



indah kiat
pulp and paper products



COMMUNICATION ON PROGRESS 2010

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Sector	Pulp and Paper Industry	Member Since	28 August 2008

Company at a Glance

PT. Indah Kiat Pulp & Paper, Tbk. ("IKPP") is part of the Asia Pulp and Paper Group (APP) family of companies. It was established in 1976 and has produced wood-free paper since 1978. It has been listed on the Indonesia Stock Exchange (formerly Jakarta and Surabaya Stock Exchange) since 1990.

The company has production facilities in three locations -- Perawang, in Riau Province, and Tangerang and Serang, in Banten Province. It produces pulp and paper for the consumer market, including writing and printing papers (coated and uncoated free-sheet) and photocopy paper. The company also manufactures industrial papers, including container board, corrugated shipping containers, boxboard and specialty colored papers.

Statement of Continuing Support



STATEMENT OF CONTINUED SUPPORT

As a leading global manufacturer of paper products, APP Group Indonesia (APP Group) recognizes the dual responsibility of good stewardship; we must be good stewards of the investment made in our company by its shareholders, employees and customers, also good stewards of the technological, natural and human resources we require to conduct our business. Recognizing this expectation to be a responsible industry leader, APP Group is committed to responsible Best Practices in all of its production facilities, and to Sustainable Forest Management for all of its pulpwood sources.

APP Group's vision is to become the 21st Century's premiere, world-class pulp and paper manufacturer – a company dedicated to providing superior value to customers, shareholders, employees and the community. To fulfill this vision, APP Group has committed itself to being socially, environmentally and economically sustainable throughout its operations.

For us, the meaning of sustainability is to maintain the balance of three pillars – social, environmental and economic - throughout the pulp and paper-making supply chain, which are required for the long-term success of our business and for the long-term needs of the communities and areas in which we operate.

UN Global Compact provides a framework for our commitment to sustainability and responsible business practice. APP Group is committed to adhere to the ten principles of UN Global Compact in our strategy, culture and day-to-day operational activities. This commitment is shown by submitting the Communications on Progress report annually in accordance to the UN Global Compact's protocol.

APP Group will keep this commitment to sustainability by helping to empower people in the communities where we operate, initiating conservation programs to protect biodiversity and the environment, increasing the use of sustainable forest management certified material, adopting best practices in our mill operations to continually reduce greenhouse gas emissions, and by dedicating ourselves company-wide to continuous improvement.

Jakarta, 11 October 2010

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

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

IKKP and the United Nations Global Compact

In its commitment to corporate social responsibility, IKKP fully supports the United Nations Global Compact to improve human rights, labor rights, protect the environment and fight corruption.

The company is committed to aligning the principles of United Nation Global Compact with its strategy, culture, and day-to-day operations, and to clearly state this commitment to its employees, business partners, and the public. In addition, the company espouses public accountability and transparency and pledges to report its progress publicly in regular sustainability reports.

AREA 1: ENVIRONMENT

IKKP's approach to the environmental issues are in line with the three principles of the UN Global Compact:

Principle 7: Business should support a precautionary approach to environmental challenges.

Principle 8: Business should undertake initiatives to promote greater environmental responsibility.

Principle 9: Business should encourage the development and diffusion of environmentally friendly technologies.

As a responsible paper company, IKKP is committed to ensuring that the impact of its activities and operations do not harm the global environment. To that end, it aims to achieve continual improvement in its environmental performance by following global best practices and adopting environmentally friendly production technologies..

- Each IKKP facility has a team of people designated to manage environmental issues and communicate its efforts to stakeholders through regular discussions with representatives of local communities. As a result, the communities' environmental concerns and aspirations are effectively addressed.
- IKKP regularly evaluates the impact of the company's operations on the environment through strict internal and external audits.
- All of IKKP's mills have been ISO 14001 Environmental Management System (EMS) certified. Indah Kiat Tangerang became the first mill in Indonesia to be awarded an ISO 14001 EMS, followed by the other two mills, IKPP Perawang and IKPP Serang, which earned their ISO 14001 EMS in 1997 and 2004, respectively. All IKPP mills have since upgraded to ISO 14001:2004, the latest Environmental Management Standard.
- In 1999, IKPP Perawang was SMK3 (Occupational Health and Safety) certified, meeting or exceeding government requirements. Since then, the plant's compliance has been verified through annual, third-party audits. In addition, the company's products comply with product safety regulations for Europe, Japan and the United States, including regulations pertaining to the use of potentially hazardous substances or materials.

- In 2008, IKPP, along with a number of other APP mills, applied for a PROPER certificate, a multi-level certification established by the Ministry of Environment of the Republic of Indonesia, based on the requirements of its Program for Pollution Control, Evaluation and Rating (PROPER). IKPP was awarded with Blue certificate in 2009. The Ministry gives PROPER certificates to mills that produce emissions at levels below those permitted by government standards and which use clean technology, minimize waste, prevent pollution and conserve resources.
- IKPP mills implement Standard Operational Procedures (SOPs) on waste management so that the quality of the waste meets and often exceed government regulations. These SOPs include Solid Waste Management, Waste Water Treatment, and Landfill Operations.

All IKPP mills continually implement programs and support investment to reduce their consumption of fresh water, chemicals, and energy as well as lower their waste and emissions. The program uses ISO Environmental Management Systems (EMS) protocols to drive these actions. The Company enforces waste management policies to reduce pollutants. These include a Source Control Policy and a Reduce, Reuse and Recycle Policy. Wastewater plants employ activated sludge treatments, as well as physical and chemical treatments to prepare wastewater for safe discharge into the local waterways. In addition, Perawang mill uses its black liquor, solid waste, sludge and residues as an alternative fuel source. Currently it uses this biomass fuel as its main fuel source, providing more than half of the plant's energy. Further demonstrating the company's commitment to produce paper with environmentally-friendly technology, Indah Kiat's mills have incorporated the "three Rs" of good resource stewardship into their quarterly Environmental Management System management review of operations. As a result of these efforts:

- The Perawang mill reuse and recycles a significant amount of its solid waste: sludge, fly ash and dregs-and-grit (residual material from the recausticizing units) are reused into fertilizer, and recovered fiber from sludge are recycled to produce low-grade pulp.
- The Serang mill recycles reject plastic originated from the waste paper they use as raw material into core plugs for paper rolls and into plastic seeds for sale to molders who make various types of plastic products.
- Tangerang mill has commercialized a program to mix mill sludge with coal in its power boiler. Now the mill uses its sludge to create energy for the mill's operation.



Coal ashes are sent to PT. Semen Padang as cement substitute in Ready Mix.

- To further realize its commitment toward reducing Green House Gas (GHG) emissions, IKPP initiated a series of projects based on the Clean Development Mechanism (CDM) of the United Nations Framework on Climate Change Convention (UNFCCC). IKPP Serang's Hybrid Waste Water Treatment facility, which produces and captures methane gas that can be recycled back into energy to fuel operations, is already approved by UNFCCC while other projects are currently under way.
- IKPP and APP initiated a Carbon Footprint Assessment to provide a benchmark against which to measure and reduce their GHG emissions and assist IKPP to reduce its carbon footprint in the future and chart its progress toward the long-term goal of producing carbon-neutral paper.

In 2008, APP released the results of its first Carbon Footprint Assessment. The assessment showed that APP's pulp and paper mills, including IKPP, are operating well within industry norms with regards to GHG emissions.

- During 2009, IKPP together with APP and independent consultant, Environmental Resource Management (ERM) continued its Carbon Footprint Assessment. This second phase has been conducted starting second quarter of 2009 known as Carbon Footprint Monitoring. In addition, a Life Cycle Assessment was also conducted simultaneously. This assessment will be finalized by the end of 2010.
- By involving the local community, the Serang mill reuses paper waste to produce souvenirs and handicrafts, and recycles plastic waste into core plugs for paper rolls and plastic seeds for sale to molders who make various types of plastic products. This program helps to empower the local communities and provide additional income for them.



Local communities around the Serang mill reuse paper waste to produce handicrafts.

- Together with a team from Riau University, the Perawang mill measures water quality of the Siak River, while the Tangerang mill helps socialize and train villagers to become teachers and nurses in the surrounding communities using the "6R/GS (the Toyota Way)" approach. Developed by Toyota 6R/6S is a management philosophy to handle working tools, materials, and people in an efficient way while simultaneously eliminating waste.
- To realize its commitment to sustainable forest management for all its fiber sources, IKPP applies a strict and rigorous Chain of Custody (CoC) system to ensure that pulpwood entering its operations are legal and come from non-controversial sources. All pulpwood, pulp and waste paper purchased by IKPP mill have a documented supply chain ensuring they can be traced back to their original sources.

In 2009, Indah Kiat Perawang mill achieved Chain-of-Custody (CoC) certification under the Programme for the Endorsement of Forest Certification (PEFC). Three of Indah Kiat Mills are PEFC CoC Certified. The other two mills were certified under PEFC CoC standard in 2008. PEFC is a leading, internationally recognized forest certification endorsement program which promotes forest certification through independent third party verification and provides an assurance mechanism to purchasers of wood and paper products that they are promoting responsibly managed forests. Its endorses national forest certification standards balance economic, social, and environmental concerns related to the commercial use of forests. With about 30 endorsed national certification systems and more than 220 million hectares of certified forests, PEFC is the world's largest forest certification system. In addition, IKPP Perawang Mill has also introduced procedures to avoid raw material from controversial sources. This procedure has been verified by an independent third-party certification body, to confirm that no illegal or controversial wood enters the mill's pulpwood supply chain.



One of the checking points before the transported logs enter the mill.

- During 2009, Indah Kiat Perawang mill has successfully achieved the LEI Chain-of-Custody (CoC) standard. LEI or the Indonesian Ecolabelling Standard is a constituent based organization that promotes sustainable forest resource management in Indonesia through developing forest management system into forest certification system.
- To maintain its commitment to consistently procure raw material from sustainable and responsibly managed sources, in 2009 IKPP Perawang and its pulpwood suppliers were audited against Legal Origin Verification (LoV) and CoC systems subject to the Indonesian Ecolabelling Institute's standard for fiber supply and raw material. They were also evaluated for Timber Legality and Traceability Verification – Verification of Origin (TLTV-VO) by an independent third-party auditor, SGS (Société Générale de Surveillance). All audits confirmed the integrity of the mills' raw material.
- For its world market purchases of paper pulp, the company ensures the integrity of its fiber supply by buying only environmentally certified market pulp that meets PEFC or equivalent certification standards and criteria.
- APP, IKPP and their pulpwood suppliers are committed to protecting biodiversity through its commitment to "Conservation Beyond Compliance." During 2009, APP and its pulpwood suppliers implemented the ongoing development of the Senepis Buluhala Tiger Sanctuary.

In 2007, the company, through APP and their pulpwood suppliers, joined with other forest concession holders, the Indonesian Ministry of Forestry, local governments and non-governmental organizations to create and finance a 106,000-hectare tiger sanctuary in the province of Riau, Sumatra. In 2008 they actively participated in various activities organized by

the sanctuary's Working Group, whose primary goals are to preserve the tigers and their habitat, and avoid human-tiger conflict in the area. One of the Working Group's activities was to put up signs along the perimeter of the protected area to clearly mark its boundaries to increase awareness of the area's status and reduce the threats posed by human activities – which are among the most threatening to the survival of Sumatran Tigers.

Today, APP, its pulpwood suppliers and other Working Group members plan to implement a study to develop strategies to protect tigers and keep them away from settlements.

- Another example of the company's commitment to "Conservation Beyond Compliance" is its leadership in establishing the Giam Siak Kecil – Bukit Batu (GSK-BB) Biosphere Reserve in Riau Province, Sumatra. Biosphere reserves are designed to meet one of the most challenging issues facing the world today – achieving conservation objectives while concurrently accommodating development needs.

In collaboration with the Riau Forest Department, APP, the Company and Sinarmas Forestry are moving forward with plans to establish the GSK-BB Biosphere Reserve. This is the first Biosphere Reserve initiative in the world proposed by members of the forest industry.

The Giam Siak Kecil-Bukit Batu (GSK-BB) Biosphere Reserve received official approval by the United Nations Educational, Scientific and Cultural Organization (UNESCO) Man and the Biosphere Programme. The Chief Court of the 21st Session of the International Coordinating Council of the Man and the Biosphere Programme (MAB/ICC) made the decision at its meeting in Jeju, the Republic of Korea. The 178,000 hectares GSK-BB reserve was one of 22 proposed biosphere locations in 17 countries to receive approval.

The Biosphere Reserve will be unique due to the inclusion of a large swath of pristine peat-swamp forest, and will be home to a diverse range of flora and fauna.

- All IKPP mills actively plant trees in barren or unused land surrounding the operations, providing a green area that can be enjoyed by surrounding communities.
- At the fourth quarter of 2009, the Company together with APP started to develop its third Sustainability Report. The report will cover activities for January 1, 2008 through December 31, 2009. The Sustainability Report will assess the company's performance against indicators established by the Global Reporting Initiatives (GRI) framework. The contents of the report will be verified by the independent, international, third-party auditor, SGS (Société Générale de Surveillance), which adheres to the principles and practices of the Institute for Social and Ethical Accountability's AA1000 Assurance Standard. The 2008-2009 Sustainability Report is expected to be released at the end of 2010.

AREA 2: ANTI-CORRUPTION

IKPP's approach to anti-corruption efforts is in line with Principle 10 of the UN Global Compact:

Principle 10: Business should work against corruption in all its forms, including extortion and bribery.

- The company endorses a whistle-blowing program to support its Good Corporate Governance (GCG) Program. This program gives employees a way to report any activities that might not adhere to GCG policies. GCG Guidelines state that a "Whistle Blowing Program is part of the ethical driver for implementation of GCG, besides regulatory requirements." This program is also considered as one of the most effective means for preventing and combating practices that compromise good corporate governance.
- This program is wholly supported by top-level management. In accordance to the Sarbanes-Oxley Act, the company guarantees the confidentiality of whistle blowers. Upon receiving a whistle blower's report, the company's ethics team investigates the charges.
- In support of the program, the company has formed an Internal Control and Audit Division (ICAD), which manages anonymous reports from employees and conducts investigations to verify the truth of the reports. ICAD's investigation reports then serve as the basis for any decision the company takes related to the suspected individual or party.
- The program is promoted through banners and posters posted throughout the office and mill areas, and through employee seminars to provide workers with a deeper understanding of the program and to encourage their involvement.



Socialization of the GCG and Whistleblowing Program