



SUSTAINABILITY ROADMAP VISION 2020

2ND QUARTERLY PROGRESS REPORT

5TH FEBRUARY 2013



1. BACKGROUND

On June 5th 2012, Asia Pulp & Paper Group (APP) announced its **Sustainability Roadmap Vision 2020** that outlines its sustainability targets for the next decade and beyond. The objective of APP's roadmap is to protect natural forest and to use plantation fibre for its raw materials.

Highlights of the roadmap include:

- By 2015, APP will have the capacity to be wholly reliant on raw materials from plantations.
- By 2015, all current APP suppliers will operate by the standards of High Conservation Value Forest (HCVF), providing the most robust protection for biodiversity, rare ecosystems and local community rights.

A cornerstone of the Sustainability Roadmap is APP's operation-wide High Conservation Value Forest (HCVF) assessment. The HCVF assessment began with preliminary HCV assessments led by independent HCV experts Loy Jones, of Asia Pacific Consulting Solutions. At the launch of the roadmap, 6 APP suppliers committed to the HCVF assessment.

In the 1st roadmap update conducted in September 5th 2012, APP reported three major updates:

1. Good progress on reducing the use of Mixed Tropical Hardwood (MTH)
2. Two additional suppliers who committed to adopt HCVF assessment ahead of target
3. Completion of its Responsible and Sustainable Business Declaration

Since the last roadmap update, APP has been working intensively with all its suppliers to accelerate the roadmap.

For the second quarterly update on February 5, 2013, APP reported its latest roadmap update and announced a new development within the Sustainability Roadmap.

2. SECOND QUARTERLY PROGRESS REPORT

2.1. APP GROUP ¹

2.1.1. The APP Forest Conservation Policy

APP is proud to report that in the 2nd quarter of its roadmap implementation, it is issuing a new policy that now constitutes part of its Sustainability Roadmap Vision 2020.

**THE NEW FOREST CONSERVATION POLICY
IS DESIGNED TO PROTECT ALL NATURAL
FORESTS IN APP'S SUPPLY CHAIN.**

Based on the policy, natural forest is defined as forest with High Conservation Value including peat forests, and/or High Carbon Stock.

The Forest Conservation Policy has 4 commitments on:

1. High Conservation Value Forests (HCVF) and High Carbon Stock (HCS) forests
2. Best practice peatland management
3. Social and community engagement
4. Third Party suppliers

¹ APP Group refers to APP Indonesia and APP China



I. HIGH CONSERVATION VALUE FOREST AND HIGH CARBON STOCK FOREST

APP has brought forward by 2 years the target for its suppliers to adopt HCVF principles. APP and its suppliers will only develop areas that are not forested, as identified through independent HCVF and HCS assessments.

Key points within the 1st policy commitment include:

- From 1st February 2013 all natural forest clearance has been suspended whilst HCVF and HCS assessments are completed.
- APP has conducted an initial assessment of all of its supply chain. It has prioritised HCS/HCV assessments in those concessions that up to now have been supplying the company with natural forest fibre.

- On HCS work has started to identify the area and quality of forest cover. Satellite analysis, backed up by field work, will identify areas that will be protected as well as low carbon areas that can be developed as plantations.
- Any future plantation development will only take place after HCV/HCS assessments have been conducted, in areas not identified as forests.

All the natural forest across APP's supply chain will be set aside as a result of today's announcement – which will be identified via HCV and HCS work. APP is working with TFT to deliver these commitments. To identify these forest areas APP will be using a combination of satellite mapping analysis and field visits.



II. BEST PRACTICE PEATLAND MANAGEMENT

APP is committed to protect peat forests across its supply chain. 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 will be protected as part of its commitment to High Conservation Value Forest and High Carbon Stock.
- Best practice management to avoid GHG emissions within the peatland landscape.
- As part of achieving this, no further canal or other infrastructure activities will take place within undeveloped suppliers' concessions on non-forested peatland until independent HCVF assessments including input from peat experts has been completed.

III. SOCIAL AND COMMUNITY ENGAGEMENT

APP will consult with NGOs and other stakeholders to ensure that its protocols and procedures for FPIC and conflict resolution are in accordance with international best practice.

On social conflict resolution across its supply chain APP will actively seek input and feedback from a wide range of stakeholders including civil society to implement the following set of principles:

- Free, Prior and Informed Consent 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



Where new plantations are proposed, APP will respect the rights of indigenous peoples and local communities, including recognition of customary land rights.

APP has committed to independent HCVF assessments as part of this commitment and will, in consultation with stakeholders, develop further measures to implement FPIC.



IV. THIRD PARTY SUPPLIERS

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

The new Forest Conservation Policy fully guides the practices of APP fibre suppliers in Indonesia. APP also sources fibre worldwide, and these suppliers are required to comply with APP's policy to source raw materials from responsibly managed forests.

THE POLICIES ANNOUNCED BY APP TODAY WILL APPLY TO ALL FUTURE EXPANSION.

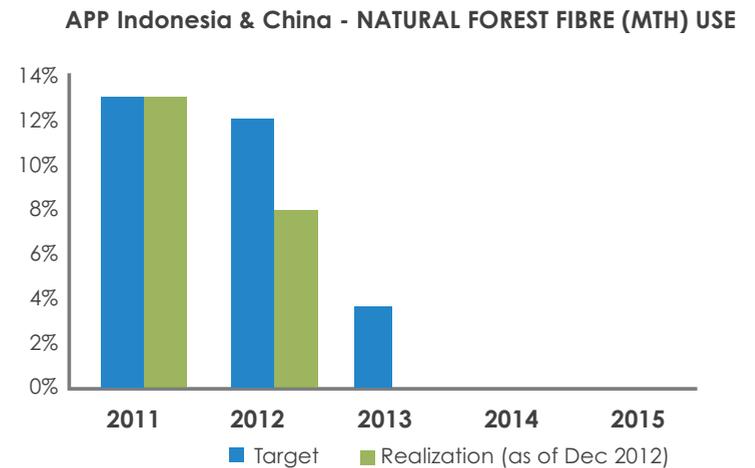


Figure 1.
APP Group's target to reduce natural forest fibre consumption

MTH may continue to come from:

- Areas converted prior to 1st February 2013
- Wood which has been verified as non-HCVF and non-HCS
- Imported certified wood chips
- Recycled fibre

2.1.2. Long-term Business Sustainability

To ensure the long-term sustainability of APP operations, independent assessments were undertaken to confirm raw materials availability for APP pulp mills long-term forecast demand.

The assessment focused on the growth and yield of APP suppliers' plantations. Other than an internal company assessment, two additional assessments were performed. One assessment was conducted by The Forest Trust (TFT), and a second was done by independent experts who specialize in forest inventory, growth and yield modelling and wood supply forecasting. All of the forecasts show that APP will have sufficient access to plantation fibre to meet its forest conservation commitments, even with any planned expansion of capacity. APP has used the most conservative forecasts on growth and yield from these assessments for our planning.



The methodology used to assess growth and yield is quite complicated, but we are very willing to have discussions with interested stakeholders to explain our approach.



2.1.3. Forest Conservation Policy Monitoring and Verification

To provide guidance for APP's suppliers who have committed to implement moratorium on clearing natural forests in their concession areas, APP has a series of key protocols on:

- Moratorium and Implementation
- Grievance
- Independent observer
- Social and community engagement
- New area development

With The Forest Trust, APP will conduct aerial surveillance and ground checks regularly to verify the implementation of the moratorium. APP is committed to transparency and has asked for third party NGOs to participate in this process as observers.



Details of the protocols will be made available on APP's corporate website www.asiapulppaper.com

2.2. APP INDONESIA

2.2.1. Progress of HCVF Commitments

As reported in September 2012, 6 of APP suppliers across 4 provinces were undergoing preliminary HCVF assessments, while an additional 2 suppliers had committed to adopt HCVF assessment and were scheduled to start assessments. The following is the progress on those activities:

- The preliminary HCVF assessment for all 4 provinces was completed in Q4 2012, ahead of the roadmap target. The preliminary assessment report provides an indicative HCV map across the concession areas, and will be used to guide the full HCVF assessment conducted in the next phase. The full HCVF assessment will focus on areas that potentially contain one or more HCVs.
- The HCV assessor team has started work on the full HCV assessment for 6 APP owned suppliers and 2 additional suppliers in Jambi (TMA and RHM Jambi).



Figure 2. HCVF assessment timeline for 8 APP suppliers

With today's Forest Conservation Policy announcement, APP has accelerated the HCVF commitment target for all other suppliers by close to 2 years. To support the HCVF assessments across APP's full supply chain, APP will work with an additional HCVF assessment team led by Neville Kemp of Ekologika. The schedule to start this supply chain wide assessment is in Q1 2013, prioritising areas where natural forest remains.

2.2.2. Social and Community Engagement

On the social and community engagement aspect, APP is able to report progress to date on 3 key activities:

1. Conflict mapping and resolution
 - Pilot project on 6 districts identified as districts with high priority social issues
 - Conflict mapping completed
2. Policy and procedures improvement
 - Updated social policy for APP and Sinar Mas Forestry
 - Conflict mapping completed
 - Completed social procedures review for all suppliers (over 645 procedures reviewed)
3. Capacity building
 - Guideline & modules for conflict mapping is being finalized
 - Trainings to start in February 2013



2.2.3. High Carbon Stock Study

In June 2012, APP set out to lead an independent and multi-stakeholder engagement on High Carbon Stock (HCS) and its implementation in pulpwood plantations.

In partnership with The Forest Trust, APP is currently using satellite imagery to analyse forest cover across all of its suppliers' concessions. It is expected that the study will be completed by the third quarter of 2013.



2.3. APP CHINA

TFT have conducted a preliminary review of corporate policies, SOPs and work instructions. The review covered operations at APP China and APP China Forestry. The output from this review process has enabled work to begin on revision and improvement of documentation, particularly in the field of social and environmental aspects. At the China Forestry Headquarters in Hainan, adjustment of the organisation structure has been undertaken to facilitate the deployment of activities towards social and environmental objectives and address the issues on the path towards sustainable forest management.

A scoping visit by a team from TFT and APP has been completed in Hainan Province focusing on social aspects. The objectives were to identify and record potential risks associated with land tenure and legality and to commence mapping of areas of social dispute.

Third party supply issues assessment was undertaken jointly by APP and TFT through an initial scoping visit to independent suppliers in Vietnam. Gap assessment report was finalized and issued. Local action plan drafting is in progress. For supply chains in China to be mapped, Jinhai and Jingui mills have now both been briefed to commence mapping supplies and building a database to provide transparency of purchased materials.

END OF UPDATE

APPENDIX A

APP'S FOREST CONSERVATION POLICY

Effective February 1st 2013 this policy applies to:

1. APP and all its suppliers in Indonesia.
2. Any Indonesian fibre utilised by APP's mills elsewhere, including China.
3. All future expansion.

High Conservation Value Forests (HCVF) and High Carbon Stock (HCS) Forests:

Policy commitment 1:

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

- From 1st February 2013 all natural forest clearance has been suspended whilst HCV and HCS assessments are completed. No further clearance of areas identified as forest will take place.
- APP has conducted an initial assessment of all of its supply chain. It has prioritised HCV and HCS assessments in those concessions that up to now have been supplying the company with natural forest fibre. HCV and HCS areas will be protected.
- On HCS work has started to identify the area and quality of forest cover. Satellite analysis, backed up by field work, will identify areas that will be protected as well as low carbon areas that can be developed as plantations.
- The HCS approach distinguishes natural forest from degraded lands with only small trees, scrub, or grass remaining. It separates vegetation into 6 different classes (stratification) through the combination of analysing satellite images and field plots. These thresholds are known in Indonesia as: High Density Forest (HK3), Medium Density Forest (HK2), Low Density/older regenerating Forest (HK1), Old Scrub/regenerating forest (BT), Young Scrub (BM), and Cleared/Open Land (LT). APP's threshold for HCS will be defined, following field analysis, within the category referred to as old scrub (BT).

- Any existing natural forest logs within APP's supply chain cut before 1st February 2013, such as stocks in log yards, will be utilised by its mills. Any fibre cleared from land which is not forest, such as scrub land, will also be utilised by its pulp mills.
- APP will withdraw from all purchase and other agreements with any supplier who is found not to be in compliance with these commitments.
- These commitments are being monitored by The Forest Trust. APP will welcome independent 3rd party observers to verify the implementation.

Peatland management

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.
- Best practice management to reduce and avoid GHG emissions within the peatland landscape. As part of achieving this, no further canal or other infrastructure activities will take place within undeveloped suppliers' concessions on non-forested peatland until independent HCVF assessments including input from peat experts has been completed.

Social and community engagement

Policy commitment 3:

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, as it implements the following set of principles:

- Free, Prior and Informed Consent of indigenous people and local communities
- Responsible handling of complaints
- Responsible resolution of conflicts
- Open and constructive dialogue with local, national and international stakeholders

Where new plantations are proposed, APP will respect the rights of indigenous peoples and local communities, including recognition of customary land rights. APP has committed to independent HCVF assessments as part of this commitment and will, in consultation with stakeholders, develop further measures to implement FPIC.

APP will consult with NGOs and other stakeholders to ensure that its protocols and procedures for FPIC and conflict resolution are in accordance with international best practice.

Third party suppliers

Policy commitment 4:

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

Growth and yield from existing plantations

Recent independent assessments of the growth and yields of APP suppliers' plantation areas confirms that the company has sufficient plantation resources to meet the long term forecast demand for its pulp mills.

APPENDIX B

APP Grievance and Monitoring Address

Regarding to the implementation of these new APP's commitments of Forest Conservation Policy and to ensure transparency as well as to address issues that arise, APP encourages independent observers and stakeholders to participate on the APP Grievance and Monitoring address below.

- Phone: +6288 0814 7896 (Temporary)
- Toll Free Number: 0800 1 401471
- Fax: +6221-316 2617
- PO-Box: 6604/JKPWK, Jakarta 10350c
- Email: sustainability@app.co.id

Asia Pulp & Paper Group is a trade name for a group of pulp and paper manufacturing companies in Indonesia and China. The APP Group of companies is one of the world's leading pulp and paper manufacturer and is ranked as one of the largest vertically integrated pulp & paper producer in the world.

