

Communication on Progress 2012

ASIA PULP & PAPER GROUP (APP)





Communication on Progress 2012 ASIA PULP & PAPER GROUP (APP)

REPORT SCOPE

This report is developed based on the requirement of the United Nations Global Compact as Communication on Progress Report for companies under the Asia Pulp & Paper Group Indonesia (APP):

1. PT Indah Kiat Pulp & Paper Tbk
2. PT Pindo Deli Pulp & Paper Mills
3. PT Pabrik Kertas Tjiwi Kimia Tbk
4. PT Lontar Papyrus Pulp & Paper Industries

This report covers progress on the implementation of the Global Compact (GC) Ten Principles in above companies during the year 2012. All activities described in the report represent above four companies.



STATEMENT OF CONTINUOUS SUPPORT

The year 2012 marked APP's fourth year as a member of the United Nations Global Compact (UNGC). Through our involvement with the Global Compact (GC), we have learned about many valuable initiatives from our peers and shared some of our own successes. These interactions have helped us strengthen our implementation of the Global Compact Ten Principles. The principles of the GC continue to be a foundation for the APP Group to challenge itself to attain the worthy goal of becoming a leading and respected global pulp and paper manufacturer – a world class sustainability leader dedicated to providing superior value to all of our stakeholders.

APP first laid out its commitment to sustainability in 2004 with our Declaration of Sustainability. Our policies and implementation of sustainability continue to evolve as we adopt global best practices relevant to our industry and operations. When we pledged to the UNGC in 2008, we enriched our sustainability values and commitments with the GC Ten Principles. We realize that making the commitment is only the first step; it is implementing those principles and ensuring that they are fully incorporated in our day-to-day operation that is the true challenge. We need clear, concrete and measurable objectives in the implementation of our sustainability initiatives that our employees, partners and stakeholders can easily understand and follow. Therefore, in 2012, we launched APP Sustainability Roadmap Vision 2020. It consists of ambitious, concrete targets from now to 2020 that touch the issues of human rights, environmental performance, community welfare and governance. Within this Roadmap the GC principles are incorporated into the development of our short and long-term sustainability goals for our operating facilities, as well as throughout our supply chain. In our 2012 Communications on Progress we would like to share our Sustainability Roadmap Vision 2020 with you in more detail.

APP believes that in order to provide greater return to our stakeholders, we must protect our critical ecosystems and improve the well-being of our employees, their families and the communities in which we operate. The integration of UNGC Ten Principles and the concrete goals of APP Sustainability Roadmap will guide us in moving forward to achieve these goals.

Jakarta, 27 December 2012

A handwritten signature in black ink, appearing to read 'Aida Greenbury'.

Aida Greenbury
Managing Director Sustainability & Stakeholder Engagement
Asia Pulp & Paper Group Indonesia



ABOUT APP

Asia Pulp & Paper Group (APP) is a trade name for a group of pulp and paper manufacturing companies in Indonesia including PT. Indah Kiat Pulp & Paper Tbk, PT Pindo Deli Pulp & Paper Mills, PT Pabrik Kertas Tjiwi Kimia Tbk, PT Lontar Papyrus Pulp & Paper Industries. APP Indonesia has a total production capacity of around 10 million tonnes and markets its products to more than 120 countries. Most of APP's production facilities are Chain of Custody certified under the LEI and PEFC standards.

The four companies under APP Group had been a member of the Global Compact since 2008.

MILLS OVERVIEW

PT Indah Kiat Pulp & Paper Tbk

PT Indah Kiat Pulp & Paper Tbk (Indah Kiat) is one of the largest pulp and paper manufacturers in Asia and has been in operation for more than 30 years. The company has three operating facilities located in Perawang, Serang and Tangerang. These three facilities produce hardwood paper pulp and a full range of wood-free writing and printing paper, unbleached paper and paper board, corrugated boxes and specialty colored paper. The total production capacity of pulp and paper of the three mills are over 6.5 million tonnes. The mills employ more than 16,000 people.



APP and its suppliers' major operations across Indonesia

PT. Pindo Deli Pulp and Paper Mills

PT. Pindo Deli Pulp and Paper Mills (Pindo Deli) is situated at three locations; two mills located in Karawang, West Java, and the other one is located in Riau Province, Sumatra. Its product range include uncoated woodfree, coated art paper and board, cast coated paper and board, carbonless paper, tissue paper and other specialty grades including embossed paperboard. Its total annual production capacity is around 1 million tonnes with total employee around 6,500 people.

**PT Pabrik Kertas Tjiwi Kimia Tbk**

PT Pabrik Kertas Tjiwi Kimia Tbk (Tjiwi Kimia) manufacturing facilities are located in Sidoarjo, near Surabaya, East Java, Indonesia. The mill originally started as a caustic soda plant and now boasts many state-of-the-art paper and converting machines making it one of the largest stationary producers under one roof. The product range includes value added products such as coated art, cast coated, and carbonless paper, and a wide range of school and office stationary. Tjiwi Kimia is one of APP paper mills that have been actively promoting the use of post-consumer waste paper. The mill annual capacity is over 1.1 million tonnes and employs more than 12 thousand people.

PT Lontar Papyrus Pulp & Paper Industry

PT Lontar Papyrus Pulp & Paper Industry (Lontar Papyrus) is located in Jambi Province, Sumatra, and was built using modern equipments developed by the leading manufacturers of pulp and paper machinery in Scandinavia and North America . The mill is an integrated pulp and paper mill with total production over 1 million tonnes of pulp and tissue product annually. The company started in 1976 and employs around 2,800 people.



APP PROGRESS ON THE IMPLEMENTATION OF THE GLOBAL COMPACT 10 PRINCIPLES

Sustainability Baseline in APP

APP vision is to become a leading and respected global pulp-and-paper company that provides superior values to customers, community, employees and shareholders - responsibly and sustainably. To realize this vision APP strives to balance the three pillars of sustainability; economy, social and environment, throughout its operations. APP Sustainability Declaration, first launched in 2004, clearly articulated the company's commitment to being socially, environmentally and economically sustainable in all its operations.

On *economic sustainability*, we have a responsibility to our shareowners, our employees and their families, our customers, and the communities who depend on us for their incomes and livelihoods. The responsible development of the pulp and paper industry is integral to the future prosperity of the communities and countries in which we operate. In support of that responsibility, we have to be a profitable and financially sound organization.

On *environmental sustainability*, we believe that continuous improvements in raw material sourcing and utilization, process efficiency, environmental impact/footprint minimization and supply chain management are core disciplines in achieving a better environment.

On *social sustainability*, we are committed to respecting and protecting human rights and will enforce this commitment within our own operations and our supply chain. Our long-term aim is to contribute to active development of the communities in which we operate. We will endeavour to make our operations transparent to stakeholders while respecting the cultural sensitivity and context in which we operate.

Currently we have developed the following key policies to support our commitment to operate responsibly and sustainably:

- Environment Stewardship Policy
- Responsible Fibre Procurement & Processing Policy
- Corporate Social Responsibility Policy
- Employee Welfare Policy
- Chemical Substance & Article Procurement Policy

These policies have been developed by listening to our stakeholders and consulting experts in a variety of professional fields. They are part of our management system and are regularly reviewed and revised as necessary in accordance to the current best practices.

The APP Sustainability Declaration was recently updated as a part of our continuous improvement in implementing sustainability principles and relevant international best practices. The revised declaration aims to enhance good governance in all our operations and remain relevant with the Ten Principles of the UN Global Compact on Human Rights, Environment, Labor and Anti Corruption.

APP embraces transparency and scientific accountability in monitoring, reporting and verifying all of our sustainability goals across our diverse operations and locations. In addition to the UNGC Communication on Progress, APP releases



regular sustainability report developed based on the Global Reporting Initiative Guideline and public annual financial reports. These reports are audited by independent third party to ensure its credibility and accountability.

APP Sustainability Milestones 2012

- Announcement on new policies on High Conservation Value Forest

Over the past decade, APP has built and implemented a broad-ranging sustainability strategy to preserve critical aspects of Indonesia's precious natural resources, high conservation areas and biodiversity. Relevant with the Environment Principles of the Global Compact (principle 7-8), on May 2012, APP announced a move to adopt the internationally-recognized standards for High Conservation Value Forest (HCVF). To realize the commitment, APP developed the HCVF Policy that will guide the company to apply a phased approach implementation of HCVF Indonesia toolkit on APP controlled concessions¹ by 2013 and our independent partners' concessions in Indonesia (Mitra)² by December 2014.

One of the major milestone after the announcement is as of September 1st 2012, APP, working together with our independent pulpwood suppliers, is imposing a moratorium on all natural forest clearance across its supply chain in Jambi Province until HCV assessment is completed. APP has engaged credible experts to conduct HCV assessments, in accordance with HCV Resource Network best practice. The assessment is based on a multi-stakeholder approach.

Currently APP is on track to complete the HCV assessment process for its own pulpwood concessions by the first quarter of 2013. For owned concessions in Jambi and Riau Provinces, the HCV assessment process is over 80% completed and is at the draft report stage. For owned concessions in West Kalimantan, the HCV assessment process is over 50% completed, with site visit currently taking place.

Complete report on further progress is available through APP Sustainability Roadmap – Vision 2020 First Quarterly Progress Report.

- Launching of APP Vision 2020

To further embed the sustainability goals into our daily operations and targets, APP realize the need of concrete, measurable targets that evolve around the three sustainability pillars. Embracing the need, on June 2015 APP launched the APP Vision 2020: Sustainability Roadmap. It consists of ambitious, concrete targets from now to 2020 that touch the issues of human rights, environmental performance, community welfare and governance. Within this Roadmap the GC principles are incorporated into the development of

¹ APP has equity stakes in six companies that hold pulpwood plantation concession licenses in Indonesia located in Sumatra and Kalimantan.

² APP independent partner concessions (Mitra) are independent companies that hold pulpwood plantation concession licences in Indonesia. APP has no ownership share in these companies but the companies have long-term contractual agreements to supply APP mills with pulpwood.



our short and long term sustainability goals within our operating facilities as well as throughout our supply chain.

APP Sustainability Roadmap: the Goals



FIBER SOURCING

- (a) 100% independent 3rd party verification for pulpwood legality.
- (b) Zero High Conservation Value Forest Fiber.
- (c) 100% plantation wood for its pulp production.
- (d) 100% Sustainable Forest Management (SFM) certified pulpwood.
- (e) Maintain a sustainable proportion of recovered Fiber in addition to renewable virgin Fiber.



EMISSIONS

- (a) Reduce the impact of mills air emission.
- (b) Reduce the impact of water effluent.



SOLID WASTE

Reduce solid waste to landfill.



WATER MANAGEMENT

Improve management of water use in line with the UN Global Compact CEO Water Mandate program.



REFORESTATION

Support the national target for reforesting degraded land.



CONSERVATION AND BIODIVERSITY

- (a) Support the national target to preserve designated protected and conservation areas.
- (b) Support the national target to increase the endangered species population.



CLIMATE CHANGE

- (a) Reduce Carbon Emission in APP mills in line with the national target from Business As Usual by 2015.
- (b) Support Carbon Emission reduction effort in the APP supply chain in line with the national target from Business As Usual by 2020.



HUMAN RIGHTS

Ensure that APP's and its suppliers' operations are in line with national and international standard of human rights.



EMPLOYEE WELFARE

- (a) Provide a Healthy & Safe work environment for APP employees.
- (b) Maintain employee satisfaction to ensure that APP attract and retain talented and competent people..



COMMUNITY EMPOWERMENT AND WELFARE

- (a) Improve Procedure for Community Engagement & Conflict Resolution in APP mills.
- (b) Increase the number of communities that can benefit from APP's social programs and improve their effectiveness.



INDIGENOUS PEOPLES

Adopt international guidelines for the protection of indigenous people's customary rights in the forest.

Among the first steps of the realization of the goals and targets, APP had just completed its updated Responsible and Sustainable Business Declaration, which covers all aspects of our operations, with key policies that support our commitment to operate responsibly and sustainably. New and/or improved policies based on above goals are:

- APP Environment Stewardship Policy
- Responsible Fiber Procurement Policy
- Employee Welfare Policy
- APP Corporate Social Responsibility Policy

These policies have been developed by listening to our stakeholders and consulting experts in a variety of professional fields, including the result of Human Rights Assessment in APP major operations done during 2011-2012. APP Employment Welfare Policy in particular address the Principle 3, 4, 5, and 6 of GC Ten Principles regarding labor welfare. This corporate level policy is further broken down through various mill level SOP. Practical clauses relevant with the policy also included in each mills' Collective Labor Agreement which developed based on discussions and agreement between mill management and representative of labor unions in each mill. Both corporate level policy and mill level SOP adhere to the existing labor laws and regulations and



relevant international best practices such as the ILO conventions and the Universal Declarations of Human Rights. During 2012, APP continues to examine its practices on human rights principles and is working with independent experts on developing a work plan to enhance its human rights practice on the ground relevant with Ruggie's Framework on Business and Human Rights.

Through the APP Environment Stewardship Policy, we articulate our commitment to be a responsible producer by practicing environmentally sound operations. During 2012 APP mills had been working on various water and energy saving initiatives that lead to reduction on green house gas emission emitted by our operations. To be able to monitor and plan further GHG reduction APP is installing our integrated Sustainability Database Programme. This database will link to the goals and targets of the APP Sustainability Roadmap to enable continuous monitoring and planning of the goals' achievement. This practice is inline with the GC principle 9 on the diffusion on environmentally friendly technology.

Since our pledge to the UN CEO Water Mandate in 2011, APP has also been focusing more on responsible water management both inside the operations and outside. We have done in-depth Water Footprint Assessments at two of our mills and will continue to implement the same project to another two mills in 2013. The objective of the assessment is as a baseline of APP water consumption and to further identify opportunities for future improvement. APP has also been leading the Indonesia Water Mandate Working Group for various water campaign activities involving multi stakeholders. Details of these activities are described in APP COP Water Report and the Indonesia Global Compact Water Action Report.

In addition to the environmental programs going on at APP mills, during 2012 APP worked together with its pulpwood suppliers in various conservation and biodiversity protection initiatives. Among them are conservation efforts to protect Javan Rhino, Sumatran Tigers and Kalimantan Orangutan. These efforts are done in collaboration with various relevant stakeholders including national parks, local and international NGOs, and governments, academics and community groups. On October 2012 APP began to work in partnership with Indonesian Ministry of Forestry's Center for Forest Biotechnology and Tree Improvement Research (CFBTI) in a Ramin Rehabilitation Programme (principle 9). Ramin is a light hardwood species with a high market value which is listed under the protected plant species in CITES Appendix II. This means that its use and trade is subject to strict regulations and provisions. The project is designed to support the efforts in ramin conservation in Indonesia, where the species is under threat due to over exploitation.

Through the newly improved APP Corporate Social Responsibility Policy, APP clearly articulates that we do not condone corruption in all its forms, including extortion and bribery. We address it by implementing systems to prevent them in our operations. The Whistle Blowing Programme, which is an APP Corporate level initiative to fight corruption and fraud across our operations are spearheaded by the Internal Control and Audit Division (ICAD). ICAD team hold regular audit and manage APP Ethic Call Center which is a hotline for all APP employees and business partners to report any fraud and corruption practices. Strict SOP is applied to each of the cases found or reported and clear and equal consequences apply to those proven involved in the corruption or fraud practices.

As a realization of the Vision 2020 goals, APP has also taken step to adopt the ISO 26000 Guideline on Social Responsibility into its operations. We started the massive project with one of our mills, the Indah Kiat Tangerang, and had invited a third party to independently audit the implementation of the principles to provide us with further improvement recommendations. We are currently starting to expand the project to all of our other mills.



In 2012 all relevant PICs in APP mills had been provided with preliminary training on ISO 26000 core subjects and principles.

More detailed information for APP Sustainability Initiatives and the progress of APP Sustainability Roadmap are available through various publications in APP websites ([www. Asiapulppaper.com](http://www.Asiapulppaper.com) and www.rainforestrealities.com), Quarterly Progress Report of APP Sustainability Roadmap, APP Mills' Financial Annual Report and APP Sustainability Report based on the GRI.