



COMMUNICATION
ON PROGRESS
2013

A S I A P U L P & P A P E R G R O U P



APP





indah kiat 
pulp and paper products

COMMUNICATION ON PROGRESS

2013

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ASIA PULP & PAPER (APP)

REPORT SCOPE

This report has been developed based on the requirements of the United Nations Global Compact as a Communication on Progress Report for companies under the Asia Pulp & Paper brand name in Indonesia:

1. **PT Indah Kiat Pulp & Paper Tbk**
2. PT Pindo Deli Pulp and Paper Mills
3. PT Pabrik Kertas Tjiwi Kimia Tbk
4. PT Lontar Papyrus Pulp & Paper Industry
5. PT Ekamas Fortuna

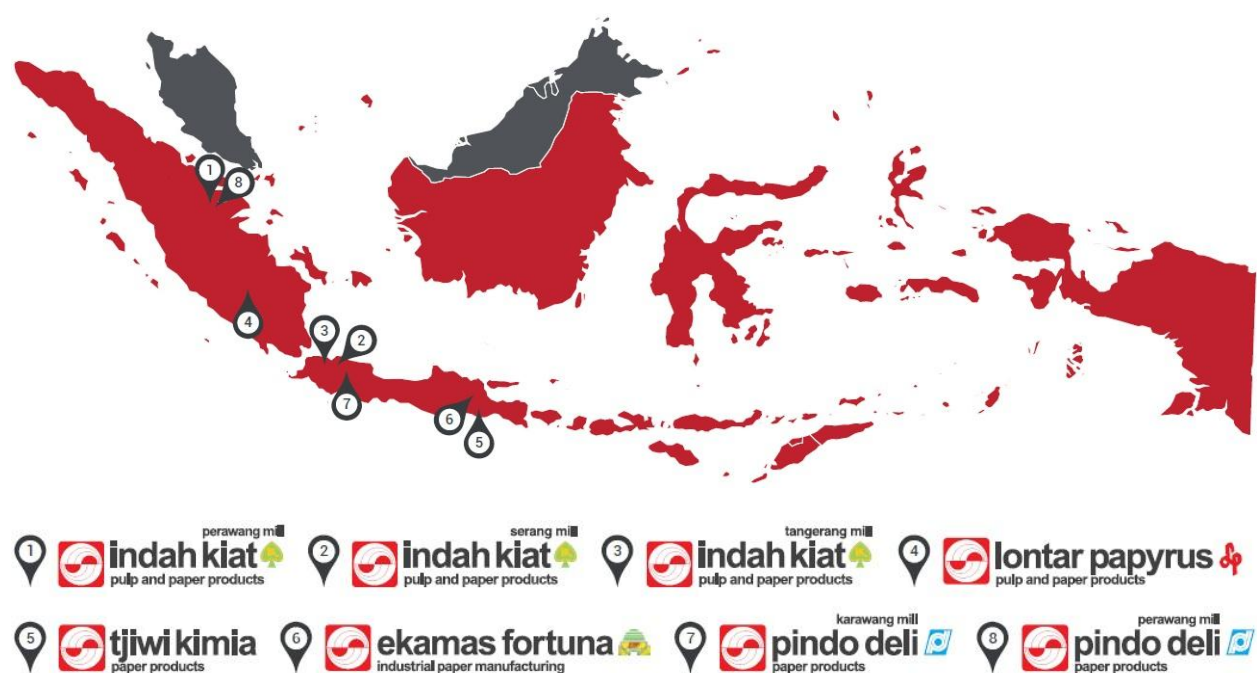
This report covers progress on the implementation of the Global Compact (GC) Ten Principles in the above companies during 2013. All activities described in the report represent those five companies.

COMPANY AT A GLANCE

Asia Pulp & Paper (APP) is the trade name for a group of pulp and paper manufacturing companies in Indonesia, including PT Indah Kiat Pulp & Paper Tbk, PT Pindo Deli Pulp and Paper Mills, PT Pabrik Kertas Tjiwi Kimia Tbk, PT Lontar Papyrus Pulp & Paper Industry, and PT Ekamas Fortuna. APP Indonesia has a total production capacity of around 9.5 million tons and markets its products to more than 120 countries in six continents.

The four companies under APP Group have been a member of the Global Compact since 2008, and later PT Ekamas Fortuna joined the membership in 2012.

MILLS' OVERVIEW



PT. Indah Kiat Pulp & Paper, Tbk. (Indah Kiat) was established in 1976 and has production facilities in three locations –Perawang in Riau Province and Tangerang and Serang in Banten Province.

Indah Kiat Perawang is an integrated pulp and paper mill located in a rural region of Riau Province, Sumatra. The mill production capacity is 3.3 million tonnes of pulp and paper products per year, with key products consisting of Leaf Bleached Kraft Pulp (LBKP) and wood free printing, writing, copier and coated papers. Due to the nature of production, it utilizes renewable sources for up to 64% of its fuel use. The mill has around 10,000 direct employees.

Indah Kiat Serang is located around 60 km west of Jakarta and sources 88% of its raw material from post-consumer waste. The mill's key products are coated boxboards, test linerboards, corrugating medium and corrugated cartons, with production capacity of 1.5 million tons per year. On site operations convert the mills

packaging paper grades into boxes ready for sale direct to end users which are largely focused on Asian and Pacific market. The mill directly employs around 5,600 people.

Indah Kiat Tangerang is located around 40 km from APP's Headquarters in Jakarta and specialises in coloured paper. Its key products include coloured printing, writing and copier, computer and duplicating paper. Although it is the smallest among the Indah Kiat mills, with production capacity of 108,000 tons per year, the mill is one of the largest coloured paper producers in the world. Around 85% of the mills' production is exported to a global client base. It uses both purchased pulp and pre-consumer waste as the raw material for its products. The mill directly employs around 1,800 people.

PT. Lontar Papyrus Pulp & Paper Industry (Lontar Papyrus) is located in Tebing Tinggi, Jambi Province. It is an integrated pulp and paper mill that predominantly produces pulp which is supply to APP mills. The mill also has six tissue machines that produce jumbo rolls, which are converted by other production units into finished products. With annual production capacity of 1,081,000 tonnes, the mill utilize more than 70% of its fuel sources from renewable sources –mainly from from the use of black liquor which is recovered from the pulp production processes. Currently the mill directly employs around 3,000 employees within its operations.

PT Pindo Deli Pulp and Paper Mills (Pindo Deli) have three operational sites, which are Pindo Deli 1 and 2, located in Karawang District, West Java, and Pindo Deli 3 in Perawang, Riau Province.

Pindo Deli 1&2 is located in an industrial area around 75km from APP's Jakarta headquarters. The mills' key products including writing, printing, copier, pre-print and other premium wood-free papers, cast coated paper, paperboards, carbon-less, thermal and art paper and tissue. The mills production capacity is around 1 million tonne per year and directly employs nearly 7,000 people. An extensive list of product specific certifications supports the range of the mills' products such as ISO 22000 for food hygiene and ISO 9706 for permanent acid free papers suitable for archiving purposes.

Pindo Deli 3 is the smallest of the Pindo Deli mills, with a specialty in jumbo roll tissue production and an annual capacity of 413,000 tonnes. It currently has around 1,900 employees.

PT Pabrik Kertas Tjiwi Kimia Tbk (Tjiwi Kimia) is located in Sidoarjo, East Java Province. Equipped with 12 paper machines and over 100 converting units the mill produces a diverse range of value added products for sale across the world. Key products including exercise books, writing pads, envelopes and shopping bags, with an annual capacity of 1,677,000 tonnes. The mill also produces recycle grade paper. With such a huge diversity of products, the mill is labour intensive, and has almost 12,000 employees.

PT Ekamas Fortuna (Ekamas) is located in Malang, East Java Province, a small mill specializing in the utilization of post-consumer waste as the main raw material. It produces corrugated and kraft liner board grades, the majority of which is used as layers in container board and carton boxes which are exported to more than 10 countries across the globe. Its annual production capacity is 185,000 tonnes and it directly employs 757 people.

OUR COMMITMENT



STATEMENT OF CONTINUOUS SUPPORT

At APP, we strive to become a leading and respected global pulp and paper company, with values that provide direct benefit to customers, community, employees and shareholders. We believe that the integration of the Global Compact Ten Principles into our sustainability strategy will help us to fully realize this vision.

Following the launch of APP Sustainability Roadmap Vision 2020 in 2012, we announced a new Forest Conservation Policy (FCP) in February 2013. The FCP saw us cease all natural forest clearance pending a series of assessments to determine which parts of our suppliers' concessions contain High Conservation Value and which contain High Carbon Stock, all of which will be protected. In this way, we further strengthened our implementation of the Global Compact Principles 7, 8 and 9. We also committed to the adoption of Free and Prior Informed Consent concept to better recognize the rights of indigenous and local communities (Principles 1 and 2).

Significant commitments we laid out in 2012 and 2013 require us to focus on our operations. Much of our work during the past two years has focused on building foundations and internal systems throughout our mills and supply chain that will help us reach our goals. As part of our commitment to increase transparency and collaboration, we have expanded our external stakeholder engagement and we continue to lead and participate in various collaborative initiatives with the Indonesia Global Compact Network. Both our internal and external activities will be disclosed throughout this report as well as our progress in the implementation of the Ten Principles of the Global Compact.

If we are to be a world leader in the pulp and paper industry, we require continuous benchmarking with international standards and best practices. Being a part of the UN Global Compact community provides us with the opportunity to collaborate with like-minded organizations as we move forward toward a sustainable future.

Jakarta, 13 December 2013

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

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

SUSTAINABILITY BASELINE IN APP

APP's 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. As part of our sustainability roadmap development, we then formalized a more structured management approach to improve sustainability communications, monitoring and reporting across all of our mills.

Central to our approach are the Sustainability & Stakeholder Engagement (SSE) and Corporate Affairs & Communications (CAC) teams, based in our Headquarter in Jakarta. They are responsible for the communication channels to the mills, fiber suppliers and internal and external stakeholders. This is a two way process, so we also gather feedback from stakeholders and report relevant issues back to SSE and CAC teams for consideration. The Top Management team, comprised of the CEO, Board of Directors, and shareholder representatives, provides oversight and is ultimately responsible for APP's environmental, social and economic performance. The Joint Steering Committee on Sustainability sits at top management level and includes representatives from APP, Sinar Mas Forestry, which is our main fibre supplier, and The Forests Trust (TFT), which is a non-profit third party organization which assists us in implementing sustainability practices and initiatives.

APP's Sustainability Declaration, first launched in 2004, clearly articulates 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 improvement 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.

APP Sustainability Roadmap Vision 2020

In 2011, we set out to visualize APP as a sustainability leader in 2020. We then reviewed our current processes and designed a Sustainability Roadmap to meet this vision. On June 5th, 2012, we announced APP's Sustainability Roadmap for the next decade. The Sustainability Roadmap extends our commitments on further improving environmental performance, biodiversity conservation and protection of community's rights.

Within this Roadmap, the GC principles are incorporated into our short and long term sustainability goals within our operating facilities, as well as throughout our supply chain.

APP Sustainability Roadmap Vision 2020 covers eleven impact areas, each of which has a number of subsidiary and specific goals.



APP'S MAJOR MILESTONE IN 2013: FOREST CONSERVATION POLICY (FCP)

The most critical issue in APP's Sustainability Roadmap Vision 2020 was our target to completely eliminate all natural forest derived products in our entire supply chain by 2020. Initially the APP Sustainability Roadmap set out a plan for APP to implement High Conservation Value (HCV) principles and end natural forest clearance across the supply chain by 2015. On February 5th 2013, we announced a Forest Conservation Policy (FCP) to be in immediate effect, meaning that our objectives above had been accelerated by almost two years.

There are four commitments underpinning our Forest Conservation Policy:

Policy commitment 1: APP and its suppliers will only develop areas that are not forested, as identified through independent High Conservation Value Forest (HCVF) and High Carbon Stock (HCS) assessments.

Policy commitment 2: APP will support the Government of Indonesia's low emission development goal and its target to reduce greenhouse gas emissions. This will be achieved by ensuring that forested peatland is protected as part of its commitment to maintain HCVF and HCS forests.

Policy commitment 3: APP will implement the following set of principles: Free, Prior and Informed Consent (FPIC) of indigenous people and local communities; Responsible handling of complaints; Responsible resolution of conflicts; Open and constructive dialogue with local, national and international stakeholders; Empowering community development programs; Respecting human rights; Recognising and respecting the rights of its workers; Compliance with all relevant laws and internationally accepted certification principles and criteria.

Policy commitment 4: APP sources fiber from all around the world and is developing measures to ensure that this sourcing supports responsible forest management.

APP is committed to openly and transparently communicating our progress to our stakeholders, and for this reason, in June 2013 we began developing our new FCP Monitoring Dashboard. The dashboard is a real-time online tool that allows interested parties to track our suppliers' progress in implementing the FCP alongside the regular [Progress Updates](#) published by TFT. More information and updates about the Forest Conservation Policy can be found on APP's website: <http://www.asiapulppaper.com/sustainability/vision-2020/forest-conservation-policy>

APP'S PROGRESS ON THE IMPLEMENTATION OF THE GLOBAL COMPACT 10 PRINCIPLES

HUMAN RIGHTS

APP is committed to respecting human rights, and it is further emphasized in the FCP policy commitment 3. To better understand human rights performance within our operations and in-line with the United Nations Guiding Principles on Business and Human Rights, APP has completed a company-wide human rights assessment to assess our human rights performance and to identify the gaps that we need to work on. Following the assessment - which was conducted in APP's operations during 2011-2012 - this year we engaged with a third party auditor to conduct a human rights audit in eight mills and two of our pulpwood suppliers. This demonstrates APP's recognition of the fiber supply chain as one of the main risk areas for the company in terms of human rights violations, while at the same time offering us the greater opportunity to make a positive impact through our actions. The audit was completed in November 2013 and corrective actions were proposed. Moving forward we will continue to advance our internal monitoring systems and capacity building initiatives to enhance our compliance to human rights and best practices.

As part of our FCP commitment, we have also been working together with our pulpwood suppliers and TFT to enhance our approach to conflict management, including updating our procedures and protocols and providing capacity building for APP staff involved in managing and resolving conflict. Our conflict management policies and procedures will be regularly updated as new things are learnt from on-the-ground implementation. Among the policies and procedures developed and updated recently are: Responsible Conflict Resolution Procedure, Collaborative Conflict Management Approach, Free Prior and Informed Consent (FPIC) Implementation Procedure, and the APP Grievance Protocol.

APP and TFT have sought detailed feedback and input on these social procedures through several Focus Group Discussions. FPIC and social conflict mapping training for APP suppliers' staff has been completed in the regions of South Sumatra, Jambi, Riau, West Kalimantan and East Kalimantan. As a follow up to the social conflict mapping training, APP's operational teams have undertaken conflict mapping in Jambi, Riau and West and East Kalimantan. APP and TFT are currently reviewing the output from this conflict mapping and will use it as a test case for making adjustments to the training. The FPIC Implementation Procedure is currently being tested through pilot projects in Jambi, Riau and South Sumatra provinces. Further FPIC pilot projects are being considered for other regions.

LABOUR

As one of Indonesia's largest employers, employees are key to the success of our business. Our employees drive the business and make it successful, so their welfare is of paramount importance. APP Employee Welfare Policy which was launched in 2012, is an updated version of our labor policy. The policy, as well as other new and updated APP policies launched in 2012, has 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 addresses the Principle 3, 4, 5, and 6 of GC Ten Principles regarding labour welfare. This corporate level policy is further broken down through various mill level SOP. Practical clauses relevant with the policy also included in mills' Collective Labour Agreement which developed based on discussions and agreement between mill management and representative of labour unions in each mill. Both corporate level policy and mill level SOP adhere to the existing labour 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.

Besides the comprehensive APP Employee Welfare Policy, the recently launched FCP also address the commitment to recognise and respect the rights of the employees within our supply chain, including their rights to work in a healthy and safe environment. Our health and safety goal across all mills is zero accidents. In Indonesia, to enforce a healthy and safe working environment the government developed SMK3 which is a mandatory management system for companies employing over 100 people. Going beyond regulatory compliance, APP has a goal to achieve OHSAS 18001 certification in all of our major mills by 2020. Up to now, Indah Kiat Tangerang and Pindo Deli 1 and 2 have held OHSAS 18001 certification.

ENVIRONMENT

Through the APP Environment Stewardship Policy, we articulate our commitment to be a responsible producer by practicing environmentally sound operations. As a part of its regulatory requirement, APP mills have developed the Environmental Management Plan (Rencana Pengelolaan Lingkungan/RKL) and an Environmental Monitoring Plan (Rencana Pemantauan Lingkungan/RPL). The RKL and RPL have to be

completed and submitted every six months to the regional and national Environmental Agency to report its environmental monitoring and impact control activities and performance. The RKL (Environment Management Plan) and RPL (Environment Monitoring Plan) include monitoring the quality of the wastewater, emission, waste management and other relevant environmental management aspects.

As well as meeting regional and national requirements, APP mills also benchmark their operational and environmental performance against international standards, such as the Environmental, Health and Safety Guidelines for Pulp and Paper Mills, published in December 2007 by the World Bank / International Finance Corporation (WB / IFC), when relevant.

Our commitment toward Green House Gas (GHG) reduction is clearly stated in the APP Sustainability Roadmap Vision 2020 and APP Environment Stewardship Policy which was updated last year. Another step towards reducing GHGs in APP's operations has been the refining of the group-wide methodology for carbon footprint assessment, in alignment with the WRI/WBCSD GHG Protocol. The assessment covers APP's manufacturing facilities and includes carbon sequestration from the growth of our supplier-managed plantations. While the carbon footprint assessment will provide group-wide data, allowing APP to develop a carbon mitigation plan, we are also developing product-level data to satisfy requests from our customers. The carbon sequestration data will be provided as additional information to our customers, alongside information on other forestry-related emissions such as emissions resulting from aboveground biomass decomposition and emissions from harvesting activities and transportation.

In our effort to improve the timeliness and accuracy of our sustainability reporting, we have been developing a database to store and keep updated data that can be used for sustainability-related projects and as communication materials to internal and external stakeholders. The database consists of environmental, social and financial related information that will be updated periodically. This set of data will be monitored and it will show if there is irregularity or lack of compliance towards national and international standards so preventive actions could be taken to keep our mills operating accordingly. The database will also enable APP to benchmark our mill operations against national and international standards as well as to fulfill customers' procurement policies and audit requests.

There are a number of key areas in the pulp and paper production process that consume a high proportion of energy. We began to implement ISO 50001:2011 in our mills in order to establish an energy management system to improve energy performance, including energy efficiency, use and consumption. Through systematic management of energy, we aim to reduce greenhouse gas emissions and other related environmental impacts and energy cost. In 2013, Indah Kiat (Tangerang and Perawang mills) and Pindo Deli (Karawang mills) successfully achieved ISO 50001:2011 certification. Indah Kiat Tangerang mill is the first paper company in Southeast Asia which achieved this certification.

Our commitment toward GHG reduction is extended to our supply chain, as articulated in our FCP policy commitment 2. To achieve this commitment, we will ensure that forested peatland is protected as part of the commitment to maintain HCVF and HCS forest and through best practice management to reduce and avoid GHG emissions within the peatland landscape. As part of the HCV assessment process being undertaken, areas

of peatland are being identified within APP's supply chain. The findings of the HCV assessment reports will feed into a long-term peatland management and monitoring plan which will be created in consultation with an independent peat expert team. This will be integrated into APP's wider Sustainable Forest Management Plan.

Since our pledge to the UN CEO Water Mandate in 2011, APP has also been focusing more on responsible water management both inside and outside its operations. We have completed water footprint assessments at Lontar Papyrus and Pindo Deli (Karawang mills) and in 2013 we performed water footprint assessment at our Indah Kiat (Perawang mill) and Pindo Deli (Perawang mill) facilities. The objective of the assessment is to set a baseline of APP's water consumption and to further identify opportunities for future water reductions and efficiencies. APP has also been leading the Indonesia Water Mandate Working Group and its various water campaign activities involving other stakeholders. Details of these activities are described in APP's COP Water Report 2013.

APP's efforts in continuously improving efficient and effective environmental resource use are recognised not only by our customers, but also by the government of Indonesia. In 2013, three of our mills, namely Indah Kiat (Tangerang mill), Pindo Deli (Karawang mills), and Lontar Papyrus, received Green Industry Awards, which awards companies that has successfully aligned industrial development and environmental preservation.

ANTI-CORRUPTION

Through APP's Corporate Social Responsibility Policy, we clearly articulate that we do not condone corruption in all its forms, including extortion and bribery. We address it by implementing systems to prevent corruption in our operations. The Whistle-blower Programme, which is an APP corporate-level initiative to fight misconduct across our operations are led by the Internal Control and Audit Division (ICAD). All APP mills have been assessed for risks related to corruption as part of the Whistle-blower Programme. The programme has two elements; training for all employees (to date, more than 24,000 employees have been trained) and our Ethics Call Centre, which provides an anonymous channel for stakeholders, both internal and external, to report any concerns they have regarding the activities of our company, our suppliers, a partner or an employee. In addition to issues raised through the Ethics Call Centre, ICAD also carry out regular internal audits. Strict SOP is applied to each of the misconduct cases found or reported, and consequences apply to those proven involved in those practices, including corruption and fraud.

More detailed information on APP's sustainability initiatives and our progress with the commitments laid out in the APP Sustainability Roadmap are available through various publications including; APP's website (www.asiapulppaper.com), our Sustainability Roadmap Quarterly Progress Reports, APP Mills' Financial Annual Report and APP's annual Sustainability Report, based on the GRI reporting guidelines.