Purwanto of MAB Indonesia - LIPI



RIAU IS ONE OF THE RICHEST PROVINCES IN INDONESIA, PARTICULARLY IN NATURAL RESOURCES AND BIODIVERSITY. HOWEVER, IN THE RACE TO ACHIEVE ECONOMIC DEVELOPMENT, IT IS VERY EASY TO TAKE THESE RESOURCES FOR GRANTED AND SOMETIMES WE ARE PRONE TO OVER-UTILISE THEM. IT IS VERY IMPORTANT THAT RESOURCES ARE CONSERVED AND MANAGED IN A RESPONSIBLE WAY, WHILE NOT SACRIFICING THE GREAT ECONOMIC DEVELOPMENT THAT RIAU HAS SEEN IN RECENT YEARS. THE BIO-VILLAGE CONCEPT ALLOWS US TO DO THIS. EVEN BETTER, IT ENHANCES THE QUALITY OF LIFE OF THE COMMUNITIES LIVING IN AND AROUND THE FOREST AREA. TO ACHIEVE THIS LONG-TERM OBJECTIVE, CONTRIBUTION OF RESEARCH CENTRES, ACADEMICS, NGOS, COMMUNITIES AS WELL AS PRIVATE SECTORS SUCH AS APP AND SINARMAS FORESTRY, ARE ALWAYS NEEDED.



Prof. DR. Teuku Dahril, Head of Local Research and Development Office, Riau Province

In addition to the water purification project, other projects are already operating in the area including development of conservation villages initiated by Center for Natural Resources Conservation (BBKSDA) of the Ministry of Forestry. We are also supporting farming training and aquaculture development programs initiated by Universitas Islam Riau and Sinarmas Forestry, and Ecosystem Restoration, which is a collaboration between APP, Sinarmas Forestry and one of APP's Japanese customers.

APP supplier Arara Abadi achieved three CSR awards from Association of Marketing and Communications Professionals (AMCP), an organization based in Texas, US. The award recognises the effectiveness of the company's CSR program and the programs contribution in enhancing community standard of living.

AWARDS RECEIVED

- Community Training and Development Centre and its 'Fruitful Riau' program, which activity includes community training on fruit cultivation, distribution of fruit plant seedlings and assistance in fruit farming in the villages near the training centre.
- Providing higher education scholarships for students from the Sakai Tribe, the indigenous people in Riau Province. This plays a key part of our support of indigenous community development.
- Development of key infrastructures in Pulau Muda, Riau. Projects in 2013 included improving transportation access, education facilities, and electricity installations.





FLAGSHIP CSR INITIATIVES

Our partnership with Habitat for Humanity has extended further during 2013. We completed our three-year long development of the Soran Ecotourism village, Yogyakarta⁹, at a total investment of \$600,000. Prior to the initiation of the project, 60% of the community were living below the poverty line. Our objective was to create a sustainable, self-sufficient ecotourism destination that protects and promotes local historic cultural traditions. We supported the community in developing the village infrastructure to make it attractive to tourists and provided hospitality training to improve the services that the village could offer. In line with our role as chair of the Indonesia Water Mandate Working Group, we have to date rehabilitated six water sources in the village and surrounding area as well as educating the community on how to preserve and maintain and clean water supply.

Partnering with Habitat for Humanity Indonesia, we have developed a sanitation centre in Serang. Before the centre was built the community used the local river for water and sanitation purposes, posing a major threat to the health and wellbeing of the community. Following completion of the sanitation facility we promoted good hygiene standards through awareness raising campaigns, aimed particularly at children. Today, over 200 families use the sanitation centre.

⁹20% of the \$600,000 investment has been set aside for disaster relief during our three-year collaboration with Habitat for Humanity. The remainder has been invested into the Soran Ecotourism Village.

OUR MILLS



INTRODUCTION

Operating our mills in the most efficient way ensures we maximise value to our customers while minimising our environmental impacts. All our mills employ an environmental management system, certified to the globally recognised ISO 9001 & 14001 standards. This sets out our approach to managing our most significant impacts: air and water emissions, and waste. These are all areas included within our Roadmap goals.

| 2013 IN A GLANCE | | | | | |
|-------------------------|----------------------|-------|-------|-------|----------------|
| | | 2013 | 2012 | 2011 | change 2013/12 |
| Energy consumption | MWh/t | 0.98 | 0.92 | 0.87 | 6.4% |
| Fossil carbon emissions | tCO ₂ e/t | 1.17 | 1.15 | 0.95 | 1.2% |
| Water consumption | m ³ /t | 20.5 | 20.4 | 19.3 | 0.4% |
| Waste to landfill | t/t | 0.042 | 0.036 | 0.053 | 14.9% |

All APP's mills, (with the exception of Tjiwi Kimia due to major installation work in 2012 and Indah Kiat Serang, which went through a separate audit with regional government) are assessed using PROPER, a voluntary environmental initiative launched by Indonesia's Ministry of Environment in 1996. Its aim is to use public disclosure, environmental awards and reputational incentives to compel organisations to improve their environmental performance. Indah Kiat Tangerang downgraded from green status in 2012 to blue during 2013. We also comply with the Indonesian environmental impact assessment, AMDAL. We received no significant fines or sanctions for non-compliance with environmental laws and regulations during 2013.

| PROPER STATUS | |
|----------------------|-------------------------|
| Mill | Rating |
| Ekamas Fortuna | Blue |
| Indah Kiat Perawang | Blue |
| Indah Kiat Tangerang | Blue |
| Lontar Papyrus | Blue |
| Pindo Deli Mills | Blue (PD1), Green (PD2) |

In 2013 we developed a scorecard system to monitor specifically the implementation of Roadmap goals. Covering all the environmental issues areas relevant for mill operations we developed around 380 specific metrics which are scored based on the level of management approach the mill can demonstrate, quality of data it can provide and performance to date. The scorecard will support us in focussing our efforts on the areas that require the most support and enable us to better monitor our progress towards our Roadmap goals.

Our strategy is to nurture a culture of knowledge sharing between APP mills; ensuring gains at one mill can be replicated in others. Competition between mills is actively encouraged, as it helps to continually raise standards and drive performance improvements. Our mill management teams meet on a monthly basis to share best practice, and discuss improvement areas.



Through 2013 we began work on developing an integrated Sustainability Database Programme. This will support us in linking each mill to the goals and targets of the APP Sustainability Roadmap, and will enable us to continuously monitor and plan our progress towards achieving these goals. We plan to roll this out in 2014.

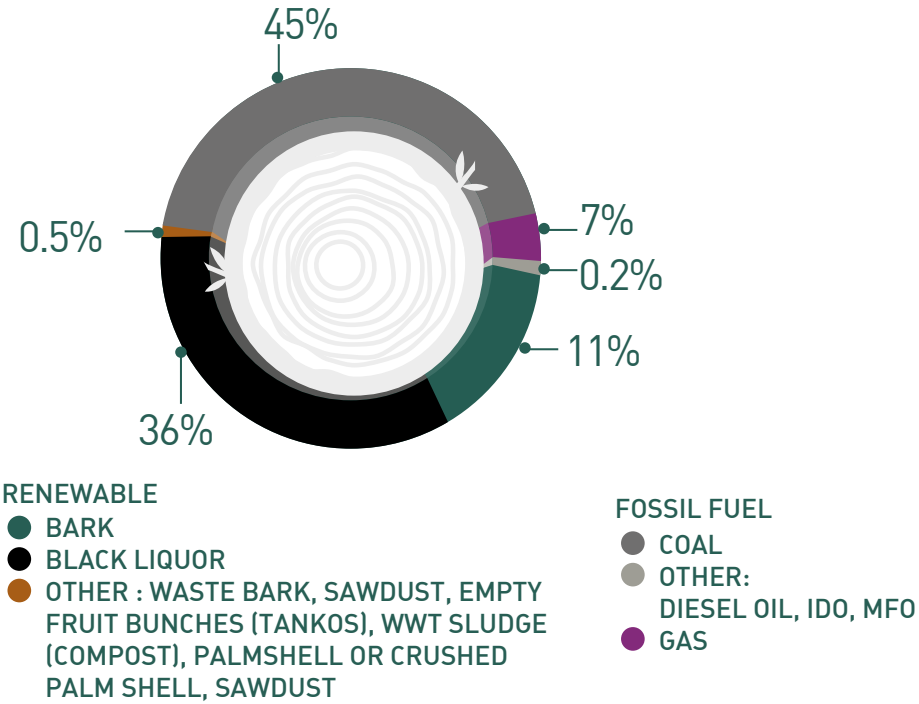
ENERGY AND CARBON EMISSIONS

| EMISSIONS | | |
|---|----------|--|
| Reduce the impact of mill's greenhouse gas emissions. | On track | Emissions from fossil fuel emissions decreased 2% in 2013 from 2012 levels |

A reliable energy source is vital to the smooth running of our mills' operations, yet for several of our mills, the national grid is insufficient for production and able to be used only as back-up. The most significant environmental impact from our pulp and paper mills' activities is therefore attributed to the power generation required to run our operations, which in turn is influenced by the type of fuel available at each mill's location and the operations of that site. High proportions of biofuel in the energy mix is currently exclusive to our integrated pulp and paper mills, Indah Kiat Perawang and Lontar Papyrus, both of which utilise the waste products from pulp production.



POWER PRODUCTION BY FUEL TYPE. 2013



Black liquor and bark (a by-product from the pulping process) provides an excellent renewable fuel source for our pulp mills. The more of this fuel we can use, the less non-renewable fuel we require to run our operations. In 2013, 48% of our total energy demand across all mills was met from renewable sources. We continue to invest and innovate to drive up the proportion of renewable fuel we use, with positive environmental benefits from avoided emissions and long-term cost security.

While our integrated pulp mills are able to benefit from bark and black liquor as a renewable fuel source, this is not the case for all mills. As such, some of our paper mills rely on fossil fuels for most of their energy needs. Wherever possible, we use fuels with the lowest environmental impact, by switching to low sulphur, high calorie coal or using fuels with lower carbon intensity, such as natural gas or diesel oil.

GREENHOUSE GAS EMISSIONS FROM POWER GENERATION¹⁰

| | | 2013 | 2012 | 2011 |
|-----------|----------------------|------------|-----------|-----------|
| scope 1 | tCO ₂ e | 10,346,405 | 9,621,444 | 8,673,193 |
| scope 2 | tCO ₂ e | 865,276 | 574,742 | 501,425 |
| intensity | tCO ₂ e/t | 1.27 | 1.28 | 1.10 |

Scope 1 emissions refer to emissions from power generation on site at our mills. Scope 2 emissions are related to purchased electricity from the national grid network. In line with the WRI/WBCSD Greenhouse Gas Protocol we calculate our emissions from renewable fuels separately. These predominantly comprise bio based materials such as black liquor and bark.

We do not calculate employee commuting and business travel (scope 3 emissions) in our greenhouse gas calculation, since it is estimated that the number will be insignificant compared to the emissions from our manufacturing activity. Instead, we focus our efforts on reducing greenhouse gas emissions within APP's manufacturing process, where the bulk of our emissions are generated.

In 2013 we completed our baseline carbon footprint assessment, updating our calculations to align with the latest IPCC guidelines. With baseline data for 2006-2011 we now have a clear historic profile of our products emissions and will use this to set a group wide emissions reduction target and enhance the level of detail we provide to our customers.

Fuel combustion creates air emissions, namely CO₂, NO₂, SO₂ and other particulates that we must monitor and reduce to the minimum.

We use Continuous Emissions Monitoring Systems (CEMS) on some of our more modern emission stacks, and rely on manual measurements from the stacks without this equipment, using an independent third party to collect and analyse emissions. Our goal is to constantly stay below 10% of the limit set by the Ministry of Industry in Indonesia.

In 2013 we were proud when Indah Kiat Tangerang became the first paper mill in South East Asia to receive certification against the energy management system standard ISO 50001. We expect the next mill within our group to gain certification in early 2014. Looking forward we plan to create an Energy Manager position at each of our mills, together with additional training and updated energy monitoring software, and we will continue to invest heavily in improving the energy profile of each and every mill. Dedicated energy audits, utilising a separate independent team will also be rolled out in 2014, further supporting our focus on energy efficiency.

Whilst we place a sustained effort on reducing GHG emissions at source, we also look at capturing waste gasses and diverting them for alternative uses. In 2012 we reported on two projects that were awaiting approval from the Clean Development Mechanism, a trading scheme designed by the United Nations Convention on Climate Change. Our methane capture project at Indah Kiat Serang uses an anaerobic digestion system in one of the mill's three waste water treatment plants to recover the methane, a by-product of the waste water treatment system. This harmful gas is then redirected to the boiler where it is used as a fuel source to power the paper machine. During 2013, 322,500m³ of biogas was captured, between 70-80% of which was methane.

DRIVING UP THE USE OF RENEWABLES

Lontar Papyrus employs three multi-fuel boilers to provide energy and steam to the pulp mill, utilising a mix of coal and bark as fuel. A design flaw in the conveyor system delivering bark to the boiler created a bottleneck, limiting the amount of bark that could be used in the boiler. By installing a new conveyor line we reduced the lead time from the storage area to the bark silo and reduced waste from bark material falling from the conveyor. In one year we reduced coal use by 6% and carbon emissions from the site by 82,000 tonnes CO₂e.

¹⁰GHG data 2011 and 2012 were revised based on APP Carbon Footprint Assessment using updated guidelines. GHG data 2013 is currently being calculated, the data might slightly change after the calculation is done.

WATER

| WATER MANAGEMENT | | |
|---|----------|-------------------------------------|
| Improve management of water use in line with the UN Global Compact CEO Water Mandate program. | On track | Water footprint assessment underway |

The UN Global Compact CEO Water Mandate programme, of which APP is a member, requires us to set an example on a responsible approach to water management. It is one of our strategic goals highlighted in our Roadmap and a key metric measured by our mills.

With increasing global pressure on water resources, we recognise our responsibility to minimise its use and ensure any waste water we return to source is clean and safe. Water is a vital ingredient for our processes; not only does it provide the medium in which to transport fibre from pulp to paper, it is also used in the form of steam in the drying and heating process, and in driving power turbines in the power plant. Due to the volume that our mills require we extract water from local water sources, rather than relying on municipal supplies.





In 2013 we returned 80% of the water we extracted to its source, making every effort to use processes that re-use and recycle water many times through our process before it passes to the waste stream. Waste water is treated in a waste water treatment plant, before being returned to source. We constantly measure our water emissions for BOD and COD levels (Biochemical Oxygen Demand and Chemical Oxygen Demand, a measure of organic pollutant levels) and Total Suspended Solids (TSS). The data is reported to the relevant authorities and providing samples for lab testing by independent third parties. In 2013 all water discharges were within acceptable limits.

| | | 2013 | 2012 | 2011 |
|-----------------------------|---------------------|-------------|-------------|-------------|
| Water withdrawn from source | m ³ | 247,313,902 | 238,078,861 | 233,995,272 |
| Reuse/recycled | % | 28% | 29% | 25% |
| Intensity ¹¹ | m ³ /ADT | 20 | 20 | 19 |

Ekamas Fortuna has been improving the mills anaerobic waste water treatment plant since 2012. The results are starting to show, with significant improvement in waste water quality. In 2013 the mill saw a 9% reduction in TSS, 45% reduction in BOD and a 32% reduction in COD, compared to 2012 levels.

We continue to develop our own methodology for calculating our water footprint across all of our mills. We have chosen to develop the pilot phase with Indah Kiat Perawang, one of the most complex operations within the group. By the end of 2014 we will have undertaken detailed water balance assessments, the next step will be to use this data to develop a group wide reduction target and build it into our Roadmap commitments. We will then be able to communicate the water footprint of our products to our customers.

¹¹ Intensity calculated as water consumption per tonne production

WASTE

Our approach to waste management is 'reduce, re-use, recycle'. It's an outlook that makes both environmental and financial sense. We aim to reduce waste production through efficient processes and the latest technology. The waste we do create we seek to divert from landfill where an alternative destination can be found. In 2013 total waste generated increased 7%, largely as a result of stored waste from 2012 being processed in 2013.

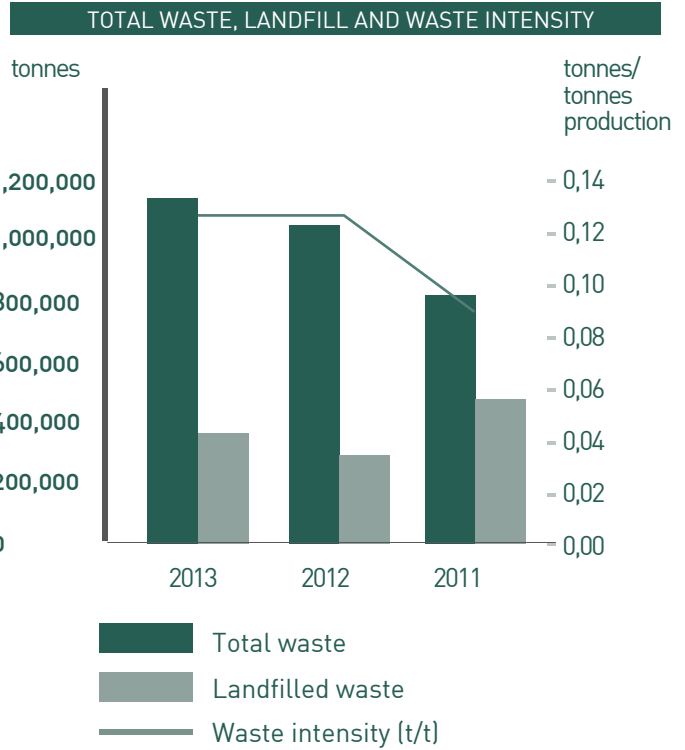
For our integrated pulp and paper mills, the solution often lies with the re-use of waste generated from the process of producing pulp. This black liquor, bark, and other residue can be used as a fuel source instead of fossil fuels. During 2013 our integrated mills produced 64% of their power from such sources.

Boiler ash, a waste product from burning fossil fuels in our power plants, is one of the most significant waste streams from our mills. We are constantly looking at ways to divert this waste from landfill, taking advantage of alternative uses where infrastructure and external partnerships allow. A pilot scheme at Indah Kiat Serang during 2013 has proven successful and will be fully implemented during 2014, using fly ash to replace ground calcium carbonate on the paper machine.





Our waste water treatment processes generate sludge, a form of solid waste, as a by-product. The treatment of this sludge must comply with government regulation, and we continually seek ways to recycle the sludge within our own operations. At Indah Kiat Serang we did a pilot project to recycle our sludge to use it as a substitute for recycled paper. The remainder is sent to third parties, where it is treated before being used in cement production.



DATA TABLES AND ASSURANCE STATEMENT



CHAPTER
9

GROUP ENVIRONMENTAL DATA TABLE

| | | | 2013 | 2012 | 2011 |
|-----------------------|--|----------------------|-------------|-------------|-------------|
| PRODUCTION | Pulp | tonnes | 3,377,832 | 3,226,186 | 3,020,396 |
| | Paper | | 5,151,996 | 3,028,000 | 4,207,050 |
| | Stationery | | - | 226,000 | 205,186 |
| | Tissue | | 329,000 | 253,537 | 96,475 |
| | Packaging | | - | 227,835 | 1,579,136 |
| | Total (excl chemicals) | | 8,858,828 | 8,336,057 | 9,108,243 |
| | Chemicals produced | | 2,027,761 | 2,873,087 | 2,108,834 |
| | Total | | 10,886,590 | 11,209,144 | 11,217,077 |
| MATERIALS | Total raw material for pulp | tonnes | 11,015,816 | 13,701,737 | 13,330,420 |
| | Total raw material for chemicals ¹² | | 3,224,391 | 1,359,561 | 1,205,159 |
| | Total raw material for paper | | 4,442,432 | 4,649,329 | 5,200,864 |
| | Total raw material packaging | | 66,679 | 109,914 | - |
| ENERGY | Coal | GJ | 97,733,021 | 91,189,837 | 79,987,001 |
| | Diesel Oil | | 366,501 | 518,323 | 2,108,525 |
| | Industrial Diesel Oil | | 9,508 | 24,241 | - |
| | Marine Fuel Oil | | 93,222 | 1,909,130 | 4,270,442 |
| | Marine Diesel Fuel | | 13,759 | 4,889 | - |
| | Gas | | 15,525,564 | 11,147,875 | 10,377,233 |
| | Total non renewable (direct) | | 113,741,575 | 104,794,296 | 96,743,200 |
| | Bark | | 23,144,494 | 23,614,398 | 29,479,804 |
| | Black Liquor | | 79,001,567 | 72,669,613 | 71,444,390 |
| | Sawdust | | 163,194 | 137,758 | 161,457 |
| | Palmshell or Crushed Palm Shell | | 268,021 | 2,156,241 | 2,299,428 |
| | WWT sludge (compost) | | 703,794 | 415,583 | 179,001 |
| | Biogas | | 1,339,814 | - | - |
| | Empty fruit bunches (tankos) | | 38,177 | 258,131 | 535,903 |
| | Total renewable (direct) | | 103,368,821 | 99,251,724 | 104,099,983 |
| Purchased electricity | 4,267,117 | 4,623,112 | 2,834,343 | | |
| CARBON ¹³ | scope 1 | tCO ₂ e | 10,346,405 | 9,621,444 | 8,673,193 |
| | scope 2 | | 865,276 | 574,742 | 501,425 |
| | biomass | | 10,305,326 | 9,927,121 | 9,088,706 |
| | intensity | tCO ₂ e/t | 1.3 | 1.3 | 1.1 |
| WATER | Total water withdrawn by source | m ³ | 247,313,902 | 238,078,861 | 233,995,272 |
| | Percentage water recycled | %m ³ | 28 | 29 | 25 |
| | Effluent discharge to river | m ³ | 198,094,416 | 190,485,061 | 180,718,749 |
| WASTE | Landfill | tonnes | 335,850 | 283,635 | 471,626 |
| | Composting | | 40,889 | 70,844 | - |
| | Utilised by licensed third party | | 186,701 | 214,072 | 173,895 |
| | Recycled | | 20 | 3,341 | - |
| | Incinerated | | 30,639 | 37,009 | 55 |
| | Recovered | | 944 | 157 | - |
| | Reused | | 365,577 | 246,734 | 131,578 |
| | Others | | 498 | 682 | 214 |
| | Total Hazardous Waste | | 961,117 | 856,475 | 774,340 |

¹² Chemical consumption for paper production. ¹³ Data collected in line with WRI / WBCSD Green House Gas Protocol.

GROUP ENVIRONMENTAL DATA TABLE

| | | | 2013 | 2012 | 2011 |
|---------------------------|--|--------|------------|------------|------------|
| WASTE | Landfill | tonnes | 35,117 | 20,094 | 11,809 |
| | Composting | | - | 24,465 | - |
| | Utilised by licensed third party | | 28,892 | 53,856 | 46,979 |
| | Recycled | | 48,271 | 43,688 | - |
| | Incinerated | | 2 | 39 | - |
| | Recovered | | - | - | - |
| | Reused | | 94,791 | 53,200 | 8,417 |
| | Others | | 29,279 | 1,199 | 761 |
| | Total non hazardous waste | | 236,353 | 196,541 | 52,728 |
| | ODS Emissions | | kg | 32,416 | 32,874 |
| ENVIRONMENTAL EXPENDITURE | Waste disposal, emissions treatment, and remediation costs | US \$ | 33,504,735 | 36,537,641 | 33,364,813 |
| | Prevention and environmental management costs | US \$ | 44,572,504 | 4,912,060 | - |
| TRAINING | Attendee management (M) | # | 3,388 | 10,993 | |
| | Attendee management (F) | | 246 | 2,695 | |
| | Attendee non-management (M) | | 116,367 | 94,381 | |
| | Attendee non-management (F) | | 24,521 | 7,904 | |



MILL ENVIRONMENTAL DATA TABLE

| | UNIT | EKAMAS FORTUNA | | | INDAH KIAT PERAWANG | | | INDAH KIAT SERANG | | | INDAH KIAT TANGERANG | | | |
|-----------------------------|----------------------------|----------------|---------------------------------|-------|---------------------|-------------------------------|-------|-------------------|-------------------------------------|---------|----------------------|---|-------|--|
| | | 2013 | 2012 | 2011 | 2013 | 2012 | 2011 | 2013 | 2012 | 2011 | 2013 | 2012 | 2011 | |
| WATER EMISSIONS | pH | 7.8 | 7.7 | 7.3 | 7.36 | 7.4 | 7.4 | 7.7 | 7.6 | 7.1-7.3 | 7.8 | 7.6 | 7.2 | |
| | TSS | 17.7 | 19.4 | 39.7 | 75.8 | 81.2 | 73.4 | 18.0 | 11.3 | 39-69 | 8.0 | 3.8 | 17.9 | |
| | BOD | 16.4 | 29.9 | 42.4 | 48.6 | 83.4 | 50.8 | 49.0 | 35.5 | 25-56 | 18.8 | 12.6 | 11.1 | |
| | COD | 49.0 | 72.0 | 106.1 | 193.7 | 303.0 | 282.5 | 119.7 | 110.5 | 25-162 | 42.8 | 38.6 | 60.6 | |
| | AOX | - | - | - | 0.0 | 0.0 | 7.0 | 0.0 | 0.0 | - | 0.0 | 0.0 | - | |
| AIR EMISSIONS ¹⁴ | NO ₂ | 79.3 | 27.9 | 49.9 | 115.7 | 122.4 | 132.6 | 230.5 | 317.3 | 207.0 | 81.9 | 181.75 | 334.0 | |
| | SO ₂ | 428.3 | 276.2 | 194.0 | 149.3 | 174.4 | 177.8 | 169.9 | 249.8 | 292.0 | 15.1 | 36.19 | 83.5 | |
| | ClO ₂ | 0.0 | 0.0 | - | - | 9.8 | 0.6 | 0.0 | 0.0 | - | 0.0 | 0.00 | - | |
| | HCl | 0.0 | 0.0 | - | - | 0.0 | 0.4 | 0.9 | 0.0 | - | 0.0 | 0.00 | - | |
| | Cl ₂ | 0.0 | 0.0 | - | 0.1 | 6.9 | 0.1 | 0.0 | 0.0 | - | 0.0 | 0.00 | - | |
| | Opacity | 3.0 | 2.8 | - | 16.7 | 16.4 | - | 10.3 | 10.0 | - | 12.5 | 10.00 | - | |
| | TRS | 0.0 | 0.0 | - | 2.1 | 1.7 | - | 0.0 | 0.0 | - | 0.0 | 0.00 | - | |
| | Total Particulate | 87.7 | 70.0 | 105.4 | 86.9 | 157.3 | 91.4 | 44.3 | 56.3 | 30.0 | 85.7 | 31.88 | 35.5 | |
| OTHER | Distance to protected area | km | Pulau Sempu Nature Reserve (30) | | | Tesso Nilo National Park (50) | | | Halimun Mountain National Park (40) | | | Rawa Danau Tukung Gede Conservation Area (20) | | |
| | Local water source | | Lesti River | | | Siak River | | | Ciujung River | | | Cisadane River | | |

MILL ENVIRONMENTAL DATA TABLE

| | UNIT | LONTAR PAPYRUS | | | PINDO DELI 1+2 | | | PINDO DELI 3 | | | TJIWI KIMIA | | | |
|-----------------|----------------------------|----------------|------------------------------------|-------|----------------|--|-----------|-----------------------------------|-------------------------------|-------|-------------|---|------|--|
| | | 2013 | 2012 | 2011 | 2013 | 2012 | 2011 | 2013 | 2012 | 2011 | 2013 | 2012 | 2011 | |
| WATER EMISSIONS | pH | 6.8 | 6.8 | 7.0 | 7.2 | 7.3 | 7.3-7.6 | Discharge via Indah Kiat Perawang | 7.5 | 7.7 | 7.3 | | | |
| | TSS | 42.4 | 38.9 | 52.9 | 19.5 | 17.9 | 11-52.7 | | 22.2 | 14.3 | 47.6 | | | |
| | BOD | 64.2 | 60.0 | 46.1 | 27.8 | 25.4 | 14.3-37.6 | | 25 | 20.8 | 33.8 | | | |
| | COD | 151.3 | 148.6 | 262.9 | 82.3 | 77.1 | 35.8-91.4 | | 61.9 | 50 | 79.3 | | | |
| | AOX | 0.0 | 0.0 | 4.4 | 0.2 | 0.21 | 0.3 | | 0.2 | 0.16 | 0.1 | | | |
| AIR EMISSIONS* | NO2 | 81.5 | 103.8 | 261.4 | 243.3 | 127.7 | 184.0 | Discharge via Indah Kiat Perawang | 53.1 | 53.5 | 243 | | | |
| | SO2 | 65.1 | 113.8 | 135.1 | 85.4 | 14.1 | 52.2 | | 103.4 | 137.8 | 109 | | | |
| | ClO2 | 0.2 | 1.0 | 3.5 | 0.0 | 0.0 | | | 0.0 | 0.0 | | | | |
| | HCl | 0.1 | 1.1 | | 0.4 | 0.3 | | | 1.4 | 1.0 | | | | |
| | Cl2 | 0.1 | 0.4 | 0.5 | 0.2 | 1.5 | | | <0.9 | 0.0 | | | | |
| | Oppacity | 13.4 | 11.6 | | 12.0 | 0.0 | | | 4.4 | 10.0 | | | | |
| | TRS | 1.5 | 2.2 | 2.0 | 0.0 | 0.0 | | | 0.0 | 0.0 | | | | |
| | Total Particulate | 70.4 | 429.8 | 122.2 | 10.0F | 10.7 | 25.8 | | 18.6 | 19.3 | 68 | | | |
| OTHER | Distance to protected area | km | Bukit Tigapuluh National Park (30) | | | Nature Reserve of Tangkuban Perahu Mountain (40) | | | Tesso Nilo National Park (50) | | | Bromo Tengger Semeru National Park (80) | | |
| | Local water source | | Pangabuan River | | | Citarum River | | | Siak River | | | Brantas River | | |

ASSURANCE STATEMENT

SGS REPORT ON SUSTAINABILITY ACTIVITIES IN THE APP INDONESIA SUSTAINABILITY REPORT 2013



NATURE AND SCOPE OF THE ASSURANCE/ VERIFICATION

SGS was commissioned by Asia Pulp & Paper Indonesia (hereafter referred to as APP Indonesia) to conduct an independent assurance of the APP Indonesia Sustainability Report 2013 issued in September 2014.

The scope of the assurance, based on the SGS Sustainability Report Assurance methodology, included the text, statements, graphs and data in accompanying tables, contained in this report.

The information in the APP Indonesia Sustainability Report 2013 for Indonesia and its presentation are the responsibility of the directors or governing body and the management of APP Indonesia. SGS Indonesia has not been involved in the preparation of any of the material included in the APP Sustainability Report for Indonesia.

Our responsibility is to express an opinion on the text, data, graphs and statements within the scope of verification set out below with the intention to inform all APP Indonesia's stakeholders.

The SGS Group has developed a set of protocols for the Assurance of Sustainability Reports based on current best practice guidance provided in the Global Reporting Initiative Sustainability Reporting Guidelines (G3.1 2011) and the AA1000 Assurance Standard (2008). These protocols follow differing options for Assurance depending the reporting history and capabilities of the Reporting Organization.

This report has been assured at a moderate level of scrutiny using our protocols for:

- evaluation of content veracity;
- AA1000 Assurance Standard (2008) Type 2 evaluation of the report content and supporting management systems against the AA1000 Accountability Principles (2008);
- evaluation of the report against the Global Reporting Initiative Sustainability Reporting Guidelines (G3.1 2011)

The assurance comprised a combination of pre-assurance research, interviews with relevant accountable managers and employees at APP Indonesia's headquarters in Jakarta, and visits to three operating facilities: PT. Indah Kiat Pulp & Paper Tbk. operations in Perawang and Tangerang and PT. Pabrik Kertas Tjiwi Kimia Tbk. in Sidoarjo. In addition the assurance team carried out documentation and record review and validation with external bodies and stakeholders where relevant; this included a visit to APP Indonesia's major pulpwood supplier operations at PT. Arara Abadi in Perawang, interviews with community beneficiaries of Indah Kiat Perawang's CSR programme in Riau, and interviews with two NGOs: The Forest Trust and Habitat for Humanity.

Financial data drawn directly from independently audited financial accounts has not been checked back to source as part of this assurance process.

STATEMENT OF INDEPENDENCE AND COMPETENCE

The SGS Group of companies is the world leader in inspection, testing and verification, operating in more than 140 countries and providing services including management systems and service certification; quality, environmental, social and ethical auditing and training; environmental, social and sustainability report assurance. SGS Indonesia affirm our independence from APP Indonesia, being free from bias and conflicts of interest with the organisation, its subsidiaries and stakeholders.

The assurance team was assembled based on their knowledge, experience and qualifications for this assignment, and comprised auditors registered with International Register of Certificated Auditors (IRCA), Environmental Management System (EMS) Lead Auditor, Quality Management System (QMS) Lead Auditor, Occupational Health and Safety Assessment Series (OHSAS) Lead Auditor, Programme on Endorsement Forest Certification (PEFC) Lead Auditor, Forest Stewardship Council (FSC) Lead Auditor. All members of the assurance team have completed the IRCA Corporate Responsibility Training Programme and have experience of auditing Forestry, Pulp and Paper operations. The team also included Sustainability Report Assurers with significant international experience of SRA auditing using the AA1000 AS and GRI standards.

VERIFICATION/ ASSURANCE OPINION

On the basis of the methodology described and the verification work performed, we are satisfied that the information and data contained within the APP Indonesia Sustainability Report 2013 is reliable and provides a fair and balanced representation of APP Indonesia's sustainability activities in 2013.

The assurance team is of the opinion that the Report can be used by the Reporting Organization's Stakeholders and we believe that the organization has chosen an appropriate level of assurance for this stage in their reporting.

- **INCLUSIVITY**

APP Indonesia has a clear understanding of who its stakeholders are, at corporate level and in its key marketing regions. Key stakeholders have additionally been identified separately for development, implementation and monitoring of the Forest Conservation Policy (FCP). The company has also built relationships with key external partners such as The Forest Trust who have enabled it to identify and engage with stakeholders who may otherwise have found it difficult to engage.

The report reflects the outcomes of engagement with stakeholders around the FCP and within its operating regions. This year APP Indonesia used the knowledge of its stakeholder representatives in each region to provide an assessment of the issues that are important to each stakeholder group, providing an update to the broader consultation carried out in 2011. The company has well developed engagement processes, and these are strongest around the most material issues, i.e. those covered by the FCP.

Recommendations on stakeholder engagement are made below.

- **MATERIALITY**

The report focuses on the most material issues for its stakeholders, in particular those arising from the pulpwood supply chain in Indonesia. Regulations, international standards and voluntary agreements are considered. As well as general standards (for example ISO14001 and the UNGC), this includes specific commitments such as the UN CEO Water Mandate. APP has also sought the advice of experts in areas of most significant material impact, for example engaging with TFT and globally respected universities.

Key organisational strategies are taken into account in defining material issues. The ability and capacity of pulpwood suppliers and employees to deliver change in areas of material impact, and their concerns with regard to this, are also considered in the approach to issues. APP Indonesia could do more to demonstrate that it understands what employees consider to be significant issues, especially employees at mill sites.

In order for APP Indonesia to successfully address the material issues it faces it must engage with other companies within the forest landscape where its wood suppliers are located. APP Indonesia recognises this, and the company is beginning to build wider partnership and take a leadership position on forest conservation and resolution of social conflict in Indonesia, which is appropriate given its size and level of influence in the country.

- **RESPONSIVENESS**

Transparency and openness about policies, processes, controls, monitoring and performance are critical to APP Indonesia's sustainability programme. Key stakeholders have identified transparency as a material sustainability issue. In the perception of the stakeholders we spoke to, APP Indonesia is making good progress in establishing trust through transparency, and is responsive to stakeholder views, concerns and issues raised. In the assurance process we saw evidence of APP Indonesia evaluating and revising its policies, processes and reporting in response to stakeholder feedback and concerns.

This report is one of several mechanisms that APP Indonesia uses to communicate its performance on material sustainability issues to its stakeholders. Other mechanisms include the FCP monitoring dashboard and regular Roadmap updates. Through these mechanisms APP Indonesia presents and evaluates its performance against its vision and Roadmap. The report includes comment on performance in relation to the Roadmap mission statement and values, and performance is described in relation to recognised standards.

APP Indonesia has put in place significant resources in place to deliver its commitments and engage with stakeholders. In addition, the company has recognised that stakeholder engagement requires specific skills and capacity, and has begun to roll out training and capacity building for key staff in the mills and the regions.

A particular area of good practice is the involvement of stakeholders in the design of collection methods for monitoring the delivery of the FCP, and in the case of breaches of the moratorium, the engagement of stakeholders in providing monitoring data.

Stakeholders make it clear that there is still a long way to go for APP Indonesia to establish complete trust and support for its sustainability programmes. To claim a leadership position, APP Indonesia must maintain and continually improve its activities in this area, in particular with regard to monitoring, responding to grievances, dealing with breaches of the moratorium, and integrating stakeholder views into management and performance measurement.

GLOBAL REPORTING INITIATIVE REPORTING GUIDELINES G3.1 2011 CONCLUSIONS, FINDINGS AND RECOMMENDATIONS

In our opinion the APP Indonesia Sustainability Report 2013 fulfills the content and quality criteria for GRI G3.1(2011) Application Level A+.

- **PRINCIPLES:**
In our opinion the content and quality of the Report has been produced in line with the ten GRI Principles.
- **STANDARD DISCLOSURES:**
All the standard disclosures required for reporting at an application level A+ are included or referenced in the report.
- **INDICATORS:**
All the indicators required for reporting at an application level A+ are included in the report.

RECOMMENDATIONS

APP Indonesia has made significant progress on its sustainability journey in the last two years, and recognises that there is still a lot of work ahead. Interviews with stakeholders suggest that progress so far is viewed as positive. However, APP Indonesia's goal of establishing leadership in addressing the complex issues it faces will be demonstrated by continuing to maintain this commitment and learning and developing in accountability over the next 5 years.

The following opportunities have been identified for future reporting cycles to support continued improvement in APP Indonesia's sustainability reporting.

1. APP Indonesia's current materiality process focuses on the issues that are of concern to its external stakeholders. While this is a critical source of information APP Indonesia should now extend its process to formally include input from additional sources, including societal and peer-based norms and the views of recognised experts. Definition of material issues should also take into consideration the company's growth strategy, in particular reflecting any expansion in the number and location of mills or suppliers.
2. We recommend that APP Indonesia continues to develop its capacity to provide leadership, especially in Indonesia, where it is important that all companies whose operations impact on virgin forests take the issues of forest conservation seriously.
3. We recommend that as part of the development of its materiality process, APP Indonesia takes the opportunity to update the major stakeholder consultation carried out in 2011, with the following aims: to update findings in the light of changing context and emerging issues in Indonesia and in the industry; to evaluate APP Indonesia's progress in the eyes of stakeholders; and to gather stakeholder views on its current reporting, and opportunities for improvement.
4. We recommend that learning from the FCP stakeholder engagement processes is used to develop engagement and capacity across the business as other issues arise.
5. We recommend that APP Indonesia continues to agree and report on stakeholder-generated performance indicators alongside GRI indicators. We also recommend that APP consider additional metrics for evaluating the impact of its CSR activities, for example evaluating the economic impact of projects
6. We recommend that future reports make clearer the relationships between APP Indonesia and APP China.
7. Future reports should give more prominence to the social and environmental impacts of APP Indonesia's mill operations, whilst still recognising that issues around forestry impacts are of the most international significance.
8. As APP Indonesia has a large number of stakeholders in Indonesia who have an interest in the report, including employees and supplier companies as well as NGOs and community groups, we recommend that in future a version of this report is made available in Bahasa Indonesia.
9. We recommend that future report assurance includes interviews with a larger sample of stakeholder groups, including those involved in the FCP processes, and regional stakeholders. This will provide additional assurance with regard to the GRI and AA1000 principles for reporting, and progress made on the FCP and Roadmap commitments.
10. We recommend that APP Indonesia's 2014 sustainability report uses the GRI G4 standard.

**SIGNED:
FOR AND ON BEHALF OF PT SGS INDONESIA**

**SHASHIBHUSHAN JOGANI
BUSINESS MANAGER
SEPTEMBER 2014
WWW.SGS.COM**



GRI INDEX

CHAPTER
10

| PROFILE DISCLOSURE | DESCRIPTION | SECTION (page numbers) | RESPONSE | LEVEL OF DISCLOSURE F=Full disclosure P=Partial disclosure NR=Not reported |
|--|---|--|---|---|
| 1. STRATEGY AND ANALYSIS | | | | |
| 1.1 | Statement from the most senior decision-maker of the organization | Chairman's Statement (18) | | F |
| 1.2 | Description of key impacts, risks, and opportunities. | Our Sustainability Strategy (26) | | F |
| 2. ORGANISATIONAL PROFILE | | | | |
| 2.1 | Name of the organization. | Company Profile (9) | | F |
| 2.2 | Primary brands, products, and/or services. | Our Products (23) | | F |
| 2.3 | Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures. | Company Profile (9) | | F |
| 2.4 | Location of organization's headquarters. | Company Profile (11) | | F |
| 2.5 | Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report. | Company Profile (13) | | F |
| 2.6 | Nature of ownership and legal form. | Company Profile (9) | | F |
| 2.7 | Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries). | Our Products (13) | | F |
| 2.8 | Scale of the reporting organization. | Company Profile (11) | | F |
| 2.9 | Significant changes during the reporting period regarding size, structure, or ownership. | | No significant changes in reporting period | F |
| 2.10 | Awards received in the reporting period. | Company Profile (14, 15), Our People (73, 74, 82) | | F |
| 3. REPORT PARAMETERS | | | | |
| 3.1 | Reporting period (e.g., fiscal/calendar year) for information provided. | Introduction (9) | | F |
| 3.2 | Date of most recent previous report (if any). | Introduction (9) | | F |
| 3.3 | Reporting cycle (annual, biennial, etc.) | Introduction (9) | | F |
| 3.4 | Contact point for questions. | Introduction (9) | | F |
| 3.5 | Process for defining report content. | Introduction (9) | | F |
| 3.6 | Boundary of the report | Introduction (9) | | F |
| 3.7 | State any specific limitations on the scope or boundary of the report | Introduction (9) | | F |
| 3.8 | Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations. | Introduction (9) | | F |
| 3.9 | Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report. | Data table (93) | | F |
| 3.10 | Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/acquisitions, change of base years/periods, nature of business, measurement methods). | Introduction (9) | | F |
| 3.11 | Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report. | Introduction (9) | | F |
| 3.12 | Table identifying the location of the Standard Disclosures in the report. | GRI Table (102) | | F |
| 3.13 | Policy and current practice with regard to seeking external assurance for the report. | Introduction (9) | | F |
| 4. GOVERNANCE, COMMITMENTS AND ENGAGEMENT | | | | |
| 4.1 | Governance structure of the organization, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organizational oversight. | Our Sustainability Strategy (39) | | F |
| 4.2 | Indicate whether the Chair of the highest governance body is also an executive officer. | | The Chair of the highest governing body is the Chairman, who is not an executive officer. | F |
| 4.3 | For organizations that have a unitary board structure, state the number and gender of members of the highest governance body that are independent and/or non-executive members. | - | | F |
| 4.4 | Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body. | Our Sustainability Strategy + Annual Report (41) | Minority shareholders: General meeting of shareholders relevant with Government Regulation Clause 19 of article of association of the company and the Regulation of Indonesian Capital Market Supervisory Board - National Financial Institution (Bapepam-LK) | F |

| PROFILE DISCLOSURE | DESCRIPTION | SECTION (page numbers) | RESPONSE | LEVEL OF DISCLOSURE F=Full disclosure P=Partial disclosure NR=Not reported |
|--------------------|--|--|--|---|
| 4.5 | Linkage between compensation for members of the highest governance body, senior managers, and executives. | Annual Report | APP intends to form a remuneration committee for each mill | F |
| 4.6 | Processes in place for the highest governance body to ensure conflicts of interest are avoided. | Our Sustainability Strategy (44) + Annual Report | | F |
| 4.7 | Process for determining the composition, qualifications and expertise of the members of the highest governance body and its committees, including any consideration of gender and other indicators of diversity. | Our Sustainability Strategy (39) + Annual Report | | F |
| 4.8 | Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation. | Our Sustainability Strategy (44) | | F |
| 4.9 | Procedures of the highest governance body for overseeing the organization's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles. | Our Sustainability Strategy (41) | SHARK monitoring and reporting | F |
| 4.10 | Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance. | Our Sustainability Strategy (39) + Annual Report | | F |
| 4.11 | Explanation of whether and how the precautionary approach or principle is addressed by the organization. | Our Sustainability Strategy (37) | | F |
| 4.12 | Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organization subscribes or endorses. | Our Sustainability Strategy (30) + Our People (83, 85) | | F |
| 4.13 | Memberships in associations (such as industry associations) and/or national/international advocacy organizations. | Our Sustainability Strategy (42) | | F |
| 4.14 | List of stakeholder groups engaged by the organization. | Our Sustainability Strategy (34) | | F |
| 4.15 | Basis for identification and selection of stakeholders with whom to engage. | Our Sustainability Strategy (34) | | F |
| 4.16 | Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group. | Our Sustainability Strategy (35,36) | | F |
| 4.17 | Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting. | Our Sustainability Strategy (37) | | F |

| PROFILE DISCLOSURE | DESCRIPTION | SECTION (page numbers) | RESPONSE | LEVEL OF DISCLOSURE F=Full disclosure P=Partial disclosure NR=Not reported |
|----------------------|---|---|--|---|
| ECONOMIC | | | | |
| DMA | Disclosure of management approach | Multiple references through report (11-43) Company Profile (11) | | |
| EC1 | Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments. | | | F |
| EC2 | Financial implications and other risks and opportunities for the organization's activities due to climate change. | Our Sustainability Strategy (27) | | F |
| EC3 | Coverage of the organization's defined benefit plan obligations. | Annual Report | | F |
| EC4 | Significant financial assistance received from government. | | No financial assistance received. | F |
| EC5 | Range of ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation. | Our People (71) | | P |
| EC6 | Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation. | Our People (71) | | F |
| EC7 | Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation. | Our People (72) | | F |
| EC8 | Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement. | Our People (79-83) | | F |
| EC9 | Understanding and describing significant indirect economic impacts, including the extent of impacts. | Our People (78-83) | | F |
| ENVIRONMENTAL | | | | |
| DMA | Disclosure of management approach | Our Sustainability Strategy (11), Our Mills (26), Sustainable Fibre Sourcing (85) | | F |
| EN1 | Materials used by weight or volume. | Our Sustainable Fibre Sourcing (28), data table (99) | | F |
| EN2 | Percentage of materials used that are recycled input materials. | Our Sustainable Fibre Sourcing (47) | | F |
| EN3 | Direct energy consumption by primary energy source. | Data table (93) | | F |
| EN4 | Indirect energy consumption by primary source. | Data table (93) | | F |
| EN5 | Energy saved due to conservation and efficiency improvements. | Our Mills (86) | | F |
| EN6 | Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives. | Our Mills (86) | | F |
| EN7 | Initiatives to reduce indirect energy consumption and reductions achieved. | Our Mills (86) | Not possible for APP to split direct/indirect, it is all related to overall energy use. This is explained in the context of the section at the introduction. | F |
| EN8 | Total water withdrawal by source. | Our Mills (89), Data Table (96) | | F |
| EN9 | Water sources significantly affected by withdrawal of water. | Data table (96, 97) | | F |
| EN10 | Percentage and total volume of water recycled and reused. | Our Mills (89), Data Table (96) | | F |
| EN11 | Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas. | Our Sustainable Fibre Sourcing (60) | | F |
| EN12 | Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas. | Our Sustainable Fibre Sourcing (60) | | F |
| EN13 | Habitats protected or restored. | Our Sustainable Fibre Sourcing (48, 60-64) | | F |
| EN14 | Strategies, current actions, and future plans for managing impacts on biodiversity. | | | |
| EN15 | Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk. | | Refer to Sustainability Report 2010/2011 | F |
| EN16 | Total direct and indirect greenhouse gas emissions by weight. | | | F |
| EN17 | Other relevant indirect greenhouse gas emissions by weight. | | APP is currently not calculating indirect GHG emission since the amount is estimated to be insignificant compared to GHG from manufacturing process. | NR |

| PROFILE DISCLOSURE | DESCRIPTION | SECTION (page numbers) | RESPONSE | LEVEL OF DISCLOSURE F=Full disclosure P=Partial disclosure NR=Not reported |
|--|---|--|--|---|
| EN18 | Initiatives to reduce greenhouse gas emissions and reductions achieved. Emissions of ozone-depleting substances by weight. NOx, SOx, and other significant air emissions by type and weight. Total water discharge by quality and destination. Total weight of waste by type and disposal method. Total number and volume of significant spills. | Our Mills (87) Data table (96-97) Data table (96-97) Data table (96-97) Data table (96-97) | None in reporting period | F |
| EN19 | | | | F |
| EN20 | | | | F |
| EN21 | | | | F |
| EN22 | | | | F |
| EN23 | | | | F |
| EN24 | Weight of transported, imported, exported or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff. Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation. Percentage of products sold and their packaging materials that are reclaimed by category. | Data table (96-97) | As per APP's nature of business, this is irrelevant because most of our products are intermediate products | NR |
| EN25 | | | | F |
| EN26 | | | | F |
| EN27 | | | | NR |
| EN28 | Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations. Total environmental protection expenditures and investments by type. | Data table (96-97) | None in reporting period | F |
| EN30 | | | | F |
| SOCIAL: LABOR PRACTICES AND DECENT WORK | | | | |
| DMA | Disclosure of management approach Total workforce by employment type, employment contract, and region broken down by gender. Total number and rate of new employee hires and employee turnover by age group, gender, and region. Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation. Percentage of employees covered by collective bargaining agreements. Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements. Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs. Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region and gender. Education, training, counselling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases. | Our People (71-72) | Rates in report, total number in data table Government of Indonesia regulation states that if the company will be permanently closed down the requirement for notice period is 7 days. Notice period for other operational changes are not covered under Indonesian law. For specific operational changes, APP's policy is for management to decide days of notice required based on the consideration of the nature of the operational changes. APP record these statistics in line with Government of Indonesia requirements, which currently do not stipulate recording by gender. Multiple references through case studies | F |
| LA1 | | | | F |
| LA2 | | Our People (71) | | P |
| LA3 | | Our People (71) | | F |
| LA4 | | Our People (72) | | F |
| LA5 | | Our People (71) | | F |
| LA6 | | Our People (72) | | P |
| LA7 | | Our People (72) | | F |
| LA8 | Our People (70) | F | | |

| PROFILE DISCLOSURE | DESCRIPTION | SECTION (page numbers) | RESPONSE | LEVEL OF DISCLOSURE F=Full disclosure P=Partial disclosure NR=Not reported |
|-----------------------------|---|--|--|---|
| LA9 LA10 | Health and safety topics covered in formal agreements with trade unions. Average hours of training per year per employee by gender and by employee category. | Our People (74) Our People (76) | APP record these statistics in line with Government of Indonesia requirements, which currently do not stipulate recording by gender. | F P |
| LA11 | Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings. | Our People (76) | | F |
| LA12 | Percentage of employees receiving regular performance and career development reviews by gender. | Our People (76) | | F |
| LA13 | Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity. | Our People (71) + Annual Reports | | P |
| LA14 LA15 | Ratio of basic salary of men to women by employee category. Return to work and retention rates after parental leave, by gender. | Our People (71) Our People (75) | | F P |
| SOCIAL: HUMAN RIGHTS | | | | |
| DMA | Disclosure of management approach | Our Sustainability Strategy (26-32), Our People (77) | | |
| HR1 | Percentage and total number of significant investment agreements and contracts that include human rights clauses or that have undergone human rights screening. | Our People (78) | No significant investments in the reporting period | P |
| HR2 | Percentage of significant suppliers, contractors, and other business partners that have undergone human rights screening and actions taken. | Our People (78) | | P |
| HR3 | Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained. | Our People (77) | | F |
| HR4 HR5 | Total number of incidents of discrimination and corrective actions taken. Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights. | Our People (77) Our People (77-78) | None to report, incidents would have been reported in company wide human rights risk assesment | F F |
| HR6 | Operations and significant suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the elimination of child labor. | Our People (77-78) | | F |
| HR7 | Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor. | Our People (78) | | P |
| HR8 | Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations. | | Not material | NR |
| HR9 | Total number of incidents of violations involving rights of indigenous people and actions taken. | | For up to date information on cases, refer to Sustainability Dashboard on the APP website. | P |
| HR10 | Percentage and total number of operations that have been subject to human rights reviews and/or impact assessments. | | 100%, as per SR2012 | F |
| HR11 | Number of grievances related to human rights filed, addressed, and resolved through formal grievance mechanisms. | | Refer to APP FCP dashboard | P |

| PROFILE DISCLOSURE | DESCRIPTION | SECTION (page numbers) | RESPONSE | LEVEL OF DISCLOSURE F=Full disclosure P=Partial disclosure NR=Not reported |
|---------------------------------------|--|---|---|---|
| SOCIAL: SOCIETY | | | | |
| DMA | Disclosure of management approach | Our Sustainability Strategy (26-32), Our People (79) Our People (79) | 100% | F |
| S01 | Percentage of operations with implemented local community engagement, impact assessments, and development programs. | | | F |
| S02 | Percentage and total number of business units analysed for risks related to corruption. | Our Sustainability Strategy (44) | | F |
| S03 | Percentage of employees trained in organization's anti-corruption policies and procedures. | Our Sustainability Strategy (44) | | F |
| S04 | Actions taken in response to incidents of corruption. | Our Sustainability Strategy (44) | | F |
| S05 | Public policy positions and participation in public policy development and lobbying. | Our Sustainability Strategy (42) | | F |
| S06 | Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country. | | No contributions given. | F |
| S07 | Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes. | | None in reporting period | F |
| S08 | Monetary value of significant fines and total number of non-monetary sanctions for noncompliance with laws and regulations. | | No significant monetary fines in reporting period | F |
| S09 | Operations with significant potential or actual negative impacts on local communities. | Our Mills (84) | | F |
| S010 | Prevention and mitigation measures implemented in operations with significant potential or actual negative impacts on local communities. | Our Mills (84-91) | | F |
| SOCIAL: PRODUCT RESPONSIBILITY | | | | |
| DMA | Disclosure of management approach | Our Sustainability Strategy, Our Products (23-32) Our Products (25) | | F |
| PR1 | Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures. | | | F |
| PR2 | Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes. | Our Products (25) | None in reporting period | F |
| PR3 | Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements. | Our Products (23) | Third party certification and labelling predominately apply to sourcing and content life cycle stages. | F |
| PR4 | Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes. | Our Products (25) | None in reporting period | F |
| PR5 | Practices related to customer satisfaction, including results of surveys measuring customer satisfaction. | Our Products (25) | | F |
| PR6 | Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship. | | For marketing products we comply with Indonesian law on advertising. Our global sales offices also develop their own material relevant for their own market and adhere to the respective advertising laws. This is managed by the marketing division. | F |
| PR7 | Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes. | | Not material | NR |
| PR8 | Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data. | | Not material | NR |
| PR9 | Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services. | | Not material | NR |



CHAPTER 11

GLOSSARY

CHAPTER

11

| | |
|-------------------|---|
| CHAIN OF CUSTODY | System of physical and documented traceability of fibre based products, from forest through to final product use |
| CONCESSION | An area of forest where a commercial arrangement exists between a forest owner and a buyer of harvested wood from within the forest area |
| FCP | Forest Conservation Policy |
| FOREST MORATORIUM | The halting of natural forest clearance across all APP suppliers, accounted in February 2013 |
| FPIC | Free Prior Informed Consent |
| FSC | Forest Stewardship Council |
| GHG | Greenhouse Gas |
| HCS | High Carbon Stock Areas where the land has a high concentration of organic matter above ground |
| HCVF / HCV | High Conservation Value Forest, contain biological, ecological, social or cultural values which are considered critically important |
| ICAD | Internal Control and Audit Division |
| ISFMP | Integrated Sustainable Forest Management Programme |
| LBKP PULP | Leaf Bleached Kraft Pulp |
| LEI | Ecolabelling Institute of Indonesia Issues voluntary Sustainable Forest Management and Chain of Custody certification |
| MTH | Mixed Tropical Hardwood |
| NFW | Natural Forest Wood, also known as MTH |
| PEATLAND | Forests characterised by waterlogged soil, with a thick layer of peat on the surface |
| PEFC PHPL | Programme for the Endorsement of Forest Certification PHPL (Sustainable Production Forest Management) A mandatory Sustainable Forest Management (SFM) system (SVLK is the initial step to achieve full PHPL SFM certification) |
| PLANTATION FIBRE | Fibre originating from forests that have been planted for commercial purposes |

| | |
|-----------|---|
| PULPWOOD | Wood suitable for processing into pulp for paper manufacture |
| RAMIN | Hardwood tree native to parts of SE Asia, including Indonesia |
| RFPPP | Responsible Fibre Procurement & Processing Policy APP's policy which sets out the standards we require our suppliers to adhere to |
| SFM | Sustainable Forest Management The ongoing management of forest areas according to environmental, social and economic needs |
| SVLK | SVLK (Timber Legality Verification System) A mandatory verification system enacted in 2009 for wood legality |
| WOOD FREE | Paper produced from chemical pulp that is free from wood based impurities, such as lignin that occurs naturally in wood |

