



Standard Procedure **for Legality and Sustainability Certification**

In Support of Green Purchasing Law Implementation

October 1st 2006

(Last Updated: January 2007)

1. Background

- 1-1. The Green Purchasing Law (GPL) was revised on April 1, 2006 in Japan. The new regulations were drawn up to certify the legality and sustainability aspects of pulpwood, as the raw material of virgin pulp.
- 1-2. There are three possible certification methods, as indicated below.
 - (1) The company utilizes third-party forest certification (FSC, PEFC, LEI and others.).
 - (2) The company complies with voluntary standards of conduct of recognized organizations related to the industry (Wood Association, Paper Association and others). This is also known as second-party certification.
 - (3) The company self-certifies its own operations.
- 1-3. Under the prevailing conditions, APP & Sinarmas Forestry (hereinafter collectively shall be referred to as APP Group) adopts the method 3 (self-certification) as methods 1 and 2 are not applicable.

Prior to implementation, the self-certification methodology requires the following conditions to be met:

 - The company guaranteeing its self-certification shall be a large enterprise that manages and oversees all stages of production itself, from wood sourcing to delivery of finished products;
 - The self-certification method to be implemented by the company shall carry equal reliability as that of the second-party certification;
 - The company shall formulate and publicly release its “voluntary standards of conduct” to certify the legality and sustainability aspects of its pulpwood;
 - Related companies within the respective stages of production (from logging

to distribution) shall issue certificates in accordance with the “voluntary standards of conduct”, leading to a secure “chain of custody certificate”.

- 1-4. The vision of the Japanese government in implementing the procedure is as follows:
 - The intention and essence of this certification is based on the company’s “accountability” or “declaration”. Thus, if the company provides a rational explanation of its certification process, further questions and surveys are presumably not required.
 - This procedure is the first measurable step against illegal logging within the government’s procurement policy. This regulation will be gradually expanded, in a stepwise manner, to reach out to private institutions.
- 1-5. Some major customers in Japan have begun to require APP Group to certify the legality and sustainability of APP products based on the methodology regulated under GPL. This trend is expected to persist and will expand in the future.

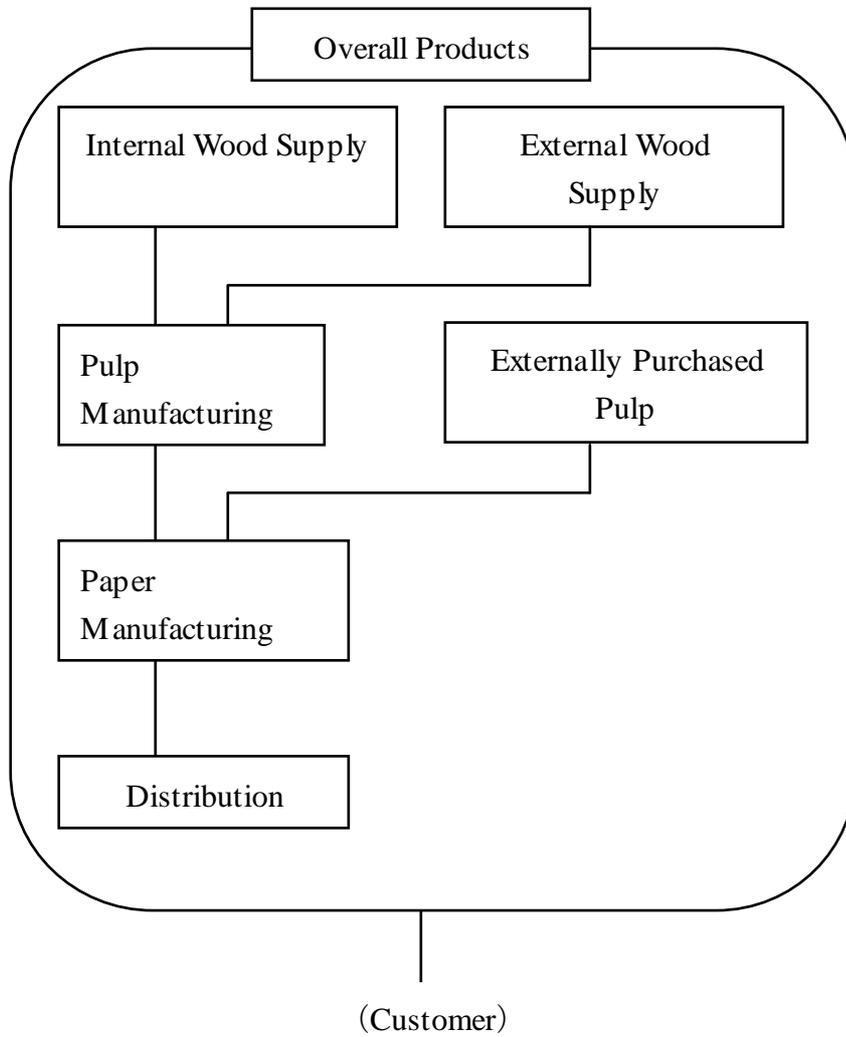
2. Objectives

APP Group has two objectives in implementing this methodology:

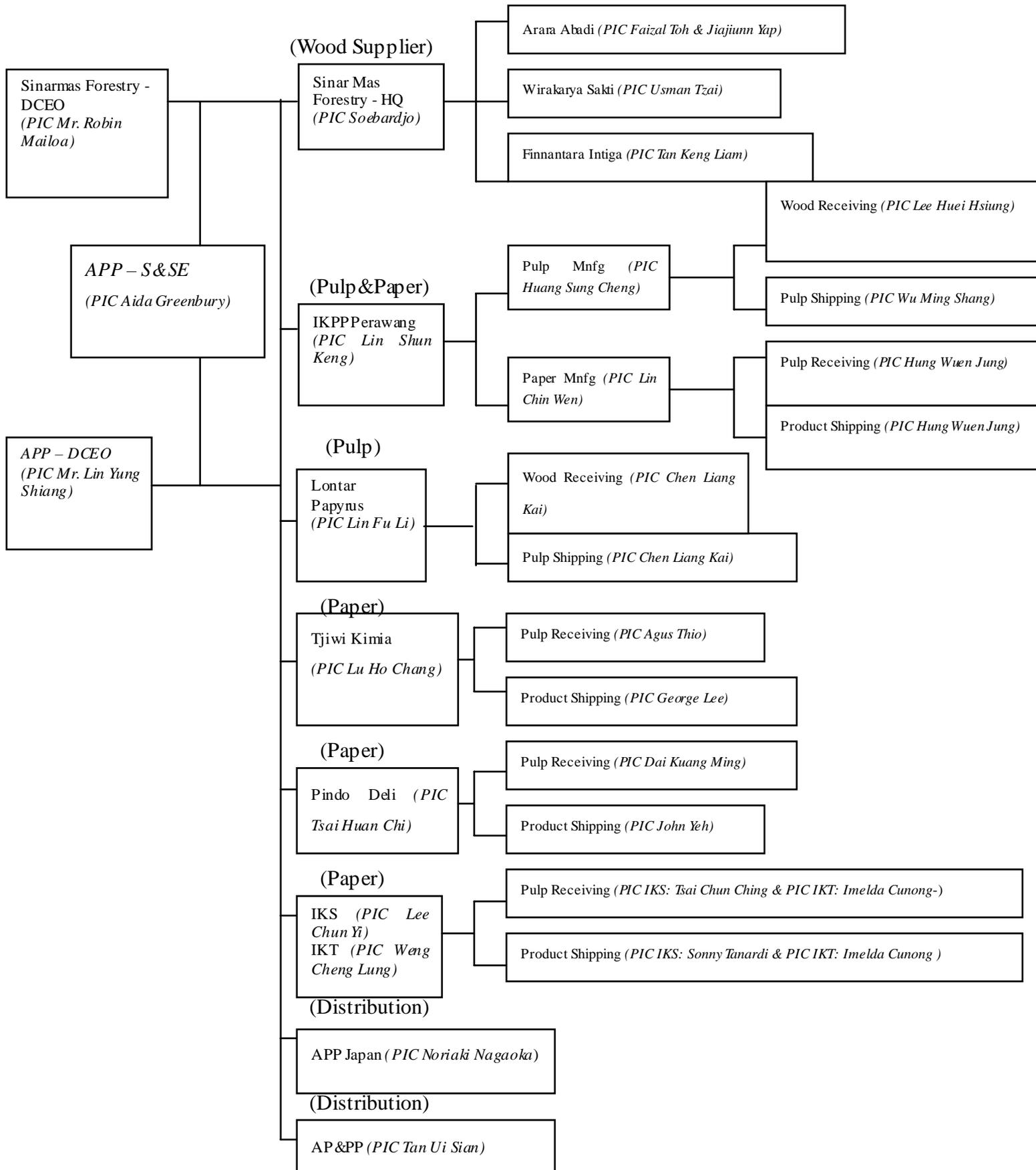
- 2-1. To certify legality and sustainability of pulpwood, pulp and paper products within the operations of APP Group, conforming to the “Green Purchasing Method” (established by Ministry of the Environment of Japan). Adapted to suit the expectations of the Japanese market, the new methodology is more objective than the APP Group’s existing scheme. This will provide a greater assurance to Japanese customers and other stakeholders worldwide.
- 2-2. To provide a foundation for APP’s Sustainability Reporting and to obtain several environmental certifications, including (but not limited to) EcoMark Indonesia, Ecolabel Institute of Indonesia and other EcoLabel schemes recognized as valid outside of Indonesia.

3. Overall Structure • Organization

3-1. Certification of Products (Chain of Certificate)



3-2. Organization for Implementation



Notes:

- APP companies:
PT. Indah Kiat Pulp & Paper Tbk (location at Perawang /IKPP, Serang /IKS and Tangerang /IKT);
PT. Pabrik Kertas Tjiwi Kimia Tbk;
PT. Pindo Deli Pulp And Paper Mills; and
PT. Lontar Papyrus Pulp & Paper Industry
- *During the certification process, some of the organizations may engage external auditors at their own risk and responsibility*

4. Policy of Procurement/Supply of Wood/Pulp

APP Corporate Fiber Procurement Policy (please see attached).

5. Certification Mechanism

5-1. Logging stage (from logging to delivery to mills)

5-1-1. Certification Standard for Legality

Certification procedure has to be conducted in compliance with relevant regional and national law and regulations.

Methods of logging and delivery to mills are classified into the following 2 types. The laws and regulations applied for the methods and the certification methods are shown as in APPENDICES 1 and 2.

- (1) Wood from Sinarmas Forestry's concession forests, for which licenses are granted by the national government or Ministry of Forestry of Indonesia (MoF licensed), is harvested for delivery to mills;
- (2) Wood that is legally harvested by external suppliers is delivered to mills (Outsourcing)

5-1-2. Certification Standard for Sustainability

Sustainability is a key factor to be considered regarding wood materials used in products regulated under the GPL.

APP Group assumes sustainability is certified when the following considerations and requirement are implemented and met:

1. In compliance with the 1996 Ministry of Forestry decree Number 743/Kpts-II/1996 concerning the granting of rights for the development of

industrial forest plantation in Indonesia, Sinarmas Forestry's operations are supported by a foundation of fully implemented sustainability policies. As stated in the decree clause 2.7:

“The company (wood fiber supplier) is obliged to carry out all activities related to the development of the industrial forest plantation by its own capacity or joint ventures. These included all planting and replanting activities, cultivation, harvesting, management and marketing activities based on its Working Plan in accordance with the valid regulations on the basis of the profitability, sustainability and the company's principles.”

The national law requires APP fiber suppliers to immediately replant any plantation land following the land preparation process to ensure a continued, renewable and sustainable source of fiber.

2. By 2006, all active fiber sources managed by Sinarmas Forestry had passed the Government-mandated forest management evaluation conducted by the Ministry of Forestry-accredited independent body - LPI. During its assessment, LPI evaluates a company's practice of sustainable forest management, and examines the social, economic and environmental factors that form the foundation of the sustainability.

3. APP Group has, practices and is continuously improving its Sustainable Forest Management Plan. APP Group is working toward meeting the following sustainability principles, which are derived from the Sustainable Plantation Forest Management System by Ecolabel Institute of Indonesia:

- the sustainability of resource, wood production and business entity
- the sustainability of land, water and natural biodiversity
- the sustainability of community participation, social and culture integration, and worker relations

The Ecolabel Institute of Indonesia (LEI) recently adopted a standard for a phased approach towards sustainable forest management certification. Three SMF forest-management units in Sumatra and Kalimantan, with an aggregate area of over 630,000 hectares, will be formally registered with LEI during first quarter of 2007 for forest certification under its stepwise approach.

5-2. Pulp Manufacturing Stage

5-2-1. Certification of Legality and Sustainability

(1) Receiving of Raw Material Wood

Wood from company's concession forests, and outsourced wood are allowed to be received when they are in compliance with the certification standards of 5-1-1 and 5-1-2.

The documents and contents, which are submitted by the logging-stage suppliers, are shown in APPENDIX 4. Wood without such documentation is not accepted.

(2) Shipping of Manufactured Pulp

We confirm that that only wood accepted according to the provisions of item 5-2-1(1) is used in the manufacture of pulp.

5-3. Paper Manufacturing Stage

5-3-1. Certification of Legality and Sustainability

(1) Receiving of Pulp

The pulp in compliance with the certification standard of 5-2-1 of APP Group pulp mills and the purchased pulp, which has been certified according to a credible certification system is received. Other pulp is not accepted.

(2) Shipping of Manufactured Paper Product

We confirm that only pulp accepted according to the provisions of item 5-3-1(1) is used in the manufacture of paper.

5-4. Distribution Stage

5-4-1. Certification of Legality and Sustainability

(1) Receiving of Paper Product

Paper products in compliance with the certification standard of 5-3-1 from APP Group paper mills are received.

(2) Shipping of Paper Product

Paper products, which are accepted according to the provisions of item 5-4-1(1), are shipped. Packaging, wrapping, and labeling are kept intact at the time of receiving (packaging, packing, and description of the products are not changed).

5-5. APP Group (Whole certification)

5-5-1. Certification of Legality and Sustainability

We judge that certifications of 5-1-1, 5-1-2, 5-2-1, 5-3-1, and 5-4-1 are appropriate.

6. Method of Certification

Certification is established by submitting the following documents to the next-stage company or one that demands the documents. Note that other filed documents are submitted, if necessary.

Stage	Normal Operation		End of Fiscal Year & Request from Customer	
	Document Name	Position of PIC	Document Name	Position of PIC
Logging	RKUPHHK, RKLUPHHK, RKT, Faktur, & independent audit results	Mr. Soebardjo	Certificate (APPEN. 5)	Representative of Company: Mr. Robin Mailoa
Pulp Manufacturing	1. Operating License 2. Transport License 3. LOV & CoC Independent Audit	Mr. Lin Shun Keng	Certificate (APPEN. 6)	Representative of Company: Mr. Lin Shun Keng
Paper Manufacturing	1. Relevant LOV & CoC Independent Audit 2. Relevant Independent Certification	Head of Mills	Certificate (APPEN. 7)	Representative of Company: Head of Mills

Distribution	1. Relevant LOV & CoC Independent Audit 2. Relevant Independent Certification	Mr. Noriaki Nagaoka	Certificate (APPEN. 8)	Representative of Company: Mr. Noriaki Nagaoka
APP Group	No	—	Certificate (APPEN. 9)	Representative of APP Group: Mr. Lin Yung Shiang

Glossary of Terms:

- *Rencana Kerja Usaha Pemanfaatan Hasil Hutan Kayu (RKUPHHK): Master Plan*
- *Rencana Kerja Lima Tahun Usaha Pemanfaatan Hasil Hutan Kayu (RKLUPHHK): Five-Year Plan*
- *Rencana Kerja Tahunan Usaha Pemanfaatan Hasil Hutan Kayu (RKTUPHHK): Annual Plan*
- *LOV: Legal Origin Verification*
- *CoC: Chain of Custody*

7. In-house Audit

The relevant companies (mills) in the respective production stages are expected to each conduct an audit based on the in-house “method of certifying legality and sustainability” at a fixed time of every fiscal year. Then, the companies (mills) each submit a report to the supervisor of APP Group for approval.

Note that the audit can be entrusted to external auditing organizations.

8. Representative of Company (Mill) and PIC of Promotion

8-1. Representative of Company (Mill)

The representative signs the certificate and assumes full responsibility for its validity. The signature of the President or his deputy is desirable.

8-2. PIC of Promotion

The PIC draws up a development plan under the order from the representative. Then, the PIC makes adjustments between the related divisions of the company (mill) to bring about final output.

The participation of one or two persons at a division-chief level or their deputies is desirable.

8-3. Representative and PIC of Promotion for Fiscal Year 2007:

		Representative	PIC of Promotion
APP Group		Mr. Lin Yung Shiang	Ms. Aida Greenbury
Logging	Supervisor of Group Companies	Mr. Soebardjo	Mr. Purwadi
	Arara Abadi	Mr. Faizal Toh Mr. Jiajiunn Yap	Mr. Alias Abdul Jalil
	Wirakarya Sakti	Mr. Usman Tzai	Mr. Bob Sidin
	Finnantara Intiga	Mr. Tan Keng Liam	Mr. Gatut Supriadi
Pulp Mfg.	IKPP Perawang	Mr. Lin Shun Keng	Mr. Huang Sung Cheng
	Lontar Papyrus	Mr. Lin Fu Li	Mr. Hou Ter
Paper Mfg.	IKPP Perawang	Mr. Lin Shun Keng	Mr. Lin Chin Wen
	Tjiwi Kimia	Mr. Lu Ho Chang	Mr. George Lee
	Pindo Deli	Mr. Tsai Huan Chi	Ms. Tien Johanna
	IK Tangerang	Mr. Cheng Chung Wu	Ms. Imelda Cunong
Distribution	APPJ	Mr. Noriaki Nagaoka	
	AP&PP	Mr. Tan Ui Sian	

Notes:

APP companies:

PT. Indah Kiat Pulp & Paper Tbk (location at Perawang / IKPP, Serang / IKS and Tangerang / IKT);

PT. Pabrik Kertas Tjiwi Kimia Tbk;

PT. Pindo Deli Pulp And Paper Mills; and

PT. Lontar Papyrus Pulp & Paper Industry

9. Handling of Related Documents

The documents which are submitted to external stakeholders, and the related in-house documents (information materials) will be retained by APP Group for a period of five (5) years. The documents will be disclosed in response to specific requests from the in-house and external persons concerned.

Forestry Laws and Regulations Related to Legality

Governing Laws and Regulations					
No.	Matter	Laws or Regulation No.	Date Issued	Issuer	Contents
1	Forestry Act	Act No. 41/1999 as amended by Government Regulation In Substitution to the Act (PERPU) No.1/2004 and further amended by Act No. 19/2004	August 13 th , 2004	President of the Republic of Indonesia	The most fundamental and vital regulation to manage forestry in Indonesia. The act provides forest ownership and forest function, forest planning, forest utilization, R&D, community involvement, forest decentralization and sanction.
2	Forest Managing, Forest Management Plan, Forest Utilization, and Forest Area Use	Government Regulation No. 34/2002 as amended by Government Regulation No. 6/2007	January 8 th , 2007	President of the Republic of Indonesia	This derivative regulation from the Forestry Act describes in detail what has been stated generally in the Forestry Act. For example, the procedures of forest licenses are fully explained in this regulation.

3	Management of Forest Resources	Minister of Forestry Decree No. 126/Kpts-II/2003 as amended by No. 334/Kpts-II/2003 further amended by No. 279/Menhut-II/2004 and No. P.18/Menhut-II/2005	July 13 th , 2005	Minister of Forestry	This decree sets forth the procedure to secure the license documents for harvesting and transportation as well as for wood administration from forest to mill. This decree also regulates the obtaining of documents such as Faktur & SKSHH.
4	State-owned Forest Management	Minister of Forestry Decree No. P.55/Menhut-II/2006 as amended by No. P.63/Menhut-II/2006	October 17 th , 2006	Minister of Forestry	This decree was established to complete what has been stated in Minister of Forestry Decree No. 126/Kpts-II/2003 with regards to securing the license documents for harvesting and transportation as well as for wood administration from forest to mill.

Certification Methods Applied in Logging Stage

Concession Licenses	Licenses issued by the Ministry of Forestry	
Operating Licenses	RKUPHHK	Master Plan, prepared by concession holders as required by MoF.
	RKLUPHHK	Five-Year Plan, prepared by concession holders as required by MoF.
	RKT	Annual Plan, prepared by concession holders as required by MoF.
		Operating license addressed for land clearing permit originated from non-forest area, which applies for external supplier
Transport Licenses	Faktur (nota perusahaan)	Transport license from forest to mill's weigh bridge
Third Party Audit	LEI	Indonesia Eco labeling Association
	SGS	World's leading inspection, verification and Certification company
	LPI	Independent Assessor Body

Glossary of Terms:

- *Rencana Kerja Usaha Pemanfaatan Hasil Hutan Kayu (RKUPHHK)* : *Master Plan*
- *Rencana Kerja Lima Tahun Usaha Pemanfaatan Hasil Hutan Kayu (RKLUPHHK)* : *Five-Year Management Plan*
- *Rencana Kerja Tahunan Usaha Pemanfaatan Hasil Hutan Kayu (RKTUPHHK)* : *Annual Plan*
- *Faktur (Nota Perusahaan)* : *Government Transport Document (Bill of Lading)*

Process of Wood Certification

No.	Company	License	Location	Concession License	Operating License			Transport License	Third Party Audit LEI / SGS / LPI	Remarks
				MoF	RKUPHHK (MOF)	RKLUPHHK (MOF)	RKTU PHHK (PROV.)	Faktur		
Group A (MoF Concession License)										Period
1	PT Arara Abadi	SK Menhut No. 743/Kpts-II/1996, 25 November 1996	Riau	√	√	√	√	√	LEI/SGS/LPI	2005 - 2009
2	PT Riau Abadi Lestari	SK Menhut No. 542/Kpts-II/1997, 25 Agustus 1997	Riau	√	√	√	√	√	LEI/SGS	2005 - 2009
3	PT Satria Perkasa Agung	SK Menhutbun No. 244/Kpts-II/2000, 22 Agustus 2000	Riau	√	√	√	√	√	LEI/SGS/LPI	2005 - 2009
4	PT Finnantara Intiga	SK Menhut No. 750/Kpts-II/1996, 2 Desember 1996	West Kalimantan	√	√	In process	√	√	FSC/LPI	
5	PT Wirakarya Sakti	SK Menhut No. SK. 346/Menhut-II/2004, 10 September 2004	Jambi	√	√	√	√	√	LEI/LPI/SGS	2005 - 2009
6	PT Satria Perkasa Agung (Serapung)	SK Menhut No. SK. 102/Menhut-II/2006 11 April 2006	Riau	√	In process	In process	√	√	—	
Group B (External Suppliers) *				—	—	—	√	√	LEI/SGS	Make a wood purchasing contract.

Note *

As regards Group B companies (external suppliers), the main requirement for wood suppliers are:

- the validity of Annual operating licenses (RKT), as the basis on which to enter into wood purchasing contracts
- external suppliers are obliged to produce a statement explaining the details of wood source, wood harvesting license and purpose, complying with the definition of legality and sustainability, according to relevant regional and national regulations and spatial plans.

Glossary of Terms:

- Rencana Kerja Usaha Pemanfaatan Hasil Hutan Kayu (RKUPHHK) : Master Plan
- Rencana Kerja Lima Tahun Usaha Pemanfaatan Hasil Hutan Kayu (RKLUPHHK) : Five-Year Management Plan
- Rencana Kerja Tahunan Usaha Pemanfaatan Hasil Hutan Kayu (RKTUPHHK) : Annual Plan
- Faktur : Government Transport Document

Confirmation Document for Receiving Wood

	Document			Position of PIC for Confirmation in Receiving Division
	Name	Description	Position of PIC for Issue	
(1) MoF Licensed Concession Forest	1 Faktur Number:	Legal Transport License: - Faktur contains information of wood origin, vehicle registration number, name of driver, wood species/vol./weight	Mr. Agus Awali	Manager at mill gate: -IKPP: Lee Huei Hsiung - LP: Chen Liang Kai
(2) External Supplier	1 Faktur Number:	Legal Transport License: - Faktur contains information of wood origin, vehicle registration number, name of driver, wood species/vol./weight	Mr. Mulyadi Gani	Manager at mill gate

[Logging Stage]

(Date)

Certificate of Legality and Sustainability

(Address)

(Forestry Company Name)

(Title of Representative, Name)

We certify that wood delivered to you is legal, in compliance with all applicable forestry laws and regulations, deriving from fiber source, which implements and respect relevant national sustainability guidelines.

Note:

1. Legal license in the fiscal year:
2. Location of wood origin:
3. Major wood species:
4. Applicable laws and regulations:

[Pulp Manufacturing Stage]

(Date)

Certificate of Legality and Sustainability

(Address)

(Pulp Company Name)

(Title of Representative, Name)

We certify that our pulp delivered to you is manufactured entirely from wood that is legally harvested, in compliance with all applicable forestry laws and regulations, deriving from fiber source, which implements and respect relevant national sustainability guidelines.

Note:

1. Company from which APP Group received: (IKPP and/or LP Pulp Mills)

[Paper Manufacturing Stage]

(Date)

Certificate of Legality and Sustainability

(Address)

(Paper Company Name)

(Title of Representative, Name)

We certify that our paper product delivered to you is manufactured entirely from wood that is legally harvested, in compliance with all applicable forestry laws and regulations, deriving from fiber source, which implements and respect relevant national sustainability guidelines.

Note:

1. Company which received pulp (APP Group company):
2. Company from which APP Group purchased pulp (Other than APP Group company):
3. Certification: Independent / Self-Certified

Appendix 8

[Distribution Stage]

(Date)

Certificate of Legality and Sustainability

(Address)

(Distribution Company Name)

(Title of Representative, Name)

We certify that our paper product delivered to you is manufactured entirely from wood that is legally harvested, in compliance with all applicable forestry laws and regulations, deriving from fiber source, which implements and respect relevant national sustainability guidelines.

Note:

1. Manufacturing company / mill:

[APP]

(Date)

Certificate of Legality and Sustainability

(Address)

(Company Name)

(Title of Representative, Name)

We certify that the product below is made only from wood materials that are legally harvested, in compliance with all applicable forestry laws and regulations, deriving from fiber source, which implements and respect relevant national sustainability guidelines.

Please note that the certificates of legality and sustainability of the respective stages of logging, pulp manufacturing, paper manufacturing, and distribution are attached hereto.