



2005-2006 APP Environmental and Social Sustainability Report for Indonesia

SUSTAINABILITY



RESPONSIBILITY





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Scope of this Report

APP is the brand name used throughout this Sustainability Report as a reference to PT. Purinusa Ekapersada, an Indonesian company that operates pulp and paper mills in the Republic of Indonesia.

The APP companies included in this report are: PT. Indah Kiat Pulp & Paper Tbk. with operations in Perawang, Serang and Tangerang; PT. Pabrik Kertas Tjiwi Kimia Tbk. in Sidoarjo; PT. Pindo Deli Pulp And Paper Mills in Karawang; and PT. Lontar Papyrus Pulp & Paper Industry in Tebing Tinggi. These mills are located on the Indonesian islands of Java and Sumatra.

Sinarmas Forestry (SMF) is the exclusive fiber supplier to APP's mills. It is a sister company within Sinarmas, a large Indonesian business conglomerate.

This report covers activities during a two-year period, from January 1, 2005 to December 31, 2006. Since APP and Sinarmas Forestry operate as independent businesses and use different management systems and reporting cycles, the cut-off dates for performance data for each operation differs. For APP mill operations, the cut-off date for performance data used in this report is August 31, 2006. For the fiber-supply operations of Sinarmas Forestry, the cut-off date for performance data used in this report is June 30, 2006.

APP's first-ever Sustainability Report 2005 - 2006 has been developed based on the main considerations and certain selected performance indicators of the GRI framework. As is standard practice in sustainability reporting, APP's report has been verified by an independent, credible, third-party reviewer, Bureau Veritas, which has adhered to the principles and practitioner requirements of the AA1000 Assurance Standard.

Bureau Veritas is an independent professional services company that specializes in Quality, Health, Safety, Social and Environmental management. Bureau Veritas has more than 180 years' history in providing independent assurance services, and an annual turnover (in 2005) of 1.7 billion Euros.

Bureau Veritas has implemented a code of ethics across its practice that is intended to ensure that all its staff maintain high ethical standards in their day-to-day business activities and are vigilant in the prevention of conflicts of interest.

The Bureau Veritas assurance team completing the work for this report has extensive experience in conducting assurance regarding environmental, social, ethical and health and safety information, systems and processes. In addition, the team has more than 25 years' combined experience in this field, and a thorough understanding of good practice in Corporate Responsibility reporting and assurance.





Message from the Chairman

"Conservation beyond compliance."

These three words express the commitment to the sustainability of the environment and communities that is held by all of the companies comprising the APP brand. In policy and in practice, APP is committed to meeting or outperforming all of the compliance standards set by relevant national laws and regulations.

But what does "conservation beyond compliance" mean in our daily operations?

For our fiber suppliers, which operate under the Sinarmas Forestry umbrella, it means the practice of sustainable forest management on both plantation lands and the natural forests that have been placed in our care through the concession process. It means that we protect the land by continuously improving our practices and by using the most efficient, ecologically-sound harvesting techniques available in Indonesia. It means that we set aside from harvest

upwards of 30% of our forest concessions as conservation areas, and that we make a priority of protecting large, contiguous blocks of intact natural forest and everything that lives within them.

Conservation beyond compliance means that APP goes the extra mile to ensure the survival of endangered species and to minimize conflicts between wildlife and humans, taking steps that go beyond what is required by national regulations. As you will read in this report, we have embarked on a world-class Biosphere Reserve conservation project, and are one of the key driving forces behind the establishment of a special sanctuary to protect the endangered Sumatran Tiger.

"Conservation beyond compliance" also means that we ensure the legal origin of all the fiber that enters our mills. To do so, we have instituted a highly secure chain-of-custody system throughout our fiber-supply chain. To ensure the integrity of this system, we subject it to independent, third-party verification by a credible international certification body. Because we can demonstrate that our fiber is legally procured, and passes through an unbroken chain-of-custody from the forest to the finished product, we are able to satisfy the updated requirements of Japan's recently adopted Green Purchasing Law.

For our mills, "conservation beyond compliance" means that we employ best practices across all manufacturing processes, and that we continuously enhance our environmental performance. Recognizing that we do not have all the answers, APP utilizes highly-qualified outside experts to benchmark our performance, and to set forth plans of action for this continuous improvement. The mill profiles section of this report details some of our accomplishments to date. For example, our success in making our Lontar Papyrus facility more environmentally friendly was recognized in 2005 by the Indonesian Government with its PROPER Green award. Process improvements made at our Pindo Deli and Tjiwi Kimia mills now qualify these facilities to make paper carrying the National, Japan and European market ECOLABEL certification marks.

"Conservation beyond compliance" also means that APP is committed to helping the forest-dependent people who live in and around its forest concessions, and to improving the standard of living in the villages and communities near its mills. To keep these commitments, APP underwrites myriad community empowerment programs, and has allocated some US\$3.2 million over the past two years for education, infrastructure development, culture preservation, support of religious activities, and other programs to improve standards of living.

As we release our first-ever sustainability report, all of the companies that comprise the APP brand stand proudly behind our accomplishments to date in demonstrating our commitment to sustainability, conservation, and communities. We stand determined as well to face the challenges ahead, to continuously improve our performance, and to move ourselves – and our industry – forward so that this and future generations may prosper, and may have the paper products they desire and the healthy environment they deserve.

Thank you for being a vital part of our ongoing voyage toward sustainability and for supporting us as we keep our commitment to "conservation beyond compliance."

Teguh Ganda Wijaya
Chairman

OVERVIEW

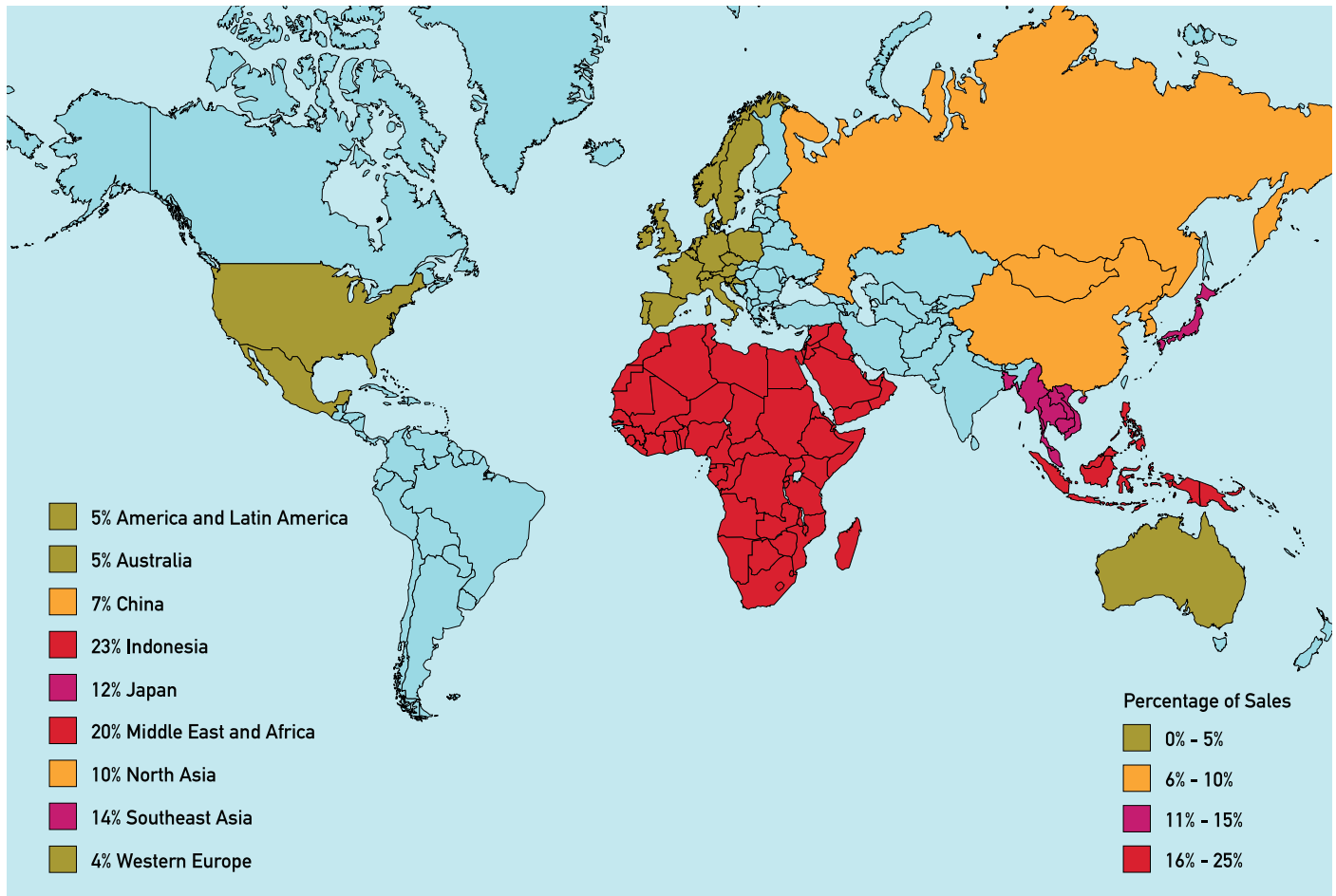


Introduction to APP

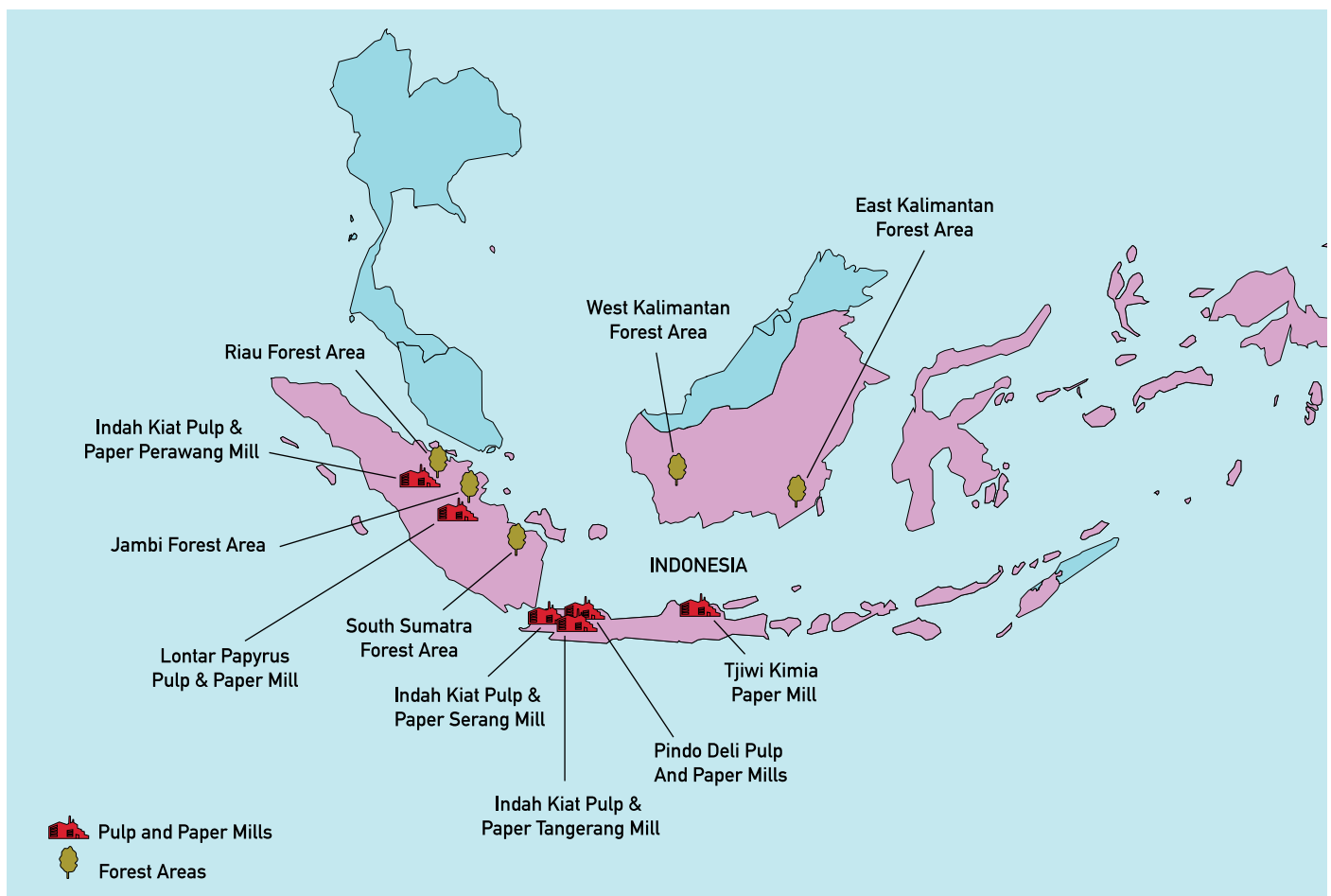
One of the world's largest, vertically-integrated pulp and paper companies, APP is recognized internationally for the quality of its paper products. With current annual combined pulp, paper and packaging grade capacity of more than seven million tons in Indonesia, APP ranks as the number-one producer in Asia, outside of Japan. APP's operating companies produce a broad range of paper products, including art and specialty papers, tissue and paperboard. In addition, APP's mill operations produce such converted paper products as photocopy paper, office and stationery papers, hygienic tissue and packaging products. APP's products are marketed in more than 65 countries, and APP is a major supplier to customers in Europe, Japan, Australia, the United States, the Middle East, as well as to Indonesia and other countries in Asia.

APP is one of the business arms within Sinarmas, a large Indonesian business conglomerate. APP has four principal operating companies: PT. Indah Kiat Pulp & Paper Tbk. ("Indah Kiat") with three mills; PT. Pindo Deli Pulp And Paper Mills ("Pindo Deli") with two mills; PT. Lontar Papyrus Pulp & Paper Industry ("Lontar Papyrus") with one mill; and PT. Pabrik Kertas Tjiwi Kimia Tbk. ("Tjiwi Kimia") with one mill. Together, these companies operate a total of seven mills in Indonesia. The Lontar Papyrus and the Indah Kiat Perawang pulp and paper mills are located on the island of Sumatra. The remaining five mills produce paper only and are located on the island of Java.

DISTRIBUTION OF APP PRODUCTS SALES 2005



APP PRODUCTION FACILITIES





In 2005, sales for the four APP companies totaled in excess of US\$3.2 billion dollars, with net equity at the end of the year of US\$3.1 billion.

APP MILL SALES [US \$ Thousands]

MILL	2005 SALES
Indah Kiat	1,414,148
Pindo Deli ¹	920,349
Tjiwi Kimia	926,447
Total	3,260,944

APP employs more than 36,800 workers. Mill operations also create in excess of 15,000 indirect jobs for contractors and suppliers. In addition, through its exclusive fiber supplier, Sinarmas Forestry (SMF), APP provides employment for an additional estimated 14,000 workers, bringing the estimated total employment of APP to 66,000 persons.

APP's Vision

APP'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 has committed itself to being socially, environmentally and economically sustainable in all its operations. APP keeps this commitment by helping to empower the people in the communities in which it operates, initiating conservation programs to protect the environment, using only the most efficient and ecologically sound harvesting technology, adopting best practices in mill operations, and dedicating itself company-wide to continuous improvement.

¹ PT. Pindo Deli Pulp and Paper Mills owns 80% of PT. Lontar Papyrus Pulp and Paper Industry. Sales for these entities are consolidated for reporting.

Corporate Governance

Under Indonesian corporate governance laws, public companies are required to have two boards, a Board of Directors and a Board of Commissioners. Directors are responsible for overseeing the company's operation of the company. Commissioners are responsible for supervising the Directors' policies in running the Company and to give advice to the Directors.

It is compulsory for each public company in Indonesia to have an Independent Commissioner, who has the responsibility of supporting and creating a more objective and fair system of governance for minority and other stakeholders in accordance with the principles of good corporate governance. Each public company in Indonesia also must have an Audit Committee.

During the past year, APP has made further improvements in the governance of its operating companies. In 1990, Corporate Secretaries were appointed for PT. Indah Kiat Pulp & Paper Tbk. and PT. Pabrik Kertas Tjiwi Kimia Tbk. A Corporate Secretary was appointed for PT. Pindo Deli Pulp And Paper Mills in 1997 and for PT. Lontar Papyrus Pulp & Paper Industry in 2000. In 2002, Independent Commissioners and an Audit Committee were established for PT. Indah Kiat Pulp & Paper Tbk. and PT. Pabrik Kertas Tjiwi Kimia Tbk. In 2006, Independent Commissioners and an Audit Committee were established for PT. Pindo Deli Pulp And Paper Mills and for PT. Lontar Papyrus Pulp & Paper Industry. In addition, APP adopted an Audit Committee Charter containing the main terms of reference for the Audit Committee in the execution of its responsibilities. These changes were made as part of APP's ongoing commitment to improvement.

Additional information about corporate governance for PT. Purinusa Ekapersada and its four principal operating companies is provided in Appendix I. Additional information about the APP policies described in this report is provided in Appendix II.

2005 DISTRIBUTION OF APP MILL EMPLOYEES, MILL INDIRECT JOBS AND FIBER SUPPLIER JOBS

LOCATION	MILL EMPLOYEES	MILL INDIRECT JOBS	SINARMAS FORESTRY	TOTAL
Island of Java	26,850	7,650	NA	34,500
Island of Sumatra	10,000	7,600	14,000	31,600
Total	36,850	15,250	14,000	66,100

APP has adopted a strategy of empowerment intended to “help people help themselves” in becoming sustainable.

Sustainability and Corporate Strategy

This Sustainability Report, the first document of its kind issued by APP, is intended to provide a foundation for a basic understanding of APP’s sustainability policies, strategies and programs. It is also intended to provide a baseline for future reports on APP’s progress and on opportunities to improve the company’s stewardship. APP recognizes that, while it has made progress, there are many areas in which the company can and will improve its performance over time. APP believes that by sharing this information with all interested stakeholders, this report can be a first step in a collaborative journey toward continued improvement.

It is important to point out to those stakeholders not familiar with Indonesia that companies operating in this country and wishing to be competitive in international markets face many unique challenges.

The world’s largest archipelagic state, Indonesia stretches more than three thousand miles along the equator, and encompasses more than 17,500 islands. This nation of islands forms a link between the Indian and Pacific oceans. Indonesia’s 200 million people represent myriad cultures, languages, religions and ethnic groups. The national motto, “Bhinneka Tunggal Eka” (“Unity In Diversity”), accurately reflects a nation of people who are drawn together while maintaining their unique identities.

Some 45% of all employment in Indonesia is in agriculture, yet this sector accounts for only 16% of the country’s gross domestic product. The challenges of conducting business in Indonesia include political turmoil, poverty (an estimated 50% of the population lives on less than US\$2 per day), an under-resourced public education system, pollution, land encroachment and disputes, forest conversion, loss of biodiversity, fire, illegal logging, and inadequate infrastructure.

After gaining its independence from Dutch rule and from Japanese occupation at the end of World War II, Indonesia faced more than 50 years of oppression from within, first under the

Soekarno regime, and, later, the Soeharto regime. Three other presidencies ensued, from 1998 to October, 2004, when Susilo Bambang Yudhoyono became the sixth president and the first president directly elected by the people of Indonesia. President Yudhoyono immediately initiated a four-pillar plan formulated around Prosperity, Peace, Justice and Democracy. Still in effect, Yudhoyono’s plan has included policies to cut red tape, improve labor laws and to root out corruption from the top down.

In support of the agendas set by President Yudhoyono, the Indonesian Ministry of Forestry established a ten-year plan, setting as its priorities the eradication of illegal logging and illegal timber trading; the revitalization of the forestry sector; the rehabilitation of degraded forests and wasteland as well as conservation of high-conservation-value forests; and the economic empowerment of forest-dwelling communities to increase welfare, education and employment opportunities.

APP, in turn, has established policies and programs that will enable it to help realize the goals of the Ministry of Forestry’s ten-year plan.

Central to these policies and programs is APP’s commitment to ensuring the sustainability of all its operations, including maintaining credible environmental management certification for its business activities and the continuous improvement in its day-to-day operations. APP also is committed to achieving sustainable forest management certification for its fiber sources. This will be done in full compliance with relevant national and international laws and regulations and in conformance with binding agreements.

In addition, APP has made a commitment to social responsibility, and has adopted a strategy of empowerment that is intended to “help people help themselves” in becoming economically sustainable individuals and families so that they might provide for healthy, sound livelihoods.

APP and Sustainability

All of APP's operations are ISO 9001 (quality management system) and ISO14001 (environmental management system) certified, and have been so for nearly a decade. Consistent with the tenets of these certifications, APP's mills were early adopters of methods to more effectively build-in management tools for continuous improvement. All of APP's operations observe and meet (or surpass) national air-emission, water-effluent and solid-waste standards. Performance in these critical areas is monitored rigorously by each facility and is verified through periodic third-party audits. All operations have met, and continue to meet, government occupational safety and health regulations (SMK3) and requirements, rigorously maintain the programs recognized by their SMK3 certifications, and conduct annual, third-party audits of performance.

APP has established a rigorous tracking system to ensure that all wood brought into mills has a verified legal origin.

To support the activities in the pulp and paper business and to better manage all of its own improvement activities, the majority of Sinarmas Forestry (SMF) operations in Sumatra and Kalimantan also are ISO 14001/2004 certified.

SMF operations in Sumatra have embarked on a process of having their forest concessions third-party certified according to the Principles and Criteria for Sustainable Forest Management of LEI, the Ecolabel Institute of Indonesia.

APP's paper, tissue and packaging products are in compliance with product safety regulations for critical and demanding markets in Europe, Japan, and the United States. This includes compliance with regulations proscribing the use of hazardous substances including: six substances banned in electric and electronic equipment under Restriction of Hazardous Substances (RoHS) in Europe; 67 substances listed as environmental hormones suspected of having endocrine-disrupting effects by the Ministry of the Environment of Japan, the use of which is not allowed by Pulp and Paper Industry Association of Japan; and US Food and Drug Administration requirements for products in direct contact with food.

APP offers a range of environmentally-sound paper products made from sustainable fiber. These include elemental chlorine free (ECF) paper and a range of paper and paperboard products made with post-consumer recycled waste paper. In addition, APP maintains a strict policy of zero illegal logs in its fiber

stream, and has established a rigorous tracking system to ensure that all wood brought into its two pulp mills in Sumatra has a verified legal origin. Fiber-stream integrity is maintained all the way from the forest to the mill through the tracking and documentation requirements of APP's Chain-of-Custody (CoC) system. To ensure that this system continues to operate effectively, CoC system performance and improvements are verified regularly through third-party audits. All outside fiber purchased either must be third-party certified according to a credible sustainable forest management standard (market pulp) or come from a documented post-consumer waste source (recycled paper products).

APP's commitment to sustainability also includes an important social dimension – that of economic sustainability. APP's continued operation is the means of ensuring better, more stable livelihoods for the more than 66,000 employees and contract workers who depend directly on APP's operations for their income. In addition, the impact of APP's operations indirectly supports thousands of families, many of whom live in remote villages and rural communities.

APP recognizes that its economic, technologic, and manufacturing resources stand in marked contrast to the rural and relatively impoverished living standards of neighboring villages. Because the nature and scale of APP's business does not enable the company to offer employment to many community members who are lesser-educated and relatively unskilled, the company views itself as having an obligation that extends past the mill gate – a commitment to the vitality and sustainability of nearby communities.

APP is committed to mitigating the disparities between mills and communities by implementing a range of support services that include education, training, and empowerment programs for local communities. APP also provides much-needed health care and infrastructure improvements that enable local communities to better help themselves.

APP also is committed to sustainable forest management, and this commitment is realized through a close and direct working relationship with its exclusive fiber supplier, Sinarmas Forestry (SMF).

APP and SMF share three goals in their vision of sustainable forestry: to strive for sustainable fiber productivity (growth rate and yield to paper); to provide low fiber cost; and to use methods that are environmentally acceptable and socially compatible. APP and SMF also share a forest conservation goal of leaving intact large areas of natural forest (in addition to conservation areas required by national regulations) in order to protect the biodiversity of valued ecosystems. These programs, discussed in the forestry section of this report, entail close cooperation and collaboration with other companies, the government and interested stakeholders.

AREAS IN HECTARES AS OF JUNE 30, 2006

ISLAND	TOTAL AREA	SET-ASIDE AREA	AREA APPROVED FOR PLANTATION DEVELOPMENT			
			Subtotal	Planted	Degraded	Barren/Waste
Sumatra	1,676,600	590,278	1,086,322	517,031	95,161	474,130
Kalimantan	483,000	284,876	198,124	106,378	NA	91,746
Total	2,159,600	875,154	1,284,446	623,409	95,161	565,876
Percent	100%	41%	59%	29%	4%	26%

APP and Forest Concessions

The Republic of Indonesia owns some 126.8 million hectares of state forestland (about 66% of the total land mass of the country). Of this area, more than 55 million hectares have been classified as "protected forests" and "conservation forests." Only about three percent of Indonesia's forests have been classified as areas of "convertible production forest" in which pulpwood plantation can be established.¹

No private ownership of state forests is permitted. However, the Indonesian Ministry of Forestry grants private companies licenses (also known as concessions) to manage and harvest state forestland.

As of June 30, 2006, the area of concessions under license to Sinarmas Forestry (APP's exclusive fiber supplier) totaled 2,159,600 hectares. Of the total forest concession area, nearly four-fifths is located on the island of Sumatra, with the balance on the island of Kalimantan. More than 875,000 hectares (or 41%) of the total concession area has been set aside as conservation area, reserves for community use, indigenous species and infrastructure. At the end of the second quarter of 2006, 623,409 hectares (29% of the total concession area) of the remaining 1,284,446 hectares approved for plantation development was established plantation forest. The balance (30% of the total concession area) was either degraded forest (95,161 hectares) and bare earth and/or waste land (565,876 hectares).

¹Source: Long Term Plan for Forestry Development 2006-2025 Ministry of Forestry of the Republic of Indonesia and Statement of the Minister of Forestry of the Republic of Indonesia at Sustainability Seminar, 14 November 2006, Tokyo, Japan. See Appendix V for complete text.

Protection Against Forest Fires

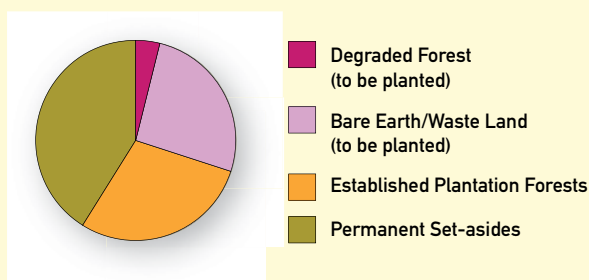
In addition to the normal issues of growth and disease that impact forests, fires pose a real and present danger to the resource itself, to nearby communities, and to the Republic and neighboring countries in the form of smoke and haze. To address this threat, SMF enforces a strict no-burn policy on licensed concessions. In addition, SMF has put in place a number of proactive programs to prevent or minimize the risk of the occurrence of forest fires. These programs range from the use of water-bombing helicopters and firefighting barges by company fire fighters to collaboration with local and regional authorities, and the implementation of community awareness and training programs.

Community Development and Community Forestry

As is the case with APP's social programs (which are discussed later in this report), SMF's community development programs are designed to help people live in autonomous, prosperous and environmentally-aware communities. SMF's programs focus on the development of community economies and infrastructure. These programs support social and cultural activities and generally incorporate an agricultural dimension. The development and implementation of these programs is built on three key principles: to respect the rights of indigenous peoples; not to develop land if there are unresolved, legitimate land claims until those claims are resolved using a fair and equitable process; and to formulate plans on a participatory basis.

SMF, as the licensed caretaker of the people's forestland, supports the development of sustainable community woodlots. This focus on small-scale forestry adds a pragmatic dimension to SMF's sustainable forestry management programs, and offers a means of providing for the critical economic needs of forest-dwelling people who would otherwise lack the expertise or experience to manage a forest sustainably. By providing a means of earning a livelihood through the practice of responsible forest management, the establishment of community woodlots also helps minimize the incidence of illegal logging and land-clearing by fire, increases the efficiency of non-productive land and helps meet the long-term fiber supply needs of the company.

AREAS IN HECTARES AS OF JUNE 30, 2006



In general, local stakeholders rated APP's mills and forestry operations favorably in regards to their willingness to listen to the concerns of villagers.

APP's Relationship with Stakeholders

APP stakeholders include, but are not limited to, customers around the world, suppliers, community leaders and community members, non-governmental organizations, local and regional authorities, the government of the Republic of Indonesia and the media.

APP also maintains open lines of communication with national, regional and local governments, and works closely with them to ensure effective implementation of government policies and programs.

APP engages stakeholders on an as-needed basis to discuss issues that affect its mills, forest operations and the relevant stakeholder group. According to stakeholder reports from the various mill venues, the frequency of stakeholder engagement ranges from monthly to weekly.

APP's Vice Director of Sustainability & Stakeholder Engagement, Aida Greenbury, serves as a primary point of contact between the company and its stakeholders. To facilitate productive, ongoing dialogue with APP's broad and diverse global stakeholder base, APP's Sustainability & Stakeholder Engagement Team publishes the "APP Stakeholder Update" on a periodic basis, and distributes this document to more than 600 individual stakeholders and stakeholder groups worldwide.

Input from stakeholders is solicited through face-to-face meetings, informal surveys, and both written and telephone communication. APP's Sustainability & Stakeholder Engagement Team frequently conducts international "Sustainability Events." These sessions provide forums for the open exchange of ideas, concerns, and solutions between the company and its stakeholders. Sustainability and Stakeholder Engagement Events have been held in Southeast Asia, the United Kingdom, Western Europe, Japan, the United States, Australia and New Zealand, generating a wealth of input that influences the company's policies, strategies, plans and practices.

On November 14, 2006, APP sponsored a day-long Sustainability Seminar in Tokyo, Japan. This event was attended by 120 people representing 80 stakeholders and stakeholder groups, predominantly customers. In addition to a formal review by APP and SMF of their sustainability programs, the seminar included a presentation by the special envoy of Indonesia's Minister of Forestry who complemented APP and SMF for their "strong commitment to developing the forest resources for the benefit of the nation." (See Appendix V for the full text of the Minister of Forestry's message.) The seminar presentations were followed by an afternoon Question-and-Answer session. During the next two days, a group of APP managers, including the Vice Director of Sustainability and Stakeholder Engagement, visited a number of customers to provide additional opportunities for more detailed discussions and the exchange of ideas.



Stakeholder Input to this Report

As part of its preparation for this report, APP solicited the input of more than two dozen stakeholders (see Appendix III) who were asked to comment on the performance or impact in a number of relevant areas of the APP companies with which they were most closely associated.

As an example, local governmental authorities were asked to comment on their local APP mill's economic and non-economic contributions to the region, and on the positive or negative impact of the mill's presence on such variables as traffic, crime, education, and citizen empowerment.

Similarly, village leaders were asked to comment on such matters as the frequency of contact between the mill/forestry operation and the community, whether concerns were listened to, and the adequacy of response of the mill/forestry operation to concerns that had been raised. The input from these stakeholder surveys has been woven into the text of this report in the appropriate sections.

In general, local stakeholders rated APP's mills and forestry operations favorably in regards to their willingness to listen to the concerns of villagers. These stakeholders also expressed the belief that, for the most part, APP's mills and forestry operations adequately addressed concerns once they had been raised.

This is not to say that stakeholders perceive the company as infallible. The need for the company to step-up its participation in providing community health care in the Tangerang area was cited as an issue by villagers and the local authority alike. Also, one NGO, based in the Riau province of Sumatra, expressed the

concern that the company needed to increase its openness in sharing data, to increase its transparency in communicating its forest management plans, and to improve the engagement with the local communities. The same NGO respondent did, however, acknowledge that the company has improved its performance in the latter area during this reporting period.

The suppliers surveyed for this report had affiliations with their respective mills of from four to nine years. Each indicated that they had been treated fairly by the company, that they had been paid on time, and that the company was a good business partner. One supplier (to the Tjiwi Kimia mill in East Java) noted that the partnership between the companies had made it possible for the supplier to develop further the technology used in making the products consumed by APP.

In addition to stakeholder relationships at the local level, APP also develops and maintains relationships at the national and international level. During the reporting period, these relationships included collaboration with the Sumatran Tiger Conservation Program of Indonesia, the Sumatran Tiger Trust of the UK, the Rainforest Alliance and Citizens International in the US, as well as with various national universities and research institutes, and the Center of Local Government Innovations in Indonesia.

APP has not conducted a recent, comprehensive survey of customers, non-governmental organizations, or government stakeholders, but maintains regular interaction with these groups. Overall these relationships, with a few notable exceptions, are positive and constructive.

SOCIAL PERFORMANCE



A Commitment to Communities

APP's economic, technologic, and manufacturing resources stand in marked contrast to the rural and relatively impoverished lifestyle of neighboring villages. While APP's presence in a community helps drive up the standard of living, and while some of the higher-skilled members of local communities are able to find employment in APP's mills, the nature and scale of APP's business does not enable the company to offer employment to many community members who are less-educated or relatively unskilled.

APP is committed to mitigating such disparities by implementing a range of support services that include education, training, and empowerment programs for local communities, as well as by providing much-needed health care and infrastructure improvements that enable local communities to better help themselves. In 2005 and 2006, APP's mills allocated US\$ 3.2 million toward these social programs, with another US\$ 1.8 million being allocated toward social programs by APP's philanthropic arm, the Eka Tjipta Foundation.

Education

Facilitating access to quality education is one of APP's highest social priorities, and this commitment is evidenced at each of APP's mills throughout Indonesia.

Since 2003, APP has operated an on-site school for the employees who live in company housing at the Indah Kiat mill in Serang. At other facilities, APP has constructed classroom facilities and/or provides funding for the continued operation of secular and religious schools. APP mills also provide the school buses that transport children living in remote, rural areas to and from school. APP's Lontar Papyrus mill in Jambi, Sumatra, underwrites teacher training to ensure that students receive a quality education, and the Indah Kiat mill in Perawang is constructing a preschool building as an addition to its complex of classrooms for grades K-through-12 schooling of the children of company employees and the local community.

In 2005 and 2006, APP mills allocated approximately US\$ 300,000 in scholarship underwriting, enabling village students to attend elementary, middle-school, high school and college classes that would otherwise be unaffordable to their families. In locales where the Indonesian government underwrites tuition costs, APP mills provide stationery supplies, school bags, school uniforms, books, and other necessities to local students. In addition, APP mills provide direct assistance to local schools by donating composition books that can be sold by the schools at low cost to raise money for operations.

APP mills underwrite student competitions in a range of academic disciplines, including the arts. Winning students receive modest stipends to help defray the costs of their schooling.

To encourage interested students to explore careers within the pulp and paper industry, APP mills also offers vocational school fellowships that are tied to paid internships at company facilities. For example, at the Indah Kiat Serang mill, up to three students per year are selected to attend the Academy of Pulp & Paper Technology in Bandung, West Java, a leading vocational college. Upon successful completion of their coursework, each student then receives two years of on-the-job training at the sponsoring mill facility.

Skills Training

At Community Development Training Centers located near its operations in Riau and Jambi, APP provides training designed to give local community members new skills and practical experience in agriculture, aquaculture, the care and fattening of livestock, and the marketing of home-grown food products. These Community Development Centers also provide short-term, dormitory-style housing for villagers who must travel tens of kilometers or more to receive the training.

"The Indonesian Government calls upon companies such as APP to help improve the standard of living in the villages near their mills, and calls on companies such as SMF to do the same for rural communities in the forest," said Mr. Soebardjo, Forestry Director for Sinarmas. "We have found that simply providing financial support – giving away money – does not produce lasting results. By teaching people how to farm, fish, and raise livestock for market, we can have a more-positive impact, and the people we help can then pass on their knowledge to their neighbors and their children, widening the impact of this benefit."

Empowerment Programs

Sometimes, a little opportunity is all that is needed to help community members improve their standard of living. APP's mills create these opportunities by making excess assets available to villagers, by allowing entrepreneurs to ply their trades on-site at mills, by creating symbiotic enterprises with local cooperatives, and by contracting with small, independent business who can earn fair returns while meeting the mill's daily service needs.

At the Tjiwi Kimia mill in East Java, scores of independent truckers swarm the mill site daily in their brightly colored vehicles, delivering pulp and other process materials throughout the huge complex.

At lunchtime, vendors pedaling blue, three-wheeled carts fan out throughout the facility offering hungry mill workers ready-to-eat meals at reasonable prices. By standardizing and sanctioning the activities of these food sellers, the mill provides a convenient service to its employees while eliminating the liability and expense of policing "wildcat" vendors on the mill site.

APP's mills have implemented a number of programs designed to help ensure that medical services are available to and accessible by local communities.



At the Indah Kiat facility in Tangerang, near Jakarta, elder members of the nearby village have access to a swath of land between the mill's flood wall and the Cisadane River. This narrow strip of land floods annually, making its use by the mill impractical. However, the same flooding deposits nutrient-rich silt, making the land ideal for small-scale farming. The management of the Indah Kiat Tangerang mill has made the land available to villagers for agriculture. Several elderly farmers now grow corn, bananas, melon, and other crops that are sold to mill workers and others in the community. The revenue generated from sale of these crops enhances what otherwise would be a near-subsistence standard of living for the elder farmers and their extended families.

The management of the Pindo Deli mills, also on the island of Java, enable villagers to profit by using mill-owned land to enhance their daily lives. Pindo Deli makes some 80 hectares of rice fields available for use, on a leased basis, to 347 family farmers. The mill keeps the land lease costs very low, enabling each farmer to earn a modest profit from the two rice crops grown each year. Pindo Deli also has created a "food court" on its mill site at which local entrepreneurs sell meals to mill employees from stalls they rent from the company.



At both the Indah Kiat mill in Perawang, Riau, and the Lontar Papyrus mill site in Jambi (both on the island of Sumatra), community members earn supplemental income by growing seedlings that will be planted by Sinarmas Forestry operations. Started two years ago with seeds and other needed supplies contributed by SMF, the cooperative community nursery has become entirely self-sustaining, has expanded its growing capacity, and now provides the company with more than three million seedlings per year. At the community nursery near the Lontar Papyrus mill site in Jambi, one of eight such facilities operated by SMF in the area, workers grow seedlings using seed and other materials supplied by Sinarmas Forestry. The growers, mostly women taking a few hours away from household responsibilities to earn extra income, adhere to high standards of quality required by SMF, and receive fair compensation for their labor. The SMF community nursery program throughout Jambi helps improve the standard of living for some 450 families on an ongoing basis.



Health Care Services

APP is genuinely concerned about the continued good health of its employees and of the people living in villages surrounding its mills. Each mill site operates a medical clinic that provides first aid and primary care to employees and to families of employees living on site.

APP's mills have implemented a number of programs designed to help ensure that medical services are available to and accessible by local communities. The Pindo Deli mills, on the island of Java, operate a mobile medical clinic for local villagers. One day each week, an APP-paid physician takes time away from the on-site clinic to see patients in one of several nearby villages. The mobile clinic provides medical screenings, inoculations, and other primary-care services. Similarly, a physician from the Indah Kiat mill in Perawang makes regular boat trips to provide medical care to fishing villages upstream. APP's Tjiwi Kimia mill makes its on-site ambulance and fire crews available to deal with emergencies that occur within 20 kilometers of the mill.

To combat the spread of Dengue Fever, APP's Indah Kiat mill at Perawang provides a pesticide fogging service to control mosquitoes which transmit this dangerous, and frequently fatal, viral disease.

With the help of a bridge loan from Tjiwi Kimia, the mill's employee cooperative recently built a four-story, 120-bed hospital to serve the needs of community members. The new facility, complete with semi-private patient rooms, laboratory and radiology departments, an emergency room, and a surgical center, replaces the community's outdated six-bed clinic. The bridge loan (which is now being repaid) helped make it possible for the community cooperative to secure construction funding on the open market.

In addition to operating an on-site clinic for employees, the Indah Kiat mill in Serang provided funding for the construction of a rural hospital to serve the needs of villagers living adjacent to the mill. The hospital, operated by the Indonesian government, provides a range of basic and emergency services, including radiology, obstetrics, and dentistry.

Human Immunodeficiency Virus (HIV) and Acquired Immune Deficiency Syndrome (AIDS) are on the rise in many developing countries, including Indonesia. The itinerant nature of the labor force supplying APP's paper mills makes the risk of HIV/AIDS particularly acute. To help combat the growing threat, the Indah Kiat mill at Perawang has implemented a government-designed program to raise awareness of HIV/AIDS, and its preventable nature, among mill employees and suppliers. The program and its HIV/AIDS-prevention message are promoted through posters and informational literature distributed mill-wide, and by a banner prominently displayed at the mill site. Both women and men attend the mill's HIV/AIDS awareness sessions. The supervisory personnel of mill suppliers are also given HIV/AIDS awareness training, and are encouraged to pass the information on to their employees.

As substantial as these efforts and programs may be, the needs of the communities surrounding the mills are great, and there is much more that could be done. For example, the head of the Serpong Subdistrict (in which the Indah Kiat Tangerang mill is located) and village leaders believe that there is room for improvement in the community health programs, facilities, and services being offered by the mill.



Infrastructure Improvements

The presence of an APP mill in a community typically results in a noticeable enhancement in quality-of-life. In addition to offering social programs, APP funds infrastructure-improvement projects to make life in rural villages less arduous.

In the community of Sidoarjo, APP's Tjiwi Kimia mill funded the construction of a bridge over the Mangentan Canal, giving villagers better access to commercial, religious, and health-care facilities situated along the main highway, and alleviating congestion along roads used by trucks servicing the mill. APP mills also have constructed roads, renovated schools and local government public buildings, and provided equipment to make fresh, clean water available to people living in rural communities.

Providing Fresh Water for Local Communities

During periods of drought, APP's Indah Kiat Perawang and Serang mills, and the Pindo Deli mills in Karawang truck potable water to outlying villages that are in need. The Tjiwi Kimia mill, located in Sidoarjo in East Java, constructed a water tower at a nearby school site so that the villagers in this under-resourced community might have ready access to a year-round supply of potable water. Similarly, APP's Lontar Papyrus mill in Jambi, Sumatra, hired contractors to dig deep wells so that locals could have access to clean water.

Other Support Services: Religious Expression

Circumcision

Indonesia is a predominantly Islamic country, and the practice of Islam requires the circumcision of all male children. APP provides funding for the circumcision of male children living in villages adjacent to its mills, as well as of males living in orphanages. These circumcision rites are provided once annually.

Mosques

To better enable its Islamic mill employees to practice their faith, APP has constructed mosques at or near many of its mill sites that are not in close proximity to existing facilities. APP mills also have provided funding for the renovation of local mosques in need of repairs.

Sacrificial Animals

While foreign to Western thinking, the sacrifice of animals continues as a powerful ritual in Islamic Indonesia. APP mills provide goats to local villagers, enabling them to practice their faith. The meat of sacrificed animals is then used by villagers to feed the neediest in their communities.

PULP AND PAPER MILL

ENVIRONMENTAL PERFORMANCE



Overview

APP has four principal operating companies in Indonesia which, together, run a total of seven mills: PT. Indah Kiat Pulp & Paper Tbk. (“Indah Kiat”) with three mills; PT. Pindo Deli Pulp And Paper Mills (“Pindo Deli”) with two mills; PT. Lontar Papyrus Pulp & Paper Industry (“Lontar Papyrus”) with one mill; and PT. Pabrik Kertas Tjiwi Kimia Tbk. (“Tjiwi Kimia”) with one mill. The Lontar Papyrus and the Indah Kiat Perawang pulp and paper mills are located on the island of Sumatra. The remaining five mills produce paper only and are located on the island of Java. None of these five facilities have pulp mills on site.

Effluents & Emissions

APP’s manufacturing facilities are clean, state-of-the-art mills employing pulp and paper technology and machinery imported from Scandinavia, Europe, the US and Canada. They are generally considered “world class” mills. Air emissions and water effluents at the mills meet all Indonesian¹ and most international standards.

APP periodically benchmarks the operating and environmental performance of its mills against operating and environmental performance standards for competitive paper mills in the United States, Sweden and Japan. Comparisons are made to relevant government regulations and to performance data published by forest products companies and in trade and professional journals.

¹In Indonesia, air-emission standards are set at the national level (Decree from Ministry of Environment, KEP-13/MENLH/3/1995). Water-effluent standards are set at the provincial level. For example, the water-effluent standard for the Pindo Deli mills is set by Decree from the Governor, West Java No. 6/1999. The table presented in each mill profile reflects the applicable Indonesian standard for that mill.

Employment

Together, the seven APP mills employ more than 36,000 people and have a monthly payroll of approximately US\$10 million. In addition, the mills account for more than 15,000 indirect jobs, predominantly contractors and suppliers servicing the mills.

2005 NUMBER OF EMPLOYEES AND INDIRECT JOBS

MILL	EMPLOYEES	INDIRECT JOBS
Indah Kiat Perawang	8,000	7,000
Indah Kiat Serang	5,000	1,100
Indah Kiat Tangerang	1,200	250
Lontar Papyrus	2,000	600
Pindo Deli (1&2)	7,150	2,500
Tjiwi Kimia	13,500	3,800
Total	36,850	15,250

Production

During 2005, APP's seven mills produced more than 6.3 million metric tons of product, including more than 2,500,000 metric tons of hardwood pulp, in excess of 2,300,000 metric tons of paper, some 108,000 tons of tissue and nearly 1,400,000 tons of paperboard.

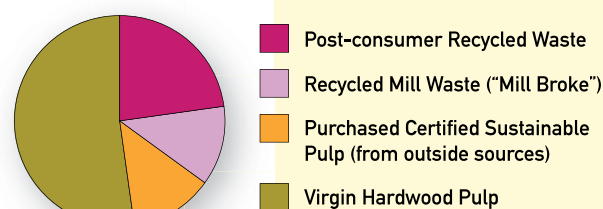
2005 MILL PRODUCTION

[Metric Tons]

MILL	PULP	PAPER	TISSUE	PAPERBOARD	TOTAL
Indah Kiat	1,866,006	618,068	NA	1,267,635	3,751,709
Pindo Deli ¹	652,270	753,074	108,134	46,608	1,560,086
Tjiwi Kimia	NA	949,322	NA	76,689	1,026,011
Total	2,518,276	2,320,464	108,134	1,390,932	6,337,806

¹ PT. Pindo Deli Pulp And Paper Mills own 80% of PT. Lontar Papyrus Pulp & Paper Industry. Financials for these entities have been consolidated for reporting.

MIX OF FIBER (2005, ALL MILLS COMBINED)



Raw Materials

Virgin hardwood fiber accounted for slightly more than 50% of the total fiber used in the production of APP's pulp and paper products during 2005. The balance of fiber consisted of post-consumer recycled waste paper from Indonesia and offshore markets (23%), mill waste ("mill broke") recovered and recycled at the mills (12%), and purchased paper pulp — primarily softwood — certified by the Forest Stewardship Council or the Program for the Endorsement of Forest Certification as being from sustainable forests (13%).

The fact that more than one-third of the fiber sourced by APP is recycled means that the company is having two significant positive impacts on the environment. First, the use of post-consumer waste fiber reduces the annual forest harvest of virgin fiber. The second positive impact results from recovering fiber throughout the pulp-and-paper manufacturing process — from the white-water system all the way to trimmings from paper-finishing operations. This reduces the amount of solid waste produced and reduces the load on the wastewater-treatment system at each mill.

APP's reliance of paper pulp from certified pulp mills ensures that all of the pulp procured from outside sources originates in forest that are managed sustainably and harvested legally.



Environmental Performance

APP's mills observe, operate in compliance with, and generally outperform the requirements of national laws for sustainability, fiber procurement, environment, and health and safety. These requirements are built into the operating policies that APP administers and monitors. All of APP's mills are SMK3 (Occupational Health and Safety) certified. In addition, all of APP's mills have earned certification under the ISO 9001 quality management system and ISO 14001 environmental management system protocols, and manage their continuous improvement in environmental performance using the ISO-based environmental management system tools.

The company enforces waste management policies to reduce pollutants. These include both a Source Control Policy and a Reduce, Reuse, Recycle Policy. Wastewater plants employ activated sludge along with physical and chemical treatments to prepare wastewater for safe discharge into the local waterways. Fresh water use per metric ton of product produced is in the low-40 range (40m³/mt) for each of APP's two pulp mills, and is at roughly the 20m³/mt level for each of the five paper mills. This compares favorably with offshore mills consuming between 24 and 81 m³/mt of fresh water in their facilities. In all cases, the quality of the water being discharged into waterways is higher than the quality of the fresh water being drawn from these sources into the mills.

At this writing, all of APP's mills have undertaken projects to further reduce or eliminate their solid waste. These projects include: improved fiber recovery; sale of waste to companies that can reuse the material; and the composting of sludge for use as fertilizer in the forest or for use in neutralizing acidic soils prior to planting. Processes to improve air emissions also have been implemented at every facility. These include such proven technology as electrostatic precipitators, scrubbers, cyclones, condensate strippers and NCG (non-condensable gas) incinerators.

Product Safety

APP's paper, tissue and packaging products are in compliance with product safety regulations for critical and demanding markets in Europe, Japan and the United States. This includes compliance with regulations proscribing the use of hazardous substances including: six substances banned in electric and electronic equipment under Restriction of Hazardous Substances (RoHS) in Europe; 67 substances listed as environmental hormones suspected of having endocrine-disrupting effects by the Ministry of the Environment of Japan, the use of which is not allowed by Pulp and Paper Industry Association of Japan; and US Food and Drug Administration requirements for products in direct contact with food.

Ecolabel Certification

Having met stringent environmental requirements set by the European Commission, APP's Pindo Deli and Tjiwi Kimia mills were the first in Indonesia to be able to sell Ecolabel-certified copying and graphic paper in national, Japanese and European markets. APP mills are able to offer a range of environmentally friendly papers, including those made with elemental chlorine free (ECF) pulp, those made with 100% plantation fiber, and a wide range of products containing recycled fiber.

Green Purchasing Law Compliance

In October, 2006, the procedures necessary to comply with Japan's updated Green Purchasing Law (GPL) were introduced at each of APP's mills. Management of each mill has made a commitment to implementing these GPL-compliance procedures during 2007. As it relates to pulp and paper products, the GPL is intended to ensure the legality and sustainable origin of pulpwood (the raw material of virgin paper pulp) in products being sold into the Japanese market. Japan's GPL requires certification of an unbroken chain-of-custody of supply, from the sourcing of raw material through mill processes to the sale of finished product to the customer. The GPL provides for certification using one of three methods: self-certification, certification by an affiliated second party, and certification by an independent third-party. Initially, APP will employ the self-certification method to certify its supply chain because of the extensive experience that APP and SMF have had with wood tracing systems which feature independent third-party auditing as an ongoing operating practice.

On the following pages, each of the seven APP mills is profiled individually. Each has different capabilities, and produces a unique range of paper, paperboard, and finished paper products to serve a variety of markets throughout the world. In addition, each mill has a mix of sustainability-driven projects and programs that have been tailored to addressing site-specific conditions and to meeting the distinctive needs of individual mill communities.



LONTAR POPYRUS



2005 MILL PROFILE	
Total Production [Tons]	
Pulp	652,000
Tissue	51,000
Paper	7,000
Paper Machines	2
Total Revenues [US \$ Millions]	290
Employment	
Direct Jobs	2,000
Indirect Jobs	600

Overview

Located in the village of Tebing Tinggi in Jambi Province on the island of Sumatra, PT. Lontar Papyrus Pulp & Paper Industry (Lontar Papyrus), is a single-line pulp mill that, in 2005, produced 652,000 tons of hardwood paper pulp. In addition to its pulp production, the mill also operates two paper machines with capacities of 51,000 tons of tissue and 7,000 tons of paper.

Pulp produced at Lontar Papyrus is shipped to APP mills on the island of Java (all of which are non-integrated paper mills) or is sold on the open market. Tissue from the Lontar Papyrus mill is sold in jumbo roll form to customers in Japan, the Philippines, Australia, Taiwan, the United States, and the Middle East. These customers convert the jumbo rolls to finished products, and market them under a variety of brand names. Paper produced at Lontar Papyrus is used to wrap rolls of pulp and paper at this and other APP mills.

Revenues in 2005 exceeded US \$290 million, a similar level to that achieved during 2004.

Lontar Papyrus employs about 2,000 people directly, and accounts for another 600 indirect jobs created by contractors and suppliers to the mill.

The Lontar Papyrus complex includes two co-generation facilities that use biomass as fuel, a wastewater-treatment plant, and a caustic-soda plant. The mill has the capability to produce elemental chlorine free (ECF) pulp.



Consumption

The pulp line at Lontar Papyrus runs 100% hardwood fiber, of which an estimated 5% to 10% is broke (fiber recycled from the pulp machine). This hardwood fiber is supplied by PT. Wirakarya Sakti, a member of Sinarmas Forestry.

All wood fiber procured by Lontar Papyrus is thoroughly documented through the supplier's chain-of-custody system to ensure its legal origin. The integrity of the chain-of-custody system has been verified by SGS, an international, independent third-party auditor.

Fiber for Lontar Papyrus' tissue products consists of 80% hardwood pulp and 20% purchased softwood market pulp. Fiber for the mill's paper machine is recovered from its tissue machine and from pulp machine white water, where both the water and fiber are recycled. (The water is subsequently recycled to the bleach plant). Average fiber consumption in 2005 was 4.4 Green Tons (GT) per Metric Ton (MT) of product, while fiber consumption in 2006 (through August) averaged 4.5 GT per MT.

In 2005 and during the reporting period in 2006, the Lontar Papyrus pulp mill consumed an average of 40 m³ of fresh water per MT of product produced.

The mill obtains fresh water from the Tungkal River, and treats the water before use in the production process. Wastewater is sent to a modern treatment plant that includes primary and secondary clarification stages and a holding lagoon. Physical, chemical and biological methods are used to treat the wastewater before it is returned to the Tungkal River. The quality of the treated wastewater is higher than the quality of the river water drawn into the mill.

Treated wastewater quality is measured every eight hours, and is audited twice yearly at the point of discharge from the mill. River water quality is monitored upstream and downstream of the plant on a regular basis. In addition, the provincial government inspects the quality of sample wastewater discharges monthly.

EMS & ISO Certification

The Lontar Papyrus facility obtained its initial ISO 9001 quality management system certification in 1995 from SGS and has successfully renewed its certification since. In 1997, the mill was granted ISO 14001 environmental management system certification by SGS. This certification has been successfully renewed as well. The mill makes active and regular use of ISO Environmental Management Systems (EMS) project planning protocols, with monthly reviews to drive further improvement in all aspects of its environmental operations.

Typical EMS projects include: ongoing activities to install continuous monitoring equipment at the power boiler to allow for real-time monitoring and adjustment of emissions; increasing the fiber-recovery capacity for the pulp machine wastewater system to reduce solids to the wastewater plant and increase paper production; and the modification of the smelt-dissolving-tank scrubber system to eliminate particulate emissions at this stage of production.

One of the more significant projects during 2005 was a joint program of sludge-compost research undertaken in co-operation with Jambi University. Based on the study's initial findings, the provincial government issued a temporary permit in December, 2005, for use of this composted sludge as fertilizer. Upon completion of the research project (in late 2006) the government will consider issuing a permanent permit for this application of composted sludge.

Other Certifications

During the first half of 2006, Lontar Papyrus prepared a Statement of Origin for the Acacia pulp it supplies to APP's Pindo Deli mill. This document was needed to satisfy requirements of Pindo Deli's successful SGS audit for European Union Ecolabel certification.

In January, 1998, Lontar Papyrus was awarded its first SMK3 certification, indicating it has met the government's occupational health and safety requirements. This certificate was most-recently renewed in May, 2006, by Sucofindo ICS, an independent certification body based in Indonesia.

Lontar Papyrus was awarded a Green Environmental Cup and Certificate for excellence in performance under the Ministry of Environment's Program for Pollution Control, Evaluation and Rating.

Ministry of Environment Recognition

In July, 2005, the Lontar Papyrus mill was awarded a Green Environmental Cup and Certificate for excellence in performance under the Ministry of Environment's Program for Pollution Control, Evaluation and Rating (PROPER). This award is given to mills which produce emissions at levels of less than 50% of the government standards, and which use clean technology, minimize waste, prevent pollution and conserve resources. This award was the result of the mill's success in implementing EMS programs during the last several years.

Safety, Health and Fire Protection

Lontar Papyrus sets targets for reducing the frequency and severity of accidents. From January, 2005 until August, 2006 the mill's goal for the Frequency Index¹ was 7.2, and its actual performance was 6.2. For the Severity Index², the mill's goal was 0.35, and outperformed that goal with an actual result of 0.23.

Lontar Papyrus has a proactive program of occupational health and safety management (SMK3) based on a rigorous "plan-do-check-act" process that is focused on risk management and SMK3 compliance.

The mill's health-and-safety programs include; training and issuance of personal-protection equipment for every employee; an industrial-hygiene program that provides mosquito control on-site and in the community; and routine general-health check-ups for all employees.

The mill maintains an array of fire-protection equipment, and holds regular Fire Brigade training drills covering firefighting and the management of wastewater, solid waste, chemical, and oil spills. During the reporting period, Lontar Papyrus conducted 21 firefighting and emergency-response training drills for production employees, dozens of training drills for the firefighting team, and 12 training drills for a special task-force team.

These efforts are coordinated and managed with the goal of continuous improvement through an adaptation of the Japanese "5S" program. Popularized in Japan during the 1990s, the 5S program is designed to promote continuous improvement in workplace organization and visual controls. APP has adapted the 5S program with the addition of a focus on safety. The criteria of APP's program, known as "6K" in the native language, Bahasa Indonesia (and as "6S" in English parlance) are Sort, Straighten, Sweep, Standardize, Sustain, and Safety. APP's 6K program calls for monthly management reviews and audits of mill performance against each criteria.

Since January, 2005, the mill has implemented a number of interrelated health and safety programs and competitions. These include a monthly 6K competition between departments in the office and on-site, and an annual competition for the fire brigade and department emergency-response teams, held as part of the annual Occupational Safety and Health Management ceremonial day.

During 2006, Lontar Papyrus enhanced mill safety by installing fire sprinklers in the tissue warehouse and in the power plant's transformer and cable room.

Other Environmental Activities, Actions, Programs and Issues

Lontar Papyrus does not use, nor do its products contain, any of the raw materials listed in the table of "Chemicals Suspected of Having Endocrine Disrupting Effects" established by the Japanese Ministry of the Environment.

¹ The Severity Index is calculated using the following formulae:
Severity Rate Accident (SRA) = (Total Days / Lost Hour X 1,000) / (Total Man Hours)

² The Frequency Index is calculated using the following formulae:
Frequency Rate Accident (FRA) = (Total Accidents X 1,000,000) / (Total Man Hours)
(Source: Guideline for Company Hygiene & Health Labor by Dr. Suma'mur P.K., M.Sc., 1988)

Emissions, Effluents and Waste

Lontar Papyrus practices the “three Rs” of good resource stewardship — reduce, reuse and recycle — and has incorporated these measures into its EMS management review of operations. Examples of resource stewardship at the mill include: reducing sludge through enhanced recovery of fiber from the white-water system; reducing gas emissions through the installation of an additional scrubber in the bleach plant; the reuse of 1,136 drums of lubricant during 2005 and an additional 657 drums of lubricant through April 2006; the installation of a chlorate removal process in the recovery boiler to recover and recycle sodium sulfate; and the recycling of wastewater to the bleach plant and to the log yard for log washing.

The Lontar Papyrus mill has worked hard and successfully to maintain and reduce its emissions, effluents and waste. These metrics are monitored regularly and are audited by a third-party on a quarterly basis, at a minimum. The following tables present a profile of key indicators of the mill’s performance.

Spills

During all of 2005 and during the 2006 reporting period (through August), there were no reportable spills of chemicals, oil or fuels at the Lontar Papyrus mill.



AIR EMISSIONS (FLUE GAS FROM POWER BOILERS)

PARAMETER	AVERAGE [2005]	AVERAGE [8 MONTHS 2006]	INDONESIAN STANDARD
SOX (mg/m ³)	90.63	53.01	800
NOX (mg/m ³)	81.00	72.57	1,000
Particulate (mg/m ³)	119.42	169.36	230
Opacity (%) ¹	31	35	40 (max)

¹ Opacity values at Lontar Papyrus are based on spot checks.

WATER EFFLUENT AT DISCHARGE

PARAMETER	AVERAGE [2005]	AVERAGE [8 MONTHS 2006]	INDONESIAN STANDARD
BOD (ppm) ¹	7.5	13.8	150
COD (ppm)	187.0	218.2	350
TSS (ppm)	42.8	43.1	200
pH	7.4	7.6	6-9
AOX (ppm)	5.8	3.7	NA

¹ ppm = parts per million

SOLID WASTE

MEANS OF DISPOSAL	SLUDGE		FLYASH		DREGS & GRIT	
	2005	2006	2005	2006	2005	2006
Incinerate	0%	0%	0%	0%	0%	0%
Compost (fertilizer) ¹	100%	100%	43%	48%	0%	0%
Sell	0%	0%	0%	0%	0%	0%
Landfill (dry metric tons)	0%	0%	57%	52%	100%	100%
Other	0%	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%	100%
Volume (Tons per Day)	33.82	40.36	106.66	82.20	118.95	137.47

¹ Permanent government permits are pending the completion of research being conducted in co-operation with Jambi University.





INDAH KIAT PERAWANG



2005 MILL PROFILE	
Total Production [Tons]	
Pulp	1,900,000
Tissue	0
Paper	600,000
Paper Machines	3
Total Revenues [US \$ Millions]	850
Employment	
Direct Jobs	8,000
Indirect Jobs	7,000

Overview

Indah Kiat Perawang mill is located near the village of Perawang in Riau province on the island of Sumatra. Indah Kiat Perawang is a very large mill complex that includes four pulp-making lines with a combined production capacity (in 2005) of 1,900,000 tons per year (TPY) of hard-wood paper pulp, and three paper machines with a combined production capacity of more than 600,000 TPY of photocopy and woodfree paper.

Pulp produced at Indah Kiat Perawang is used on-site to make paper, is shipped to APP mills on the island of Java (all of which are non-integrated paper mills), or is sold on the open market. The mill's photocopy and woodfree paper products are sold to offshore customers who then resell into their markets.

Revenues in 2005 exceeded US\$850 million. Indah Kiat Perawang employs more than 7,000 contractors and suppliers to the mill.

The mill complex includes three chemical plants, various co-generation power facilities (10 units) that use biomass, and three wastewater-treatment plants.

As of mid-year 2006, Indah Kiat Perawang had the capability to produce up to 90% of its pulp as elemental chlorine free (ECF) pulp.

Consumption

The Indah Kiat Perawang pulp line runs 100% hardwood fiber, of which roughly 5% is broke (fiber recycled from the pulp machine). The majority of the mill's hardwood fiber is supplied by Indah Kiat Perawang's main fiber supplier, PT. Arara Abadi, a member of Sinarmas Forestry.

All fiber procured is thoroughly documented through the supplier's chain-of-custody system to ensure that no illegally logged fiber is being used in the pulp mills. The integrity of this chain-of-custody system has been independently verified by SGS, an international third-party auditor.

The fiber composition of Indah Kiat Perawang's paper products is approximately 75% hardwood pulp, 10% purchased softwood market pulp and 15% broke. A portion of residual processed fiber also is recovered from the white water in the wastewater-treatment-plant clarifier using Krofta Supercell technology. This recovered fiber is then converted into a type of pulp (called TF pulp) that can be used by one of the company's sister mills to make paperboard. The mill's roundwood consumption for fiber in 2005 averaged 4.20 Green Tons (GT) per Metric Ton (MT) of product. Consumption through April, 2006, averaged 4.00 GT per MT.

The mill obtains its fresh water from the Siak River. The water is treated before use in the production processes. Wastewater is sent to modern wastewater-treatment plants that include primary, secondary and tertiary clarification stages and a holding lagoon.

The tertiary treatment stage is an example of the Indah Kiat Perawang's leading-edge investment in pollution prevention. Physical, chemical and biological methods are used to treat the wastewater before it is returned to the Siak River. The quality of the treated wastewater is higher than the quality of the river water drawn into the mill. A portion of effluent just before the outfall is diverted to a fish pond to demonstrate the lack of toxicity of the treated water.

Water quality is monitored every eight hours at the point of discharge from the mill. In addition, water quality is regularly monitored upstream and downstream of the plant. The provincial government also makes random inspections of the quality of wastewater discharges.

During 2005 and to-date in 2006, the pulp mill required an average of 45.7 m³ of fresh water per metric ton of product produced.

EMS & ISO Certification

The Indah Kiat Perawang facility obtained its initial ISO 9001 quality management system certification in 1995 from DNV Certification (Det Norske Veritas, an accredited ISO auditor with headquarters in Norway), and has successfully renewed its certification since. In 1997, the mill was awarded its initial ISO 14001 environmental management system by DNV, and has been successful in renewing this certification as well. The mill is now beginning to make active and regular use of ISO Environmental Management Systems (EMS) project planning to drive further improvement in all aspects of its environmental operations.

Representative EMS projects include the installation of continuous emission-monitoring equipment at the recovery boiler, the lime kiln and the power boiler. This will enable the mill to make real-time adjustments in operations to ensure compliance, should emissions move out of target range. Another recently completed project is the installation of new secondary containment walls at the chemical storage tanks to ensure that any possible chemical spills do not get into the sewer and contaminate the wastewater-treatment plant or river.

As a part of the mill's efforts in continuous improvement, the company engaged Hatfindo, a subsidiary of Hatfield Consultants Ltd. (Vancouver, BC) to ensure that the environmental management systems in place reflect today's best practices. Hatfindo's 2005 review and assessment of environmental management systems policies and procedures resulted in specific findings of opportunities for improvement.

The final report contained a list of ten requirements and eight recommendations. The consultant felt that the required actions were necessary to ensure success in maintaining ISO 14001 registration. The requirements listed dealt with preventive maintenance and operational controls to prevent pollution. The consultant's recommendations focused on improvements in policy and procedure. The consultant also reported that the checking and verification of incoming wood appeared to be thorough and effective, including the use of a third-party, independent audit of these practices. Hatfindo noted the dilemma that pulp and paper mills in Indonesia face in disposing of sludge, given the lack of new landfill permits or government approval of the composting of sludge for use as forest fertilizer (a sludge composting pilot program is underway at Indah Kiat Perawang).

Among the Hatfield recommendations that have been addressed by Indah Kiat Perawang are; installation of continuous monitoring equipment; installation of new containment structures for the mill's chemical storage tanks (as previously noted); the establishment and implementation of a comprehensive water-saving environmental management program that includes the use of the Escalation Principle for the control of mill-wide waste and rain water discharge; reward and penalty mechanisms linked to the inspection program; and, a preventive inspection of the pulp line to look for potential leaks before they occur.

Other Certifications

Indah Kiat Perawang has been certified as compliant with the ISO 9706 Standard for Permanent Paper for its production of photocopy and woodfree paper. This means that the certified papers produced have a rated level of permanence that is preferred by libraries and museums for records or books requiring stipulated archival qualities.

In 1999, the mill was certified by Sucofindo ICS, an independent certification body based in Indonesia, as meeting the SMK3 occupational, health and safety requirements of the Indonesian government. With this first SMK3 audit, Indah Kiat Perawang attained the government's Gold Flag status and has since maintained that high level of performance.

Throughout the second half of 2006, the Indah Kiat Perawang mill has been preparing for certification to the Indonesian Ecolabel standard.

Safety, Health and Fire Protection

Indah Kiat Perawang conducts a proactive program of occupational safety and health management (OSHM). These efforts are coordinated and managed with the goal of continuous improvement through an adaptation of the Japanese "5S" program. Popularized in Japan during the 1990s, the 5S program is designed to promote continuous improvement in workplace organization and visual controls. APP has adapted the 5S program with the addition of a focus on safety. The criteria of APP's program, known as "6K" in the native language, Bahasa Indonesia (and as "6S" in English parlance) are Sort, Straighten, Sweep, Standardize, Sustain, and Safety. APP's 6K program calls for monthly management reviews and audits of mill performance against each criteria.

Mill OSHM and 6K activities have included 6K training for mill and contractor employees, monthly mill-wide 6K and OSHM audits, weekly 6K days (held on Friday) and a 6K annual conference and competition.

Indah Kiat Perawang has a total of 43 Fire Protection employees. This included 38 members of its main Fire Brigade Team, a force staffed by eight persons per shift, seven days a week. The main Fire Brigade Team is supported by five fire trucks and four ambulances as well as an array of firefighting, medical and protection equipment and supplies.

The main Fire Brigade Team also is supported by fire brigade teams from other sections – a combined force totaling 3,220 people. With their activities coordinated by the main Fire Brigade Team, these support brigades provide an additional 230 personnel per shift, when needed. Indah Kiat Perawang also has 119 employee Safety Officers, 68 contractor Safety Officers and a Safety Committee of 47 people.

In addition to the emergency vehicles previously noted, Indah Kiat Perawang maintains eight booster pumps that can be connected to any of more than 850 hydrants around the mill site. Additional emergency equipment includes more than 3,850 portable fire extinguishers and other auxiliary support equipment such as fire hoses and breathing apparatus.

Fire prevention programs in 2005 included the installation of sprinkler systems in the cable room of the power distribution building (completed in September, 2006), installation of fire detectors at Paper Machine 5 and an off-machine coater, and construction of a fire wall in the transformer room of the power distribution area. In 2006, fire separation walls also were installed in two warehouses.

During 2005, there were 26 fire and explosion drills, one chlorine-gas-leakage drill, nine hazardous-chemicals-spillage drills, and six oil-spillage drills. Through August, 2006, the mill has conducted 36 fire-and-explosion drills, one chlorine-gas-leakage drill, nine hazardous-chemicals-spillage drills and seven oil-spillage drills.

Other Environmental Activities, Actions, Programs and Issues

Indah Kiat Perawang does not use, nor do its products contain, any of the raw materials listed in the table of "Chemicals Suspected of Having Endocrine Disrupting Effects" established by the Japanese Ministry of the Environment. In addition, all paper grades made at Indah Kiat Perawang are in compliance with RoHS (Restriction of Hazardous Substances) regulations. The mill's products do not contain other prohibited substances (such as asbestos, AZO content, formaldehyde, phthalates, ozone depleting substances, etc.). Mill product safety reports are regularly audited by SGS's Singapore laboratory.

MILL SAFETY PERFORMANCE

SAFETY INDEX	2005 TARGET	2005 ACTUAL	THROUGH AUGUST 2006 TARGET	THROUGH AUGUST 2006 ACTUAL
Severity ¹	242.33	270.2	21.875	449.074
Frequency ²	6.53	3.238	3.807	3.273

¹ The Severity Index is calculated using the following formulae: Severity Rate Accident (SRA) = (Total Days / Lost Hour X 1,000) / (Total Man Hours)

² The Frequency Index is calculated using the following formulae: Frequency Rate Accident (FRA) = (Total Accidents X 1,000,000) / (Total Man Hours)

(Source: Guideline for Company Hygiene & Health Labor by Dr. Suma'mur P.K., M.Sc., 1988)

Emissions, Effluents and Waste

As is true at the other APP mills, Indah Kiat Perawang practices the "three Rs" of good resource stewardship – reduce, reuse and recycle – and has incorporated these measures into its EMS management review of operations. Examples of resource stewardship at the mill include: savings of approximately 35,000m³ of water per day by recovering the back wash at the water treatment plant; and reducing flyash waste by providing flyash to Sinarmas Forestry for use in adjusting soil pH in its plantation forests.

The Indah Kiat Perawang mill has worked hard and has been successful in controlling its emissions, effluents and waste. These metrics are monitored regularly and are audited by a third-party auditor on at least a quarterly basis. The following tables provide a profile of key indicators of the mill's performance.

Spills

During all of 2005 and during the 2006 reporting period (through August), there were no reportable spills of chemicals, oil or fuels at the Indah Kiat Perawang mill.



AIR EMISSIONS (FLUE GAS FROM POWER BOILERS)

PARAMETER	AVERAGE [2005]	AVERAGE [8 MONTHS 2006]	INDONESIAN STANDARD
SOX (mg/m ³)	114.56	98.96	800
NOX (mg/m ³)	74.36	47.41	1,000
Particulate (mg/m ³) ¹	99.99	97.51	230
Opacity (%) ¹	17.89	16.94	35

¹ The sources of particulates are the power plant and re-causticising plant.

WATER EFFLUENT AT DISCHARGE

PARAMETER	AVERAGE [2005]	AVERAGE [8 MONTHS 2006]	INDONESIAN STANDARD
BOD (kg/MT)	2.82	3.17	8.5
COD (kg/MT)	12.73	13.04	29.25
TSS (kg/MT)	3.10	3.27	8.5
pH	7.27	7.28	6-9
AOX (kg/MT)	0.35	0.36	None

SOLID WASTE

MEANS OF DISPOSAL	SLUDGE		FLYASH		DREGS & GRIT	
	2005	2006	2005	2006	2005	2006
Incinerate	0%	0%	0%	0%	0%	20%
Compost (fertilizer) ¹	42.60%	51.94%	16.98%	56.47%	0%	0%
Sell	0%	0%	0%	0%	0%	0%
Landfill	57.40%	48.006%	83.02%	43.53%	100%	79.87%
TF Pulp	0%	0%	0%	0%	0%	0%
Other	0%	0%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%	100%
Volume (Tons per Day)	263	116	380	246	264	199

¹ Indah Kiat Perawang continues to work on improving the quality of the composted sludge so that more of it can be used as forest fertilizer.





INDAH KIAT SERANG



2005 MILL PROFILE	
Total Production [Tons]	
Linerboard/Medium	700,000
Coated Box Board	400,000
Corrugated Carton Box	160,000
Paper Machines	4
Total Revenues [US \$ Millions]	500
Employment	
Direct Jobs	5,000
Indirect Jobs	1,100

Overview

Indah Kiat Serang mill is located in the community of Serang, in the province of Banten on the island of Java. This large paperboard mill is non-integrated and buys post-consumer waste fiber and paper pulp on the open market.

The mill has four paper machines with a capacity of just over 1,200,000 tons per year (TPY) of paperboard and other paper products. The mill produces approximately 700,000 TPY of linerboard and medium, 400,000 TPY of coated box board, 160,000 TPY of corrugated carton box and a small amount of paper tube and printing paper. Finished paper and paperboard is sold in roll and sheet form to converters and customers who market the product directly.

Revenue in 2005 was nearly US\$500 million. The mill employs more than 5,000 people directly and accounts for another 1,100 contractor and supplier-related jobs.

Indah Kiat Serang has a co-generation plant, an incinerator and two wastewater-treatment plants.



Consumption

During 2005, Indah Kiat Serang's paper machines ran on a mix of fiber that averaged 73% post-consumer waste, 22% virgin paper pulp and 5% broke (fiber recycled from the paper machines). Indah Kiat Serang has a significant positive environmental impact through its annual purchases of more than one million tons of post-consumer recycled fiber. Roughly half of this recycled fiber comes from Indonesia, with the balance originating in the United States and the European Union. The mill conducts its own internal quality-control check on all incoming wastepaper feedstock in addition to the required third-party certificate of inspection. Hardwood paper pulp is purchased from APP's Lontar Papyrus and Indah Kiat Perawang mills, and softwood pulp is purchased from offshore suppliers. All pulp purchased has a documented supply trace to ensure that illegally logged fiber is not being used in these products.

Process water comes from the Ciujung River. The water is treated before use in the mill, and the wastewater is sent to treatment plants that include primary and secondary clarification stages and holding lagoons. Physical, biological and chemical methods are used to treat the wastewater before it is discharged to the river. As an added measure, a portion of the final effluent discharge is diverted to a fish pond to confirm the absence of any toxicity. The quality of the treated wastewater is higher than the quality of the river water drawn into the mill.

Treated wastewater quality is monitored every eight hours and is audited quarterly at the point of discharge by a third party. In addition, the mill monitoring reports are sent to the third-party auditor. Water quality is monitored upstream and downstream of the plant on a regular basis. The provincial government also audits water quality on a monthly basis.

In 2005, fresh-water consumption was 14.65 m³/mt of paper.

EMS & ISO Certification

In 1995, Indah Kiat Serang was awarded its initial ISO 9001 quality management system certification by SGS, and has successfully renewed that certification in every subsequent year. Indah Kiat Serang has maintained ISO 14001 certification (also through SGS) since September, 2004. (This certification was upgraded to the ISO14001/2004 standard in September, 2005.) The mill uses ISO Environmental Management System (EMS) project planning tools to drive its improvement efforts.

A representative EMS project completed in 2005 was the addition of a sand-filter treatment process after the final (secondary) clarifier in the wastewater-treatment system. A portion of treated wastewater is diverted through the sand filter and then is used for belt washing at the dewatering machine station and as irrigation water by the plantations that surround the mill site and by a nearby farmer. This special treatment is licensed by the provincial government under Regent Permit Kep. Bupati Serang 660/1884/KLH/2004.

As a part of the mill's efforts toward continuous improvement, Indah Kiat Serang engaged Hatfindo, a subsidiary of Hatfield Consultants Ltd. (Vancouver, BC) to ensure that the environmental management systems in place reflect today's best practices. Hatfindo's 2005 review and assessment of environmental management systems policies and procedures resulted in specific findings of opportunities for improvement.

The consultant's recommendations included the need for a review of oil transfer and handling procedures and training, a review of all oil and bulk chemical storage tanks, and the implementation of any changes needed to meet these requirements. Hatfindo also recommended that the management target of attaining Green status under the Ministry of Environment's Program for Pollution Control, Evaluation and Rating (PROPER) be incorporated into

the mill's EMS objectives and targets. The consultant felt that such a step would reflect the importance of the target and would better integrate it into the mill's ongoing programs. Hatfindo also reported that the managerial staff was clearly committed to the purpose and practice of EMS.

Among the Hatfield recommendations that have been incorporated into Indah Kiat Serang's environmental management system and completed are the review and upgrading of oil transfer and handling procedures and related ongoing training for contractors, and the March, 2006, undertaking of an audit to evaluate and rate the mill for the government's PROPER Green certification.

Other Certifications

The Indah Kiat Serang mill was awarded the government's SMK3 certification in 2001, and continues to meet the occupational, health and safety requirements of the Indonesian government.

Safety, Health and Fire Protection

Indah Kiat Serang has put in place a range of programs to support its occupational safety and occupational health management (OSHM) efforts. These programs are coordinated and managed with the goal of continuous improvement through an adaptation of the Japanese "5S" program. Popularized in Japan during the 1990s, the 5S program is designed to promote continuous improvement in workplace organization and visual controls. APP has adapted the 5S program with the addition of a focus on safety. The criteria of APP's program (known as "6R/6S" at Indah Kiat Serang and as "6K/6S" in other APP mills) are Sort, Straighten, Sweep, Standardize, Sustain, and Safety. Indah Kiat Serang's 6R/6S program is supported from the top of the company, and includes area inspections twice a month, mill inspections every Saturday morning and, a monthly 6R/6S review.

Since April 2005, Indah Kiat Serang has been employing New Life Activity (NLA) as a complement to 6R/6S implementation, especially for the "Shitsuke" (sustain) criteria.

MILL SAFETY PERFORMANCE

SAFETY INDEX	2005 TARGET	2005 ACTUAL	THROUGH AUGUST 2006 TARGET	THROUGH AUGUST 2006 ACTUAL
Severity ¹	292.25	223.58	147.0	519.2
Frequency ²	17.87	6.20	2.58	7.0

¹ The Severity Index is calculated using the following formulae: Severity Rate Accident (SRA) = (Total Days / Lost Hour X 1,000) / (Total Man Hours)

² The Frequency Index is calculated using the following formulae: Frequency Rate Accident (FRA) = (Total Accidents X 1,000,000) / (Total Man Hours)
(Source: Guideline for Company Hygiene & Health Labor by Dr. Suma'mur P.K., M.Sc., 1988)

NUMBER AND TYPE OF DRILLS FOR FIRST EIGHT MONTHS OF 2006

DRILL TYPE	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	TOTAL
Safety Training	4	10	42	11	37	31	13	3	151
Fire Training	0	0	0	0	0	2	0	0	2
Health Training	0	2	0	0	0	3	2	5	12
Emergency Team	2	1	1	2	3	2	3	1	15

Used as a self-development tool to help foster a good working culture, NLA consists of six elements: Eat, Wear, Walk, Live, Education & Entertainment. NLA has also been an effective tool for reducing accidents. The NLA training video is available to all employees and to external mill-related parties.

Fire protection is another area of keen focus at the mill. Indah Kiat Serang has 16 Fire Brigade employees. These personnel are divided into four teams of four people each, and provide around-the-clock primary firefighting coverage. In addition, 99 employees have been designated "safety representatives" in their departments or sections of the mill, further enhancing the capabilities of the fire brigade. The following table presents the physical resources available to support the fire brigade and the mill employees.

EMERGENCY RESPONSE EQUIPMENT	NUMBER IN SERVICE BY YEAR	
	2005	2006
Fire Trucks	4	4
Ambulances	2	2
Central Alarm Stations	0	11
Fire Extinguishers	918	928
Valve Hydrants	472	506
Heat & Smoke Detectors	766	766
Sprinklers	1110	1110
Pumps Blowers & Generators	23	28
Emergency Equipment	13	13
Protective Clothing (suits)	14	14

Indah Kiat Serang also follows a schedule of regular drills to ensure preparedness in the event of an emergency. The drills held through the first eight months of 2006 are shown below.

Emissions, Effluents and Waste

As is the case at the other APP mills, Indah Kiat Serang practices the “three Rs” of good resource stewardship — reduce, reuse and recycle — and has incorporated these measures into its EMS management review of operations. Examples of resource stewardship at the mill include: reducing water consumption in paper mill plant A; reusing treated wastewater; and sending recyclable plastic to core-plug and plastic-slip-sheet manufacturers.

The Indah Kiat Serang mill has worked hard and successfully to control and reduce its emissions, effluents and waste. These metrics are monitored regularly and are audited by a third-party on a quarterly basis, at a minimum. The following tables present a profile of key indicators of the mill’s performance.

AIR EMISSIONS - POWER PLANT (FLUE GAS FROM POWER BOILERS)

PARAMETER	AVERAGE [2005]	AVERAGE [8 MONTHS 2006]	INDONESIAN STANDARD
SOX (mg/m ³)	17.58	12.36	800
NOX (mg/m ³)	3.45	3.42	1,000
Particulate (mg/m ³)	17.78	25.02	230
Opacity (%)	9.03	4.12	35

AIR EMISSIONS - INCINERATOR (FLUE GAS FROM POWER BOILER)

PARAMETER	AVERAGE [2005]	AVERAGE [8 MONTHS 2006]	INDONESIAN STANDARD
SOX (mg/m ³)	11.21	9.62	250
NOX (mg/m ³)	33.12	41.95	300
Particulate (mg/m ³)	2.10	17.18	50
Opacity (%)	4.15	3.80	10

Spills

During all of 2005 and during the 2006 reporting period (through August), there were no reportable spills of chemicals, oil or fuels at Indah Kiat Serang.



WATER EFFLUENT AT DISCHARGE

PARAMETER	AVERAGE [2005]	AVERAGE [8 MONTHS 2006]	INDONESIAN STANDARD
BOD (kg/MT)	0.30	0.22	9.6
COD (kg/MT)	1.84	1.67	25
TSS (kg/MT)	0.53	0.48	59.2
pH	6-8	6-8	6-9

SOLID WASTE

MEANS OF DISPOSAL	SLUDGE		FLYASH		DREGS & GRIT	
	2005	2006	2005	2006	2005	2006
Incinerate	0%	0%	100%	100%	0%	0%
Compost (fertilizer) ¹	0%	0%	0%	0%	0%	0%
Sell to cement factory	0%	0%	0%	0%	100%	100%
Landfill	100%	100%	0%	0%	0%	0%
Total	100%	100%	100%	100%	100%	100%
Volume (Tons per Day)	210	210	90	90	76	112

¹ Indah Kiat Serang has an active project underway to compost sludge for use as fertilizer in plantation forests. At the end of the reporting period in 2006, laboratory trials and a plant trial had been successfully completed, and an analysis of heavy metals and other content was underway. Assuming positive results, seminar and training sessions were to be scheduled late in 2006, and the mill planned to apply to the Ministry of the Environment for a operating permit in 2007.





INDAH KIAT TANGERANG



2005 MILL PROFILE

Total Production Capacity [Tons]	
Paper	100,000
Paper Machines	3
Total Revenues [US \$ Millions]	50
Employment	
Direct Jobs	1,200
Indirect Jobs	250

Overview

Indah Kiat Tangerang mill is located in the community of Tangerang, in the province of Banten on the island of Java. This small, specialty paper mill is non-integrated and buys hardwood pulp from APP's Lontar Papyrus and Indah Kiat Perawang mills. It also purchases elemental chlorine free (ECF) softwood pulp on the open market.

The mill has three paper machines with a capacity of just over 100,000 tons per year (TPY). The mill produces printing, photocopy, computer, and duplicator papers in white and more than 100 colors. Colors are produced using water-based dyes. Finished paper is sold in roll form to converters and in sheeted form to customers who market the product directly.

Revenue in 2005 was nearly US\$50 million. The mill employs about 1,200 people directly and accounts for another 250 contractor and supplier-related jobs.

Indah Kiat Tangerang has a co-generation plant and a wastewater-treatment plant.

Consumption

Indah Kiat Tangerang's paper machines ran a mix of fiber in 2005 that averaged 80% hardwood pulp, 10% softwood pulp and 10% broke (fiber recycled from the paper machines). All pulp purchased by the mill has a documented supply trace to ensure that illegally logged fiber is not being used in these products.

Process water comes from the Cisadane River. The water is treated before use in the mill, and wastewater is sent to a treatment plant that includes primary and secondary clarification stages and a holding lagoon. At Indah Kiat Tangerang, residual dyes are removed by a bentonite filter and a color-removal agent. The mill also uses activated sludge in order to treat the wastewater so it can be discharged safely into the river.

The quality of the treated wastewater is higher than the quality of the river water drawn into the mill. As a demonstration of the suitability of the treated wastewater for discharge, fish are kept in a sump immediately prior to the river outfall. Treated wastewater quality is monitored daily and audited quarterly by a third party at the point of discharge. In addition, water quality is monitored upstream and downstream of the mill on a regular basis.

In 2005, fresh-water consumption was 21.3 m³/MT of paper.

EMS & ISO Certification

In 1995, the company obtained its initial ISO 9001 quality management system certification from SGS, and has successfully renewed that certification in subsequent years. In 1996, Indah Kiat Tangerang became the first paper mill in Indonesia to become certified to ISO 14001 environmental management system standards. This certification was upgraded to the ISO14001:2004 standard during the mill's September, 2005, SGS surveillance audit. The mill uses ISO Environmental Management Systems (EMS) project planning tools to drive its improvement efforts.

Typical EMS projects completed in 2005 and during the 2006 reporting period include the completion of laboratory scale work with SEAMEO BIOTROP (an independent research laboratory

in the Agriculture sector) to determine if mill sludge, once composted, could be used as agricultural fertilizer. The evaluation of the lab work concluded that composting did, indeed, produce a viable fertilizer. As a result, the mill, SEAMEO BIOTROP and the Agricultural Institute of the Tangerang Regency are collaborating on a pilot field test of the composted mill sludge. This pilot test was ongoing as of the last half of 2006. To date, a 700 m² area has been planted with cassava and rice using mill sludge as fertilizer.

Another important, EMS-driven action has been the installation of a new oxidation station in the wastewater-treatment plant.

As part of the mill's efforts toward continuous improvement, the company engaged Hatfindo, a subsidiary of Hatfield Consultants Ltd. (Vancouver, BC) to ensure that the environmental management systems in place reflect today's best practices. Hatfindo's 2005 review and assessment of environmental management systems policies and procedures resulted in specific findings of opportunities for improvement.

One of the key actions recommended was to provide more-adequate secondary containment capability throughout the mill. The consultant also reported that the mill's Environmental Department staff was competent in their knowledge about the environmental management system and conscientious in their implementation and operation. By example, they noted that the mill's analytical results were regularly compared with those of an outside laboratory for quality assurance.

After a careful review of the Hatfindo recommendations on secondary-spill containment, it was found that the mill site lacked adequate space to provide the required 110% secondary containment space. Indah Kiat Tangerang management decided, as an alternate measure, that the frequency of non-destructive inspections would be increased to such a level that early warnings of any potential failures would permit preventive maintenance to be scheduled and implemented.



Other Certifications

During the last half of 2006, the mill prepared for an independent audit in order to obtain EU Ecolabel certification.

First certified to the government's SMK3 occupational safety and health (OSHM) management standards in 1998, Indah Kiat Tangerang continues to meet the Indonesian government's OSHM requirements.

Safety, Health and Fire Protection

During 2005 and 2006, the management of Indah Kiat Tangerang established safety targets of zero accidents (on the mill site), zero fires and zero lost days due to illness. In 2005, the mill attained all three of these goals. Through August, 2006, there had been no fires or illness. There was, however, one reportable minor safety incident.

During 2005, the mill began special safety patrols of areas at risk for fires and areas in which there were high-risk jobs. The patrols of high-risk-job areas are conducted daily. The mill's fire brigade emergency team received training to increase their expertise.

As has been customary for some time at Indah Kiat Tangerang, each employee receives an annual medical check-up, including screening for dengue fever.

These safety and health programs were continued during 2006. In addition, mill employees were given training on traffic-accident prevention. This training stems from an increase in traffic accidents throughout the community.

Other Environmental Activities, Actions, Programs and Issues

Indah Kiat Tangerang does not use, nor do its products contain, any of the raw materials listed in the table of "Chemicals Suspected of Having Endocrine Disrupting Effects" established by the Japanese Ministry of the Environment.

Emissions, Effluents and Waste

As is the case at the other APP mills, Indah Kiat Tangerang practices the “three Rs” of good resource stewardship – reduce, reuse and recycle – and has incorporated these measures into its EMS management review of operations. Examples of resource stewardship at the mill include reducing water consumption by reducing the frequency of a white water blow-out, and providing a more rigorous cleaning of residue in the production line before washing. In addition, Indah Kiat Tangerang has adopted a new process to filter and reuse lubricant oil instead of disposing of it after a single use. Finally, the mill recycles its white water (process water) by separating out the sediment so that the water can be returned to the process.

Indah Kiat Tangerang has worked hard and successfully to control and reduce its emissions, effluents and waste. These metrics are monitored regularly and are audited by a third-party on a quarterly basis, at a minimum. The tables in the next column present a profile of key indicators of the mill’s performance.

Spills

During all of 2005 and through August, 2006, there were no reportable spills of chemicals, oil or fuels at Indah Kiat Tangerang.

AIR EMISSIONS (FLUE GAS FROM POWER BOILERS)

PARAMETER	AVERAGE [2005]	AVERAGE [8 MONTHS 2006]	INDONESIAN STANDARD
SOX (mg/m ³)	10.2	29.3	800
NOX (mg/m ³)	20.2	15	1,000
Particulate (mg/m ³)	15.2	14.1	230
Opacity (%)	8.00	6.67	35

WATER EFFLUENT AT DISCHARGE

PARAMETER	AVERAGE [2005]	AVERAGE [8 MONTHS 2006]	INDONESIAN STANDARD
BOD (kg/MT)	0.22	0.24	5.0
COD (kg/MT)	1.82	1.48	10.0
TSS (kg/MT)	0.65	0.53	5.0
pH	1.0	6.84	6-9

SOLID WASTE

MEANS OF DISPOSAL	SLUDGE	
	AVERAGE 2005	8 MONTHS 2006
Incinerate	0%	0%
Compost (fertilizer)	0%	Field Pilot
Sell	0%	0%
Landfill	0%	0%
Other-To cement factory. ¹	100%	100%
Volume (Tons per Day)	120	110

¹ PT. Indocement





PINDO DELI



2005 MILL PROFILE	
Total Production Capacity [Tons, Q1, 2006]	
Tissue	72,000
Paper	913,000
Packaging	96,000
Paper Machines	12
Total Revenues [US \$ Millions]	920
Employment	
Direct Jobs	7,150
Indirect Jobs	2,500

Overview

PT. Pindo Deli Pulp And Paper Mills Company (Pindo Deli) has two mills located in Karawang in the province of West Java on the island of Java. Both of these paper mills are non-integrated and purchase their fiber from sister companies and on the open market. Together, the two mills (known as Pindo Deli 1 and Pindo Deli 2) have 12 paper machines and 10 machines with coating capability. The combined production capacity as of Q1/2006 was 913,000 tons per year (TPY) of paper, 72,000 TPY of tissue and 96,000 TPY of packaging.

Each mill has an extensive array of converting and finishing equipment. Paper types produced at the Pindo Deli mills include photocopy, preprint, woodfree, tissue, cast-coated, carbonless, and thermal, as well as art paper and board, and specialty papers, such as embossed, release-base and security paper. The mills' finished paper products are sold in both roll and sheet form to converters and customers who market their products directly.

In 2005, the audited revenue for both mills and Lontar Papyrus, (which is consolidated with Pindo Deli's two mills for financial reporting purposes) totaled US\$ 920 million, roughly a 4.3% increase from 2004. Together, the two Pindo Deli mills in Karawang employ 7,150 people directly and account for another 2,500 indirect contractor and supplier-related jobs.

Both mills have co-generation and wastewater-treatment plants. Pindo Deli 1 has a de-inking facility and a calcium carbonate plant. Pindo 2 has a pallet factory, a corrugated box plant and a caustic soda plant.

Consumption

During 2005, the paper machines at the Pindo Deli mills used a mix of fiber that was 80-85% hardwood pulp, 5-10% softwood pulp and 10% broke (fiber recycled from the paper machines). The mills buy long-fiber (hardwood) pulp from APP's Lontar Papyrus and Indah Kiat Perawang mills, and purchase other pulp on the open market. All pulp purchased by the Pindo Deli mills has a documented supply trace to ensure that illegally logged fiber is not being used.

Fresh water for the Pindo Deli mills comes from the Citarum River and a nearby irrigation canal. The water is treated before use in the mill. The process water is sent to wastewater-treatment plants, which include primary and secondary clarification stages and aeration basins, before being discharged to the Citarum River. Both Pindo Deli mills employ physical, chemical and biological treatment with aerated, activated sludge to improve water quality to a level that is higher than the infeed water drawn from the river and canal.

Wastewater quality is monitored every eight hours. In addition, regular river water quality is monitored upstream and downstream of the plant on a regular basis. The provincial government also audits water quality monthly.

Each of the two mills has made significant improvements in its water consumption during the last five years. At Pindo Deli 1, water consumption has been reduced from the mill's average in 2003 of 31.12 m³/MT of paper to just 17.8 m³/MT of paper in August 2006, a reduction of 40.3%. At Pindo Deli 2, similar reductions were realized by 2005, resulting in water consumption of only 10-11 m³/MT of paper.

EMS & ISO Certification

The Pindo Deli mills were awarded their initial ISO 9001 quality management system certifications by SGS in 1996, and have successfully renewed these certifications in subsequent years. Both mills received their initial ISO 14001 environmental management system (EMS) certifications from SGS in 1999. These EMS certifications were upgraded to the ISO14001:2004 standard in September, 2005. Both mills use ISO Environmental Management Systems project planning tools to drive their improvement efforts.

EMS projects started in 2005 and completed in the second half of 2006 include construction of new wastewater-treatment plant in Pindo Deli 1 to ensure improved quality of the effluent, and construction of a new landfill for solid-waste (sludge) handling.

As part of the mills' efforts toward continuous improvement, the company engaged Hatfindo, a subsidiary of Hatfield Consultants Ltd. (Vancouver, BC) to ensure that the environmental management systems in place reflect today's best practices. Hatfindo's 2005 review and assessment of environmental management systems policies and procedures resulted in specific findings of opportunities for improvement.

One of Hatfindo's key recommendations concerned the need to upgrade laboratory analysis procedures for internal quality assurance and quality control to ensure consistent and reliable test results. The consultant also suggested an increased focus on actions to prevent pollution, such as reducing effluent loads at the source and reviewing the need for preventive maintenance for secondary containment structures. The consultant reported that top management, line management and staff at the Pindo Deli mills were genuinely committed, enthusiastic and knowledgeable about environmental management. The consultant also commented on the mills' EMS documentation, stating that it was well organized, thorough and, evidently, the result of careful thought.

Examples of the Hatfield recommendations that have been incorporated into the EMS and completed include: improved handling and treatment to reduce effluent loads at the paper machine; reducing total suspended solids (TSS) by installing gravity strainers; and installation of an inclined screen to treat waste white water on machines #8 and #9 at Pindo Deli 2, and on the smaller machines at Pindo Deli 1. In addition, both mills have implemented improved testing procedures. The mills now use only the APHA AWWA Standard Method for critical parameter testing for such water effluents as COD, BOD and TSS.

European Ecolabel



In early 2006, Pindo Deli 2 was awarded the European Union Commission Ecolabel for its production of high-quality, branded photocopy and graphic papers made on paper machines #8 and #9.

The certification audit was performed by AFAQ AFNOR of France. The Ecolabel certification criteria met by Pindo Deli 2 have a threefold purpose: to reduce harmful discharges into water; to reduce environmental damage due to energy use, air emissions, and hazardous chemicals; and to ensure the application of sustainable principles to safeguard forests. It is believed that Pindo Deli 2 is one of the first mills in Indonesia to be certified to use the EU Ecolabel.

Other Certifications

In 2004 and 2005, Pindo Deli's cast-coated paper, art board, tissue and brief-card products were certified as meeting US Food and Drug Administration Regulations¹, signifying that these paper products may be used safely for food packaging.

During 2006, both Pindo Deli mills were certified by Mutu Agung Lestari as meeting the Indonesian Ecolabel standard. Among other actions that the mills took to obtain this certification was the substitution of materials complying with Ecolabel requirements for certain chemicals, such as biocides and coating chemicals previously used at Pindo Deli.

Both mills also have been certified (by ISEGA Germany) as meeting the ISO 9706 Standard for Permanent Paper for their production of photocopy and woodfree paper, art board and cast-coated paper. The certification signifies that these papers have a rated level of permanence that is preferred by libraries and museums for records or books requiring stipulated archival qualities.

Both Pindo Deli mills comply with applicable health and safety laws and regulations including the government's SMK3 occupational safety and health management (OSHM) standard and the OHSAS 18001 standards. Most recently, Pindo Deli 1 received certification under OHSAS 18001 in November, 2005, and was awarded its SMK3 OSHM certification (by the accredited certification body Sucofindo) in January, 2006. Pindo Deli 2 received its SMK3 OSHM certification from Sucofindo in January, 2005, and will be audited for OHSAS compliance in early 2007.

Safety, Health and Fire Protection

Pindo Deli's safety management system includes emergency preparedness and response capabilities related to epidemics, occupational accidents, and other significant potential hazards on the mill site. Between the two mills, 33 safety coordinators and 139 safety officers are responsible for conducting routine, on-site safety program checks.

In mid-2006, to better achieve its OHSM goals, Pindo Deli adopted the Japanese "5S" program of workplace organization, and its requisite performance audits. The 5S program began

with the training of the mills' senior management, and has been extended to all employees. For the initial stages of the program, audits have been focused in specific areas such as the Engineering workshop. Full implementation of Pindo Deli's 5S program in all areas of mill operation will be achieved during 2007.

Pindo Deli also implements OSHM internal and external audits, and participates in regular surveys of risk management. These surveys are coordinated by APP headquarters with the assistance of outside consultants. The audits and surveys generate recommendations that require subsequent improvement and follow-up.

Actions resulting from Pindo Deli's most-recent OSHM survey include: installation of sprinkler systems in the tissue production area; installation of a fire wall at the finishing uncoated area and at the power plant; addition of chemical and oil storage tanks containment spaces; provision of related certification for fire protection facilities; and improvements to all employee training, with particular focus on training for emergency preparedness and response.

Pindo Deli employs 37 firefighters who are supported, as needed, by 1,678 trained personnel in mill-section fire brigade teams. Pindo Deli also participates in a local-community Industrial District Fire Brigade consisting of several firefighting companies. This Fire brigade Team conducts drills on a regular basis, and assists in firefighting as required.

To respond to emergencies, Pindo Deli maintains a fleet of four fire trucks and two ambulances. In addition, 11 portable electric and diesel pumps are available for connection to any of the 474 hydrants located throughout the mill site. Other emergency equipment includes 928 fire extinguishers, self-contained breathing apparatus, and fire-resistant clothing.

In 2005, the Pindo Deli Mills conducted six emergency-response drills. During the 2006 reporting period (ending August, 2006) the mills conducted 18 drills covering firefighting, workplace accidents, chlorine leaks, chemical/oil spills and wastewater-treatment plant failures.

¹ Code of Federal Regulation, Food and Drugs (FDA), 21 CFR Ch. 1 (1 April 2004 Edition) 176.140 and 176.180

MILL SAFETY PERFORMANCE

SAFETY INDEX	2005 TARGET	2005 ACTUAL	THROUGH AUGUST 2006 TARGET	THROUGH AUGUST 2006 ACTUAL
Severity ²	0.745	0.85	0.500	0.06
Frequency ³	9.40	12.95	9.03	18.25

² The Severity Index is calculated using the following formulae: Severity Rate Accident (SRA) = (Total Days / Lost Hour X 1,000) / (Total Man Hours)

³ The Frequency Index is calculated using the following formulae: Frequency Rate Accident (FRA) = (Total Accidents X 1,000,000) / (Total Man Hours)

(Source: Guideline for Company Hygiene & Health Labor by Dr. Suma'mur P.K., M.Sc., 1988)

Other Environmental Activities, Actions, Programs and Issues

Pindo Deli does not use, nor do its products contain, any of the raw materials listed in the table of "Chemicals Suspected of Having Endocrine Disrupting Effects" established by the Japanese Ministry of the Environment. In addition, all paper grades made at Pindo Deli are in compliance with RoHS (Restriction of Hazardous Substances) regulations.

Emissions, Effluents and Waste

As is true of all APP mills, both Pindo Deli facilities practice the "three Rs" of good resource stewardship – reduce, reuse and recycle – and have incorporated these measures into their EMS management reviews of operations. One example of resource stewardship at the mills is the ongoing effort to capture more fiber in the white water waste stream, which reduces the load on the wastewater-treatment plant.

Both Pindo Deli mills have worked hard and have been successful in controlling and reducing their emissions, effluents and waste. These metrics are monitored regularly and are audited by a third-party on, at a minimum, a semester basis. (Between the two mills, a minimum of five external environmental audits are conducted each year.) The following tables present a profile of key indicators of the mills' performance.

Spills

During all of 2005 and through August, 2006, there were no reportable spills of chemicals, oil or fuels at either Pindo Deli mill.

AIR EMISSIONS (FLUE GAS FROM POWER BOILERS)

PARAMETER	AVERAGE [2005]	AVERAGE [8 MONTHS 2006]	INDONESIAN STANDARD
SOX (mg/m ³)	13.27	10.32	800
NOX (mg/m ³)	7.77	1.66	1,000
Particulate (mg/m ³)	8.17	4.33	230
Opacity (%) ¹	<5	<5	35

¹ Opacity values for Pindo Deli are based on spot checks

WATER EFFLUENT AT DISCHARGE

PARAMETER	AVERAGE [2005]	AVERAGE [8 MONTHS 2006]	INDONESIAN STANDARD
BOD (kg/MT)	0.33	0.14	5.0
COD (kg/MT)	1.19	0.3	10.0
TSS (kg/MT)	0.37	0.09	5.0
pH	7.2-7.5	6.7-7.8	6-9

SOLID WASTE

MEANS OF DISPOSAL ¹	SLUDGE	
	2005	8 MONTHS 2006
Incinerate	0%	0%
Compost (fertilizer)	0%	0%
Sell	+/- 5%	0%
Landfill	95%	0%
Other	0%	0%
Total	100%	100%
Volume (Tons per Day)	179	133

¹ For the period January 2005 through June 2006





TJIWI KIMIA



2005 MILL PROFILE	
Total Production [Tons]	
Paper	1,120,000
Paper Machines	12
Total Revenues [US \$ Millions]	927
Employment	
Direct Jobs	13,500
Indirect Jobs	3,800

Overview

PT. Pabrik Kertas Tjiwi Kimia Tbk. (Tjiwi Kimia) is located in Sidoarjo in the province of East Java on the island of Java. The paper mill is non-integrated, and buys fiber from its sister companies and on the open market. The mill has 12 paper machines with a combined capacity of just over 1,120,000 tons per year (TPY) of paper.

Tjiwi Kimia runs more than 100 converting and finishing machines, enabling it to produce a wide range of products including: coated art, woodfree, photocopy, digital, cast-coated and carbonless papers; various paperboard products; and a wide range of value-added office and stationery products. Tjiwi Kimia also prints books and brochures, and is among the largest publishers in Indonesia.

Finished paper and converted products are sold in roll, sheet and finished form to converters and customers who market the product directly.

Revenue in 2005 was US \$927 million, a 3% increase over 2004 revenue. The Tjiwi Kimia mill employs more than 13,500 people directly, and supports another 3,800 contractor and supplier-related jobs.

Tjiwi Kimia has a co-generation plant, an incinerator, a chemical plant (producing caustic soda and various chlorine and hypochlorite products), a de-inking plant, a corrugated box plant, a pallet factory and water treatment plants.

Consumption

In 2005, Tjiwi Kimia's paper machines ran on a mix of fiber that averaged 64% hardwood pulp, 16% softwood pulp, 16% broke (fiber recycled from the paper machines) and 4% recycled fiber. Tjiwi Kimia buys hardwood pulp from Lontar Papyrus in Jambi, Sumatra and Indah Kiat Perawang in Riau, Sumatra. It also purchases softwood pulp and a small amount of recycled fiber on the open market. All pulp purchased has a documented supply trace to ensure that illegally logged fiber is not being used in these products.

Process water comes from the Brantas River. The water is treated before use in the mill. Wastewater from the de-inking facility and the chemical plant are first treated in the pre-treatment plant before being sent with the wastewater from the paper machines to the main wastewater-treatment plant. Tjiwi Kimia's wastewater-treatment facility includes primary and secondary clarification stages and holding lagoons, and employs physical, chemical and biological treatments to treat the wastewater before it is discharged into the Mangentan Canal. The quality of the treated wastewater is higher than that of the infeed water taken from the river. A portion of the wastewater discharge is passed through a fishpond to demonstrate the absence of toxicity. Water quality is monitored continuously and audited quarterly, by a third-party auditor, at the point of discharge. Water quality is monitored upstream and downstream of the mill on a regular basis. In addition, the provincial government performs monthly audits of wastewater quality.

In 2005, average fresh-water consumption was 8.27 m³/MT.

EMS & ISO Certification

In 1995, the company obtained its initial ISO 9001 quality management system certification from DNV (Det Norske Veritas). This certification was renewed in 2000 by SGS, and has been renewed in every subsequent year. In 1998, Tjiwi Kimia received its initial ISO 14001 environmental management system (EMS) certification from DNV. Renewed by SGS in 2001, this EMS certification was upgraded by SGS in June 2005, to the ISO14001:2004 standard. Tjiwi Kimia uses ISO Environmental Management System project planning tools to drive its improvement efforts.

Typical EMS projects completed during the 2006 reporting period include the installation of an incinerator for solid-waste (sludge) treatment, and the installation of a dust collector system in the calcium carbonate plant.

As part of the mill's efforts toward continuous improvement, the company engaged Hatfindo, a subsidiary of Hatfield Consultants Ltd. (Vancouver, BC) to ensure that the environmental management systems in place reflect today's best practices. Hatfindo's 2005 review and assessment of environmental management systems policies and procedures resulted in specific findings of opportunities for improvement.

Key recommendations for improvement included an upgrade of laboratory analytical procedures and performance, a review of secondary spill containment for adequacy and integrity, and training on handling procedures for oil and other hazardous materials. The consultant also reported that the Environmental Protection Department personnel were competent in, and committed to, their responsibilities. Hatfindo also noted that river-borne silt had been settled out in the raw process water treatment plant and used to supplement soil on the mill grounds.

Examples of Hatfield recommendations that have been incorporated into the EMS and completed include modification of the rainwater ditch system in the co-generation facility to capture run-off, and installing secondary containment for the 100 m³ diesel fuel tank in the incinerator plant to prevent a possible spill from contaminating the sewer or overloading the wastewater-treatment plant.

Indonesian Ecolabel



In mid-2006, Tjiwi Kimia was awarded the Indonesian Ecolabel in the Uncoated Printing Paper Product Category. The Ecolabel criteria met by the mill have a threefold purpose: to reduce harmful discharges into water; to reduce environmental damage due to energy use, air emissions, and hazardous chemicals; and to ensure the application of sustainable principles to safeguard forests. It is believed that Tjiwi Kimia is one of the first paper mills in Indonesia to be certified to use the Indonesian Ecolabel.



Other Certifications

In 2003, Tjiwi Kimia received the Ecomark certificate from the Japan Environment Association for its Excelpro brand school-notebook products.

In 2006, the mill was certified by Sucofindo ICS, an independent certification body based in Indonesia, as meeting the SMK3 occupational safety and health management requirements of the Indonesian government. The company also was awarded the government's Golden Flag award.

Safety, Health and Fire Protection

Occupational Safety and Health Management (OSHM) is the responsibility of the mill's Industrial Safety Department (ISD). Implementation of the government's SMK3 protocols, which Tjiwi Kimia has been doing since 1997, provides a mechanism to ensure full compliance with Indonesian OHS regulations. The Indonesian government conducts regular evaluations of the mill's SMK3 performance every three years.

Accidents at the mill site decreased almost 45% during the first eight months of 2006 as compared with the year 2005.

Tjiwi Kimia's fire-protection equipment includes a water-hydrant system, water-sprinkler systems, fire extinguishers throughout the mill site, smoke detectors in all electric panels, a fire wall in the finished good warehouse, fire trucks and an ambulance service.

Emergency drills for fire, chemical or oil spills, and gas leaks are conducted monthly.

Since April 2005, the company has been using APP's 6S program to build a positive work culture. Based on the Japanese 5S workplace improvement system popularized during the 1990s, the objectives of APP's 6S program are; to create a comfortable work environment; improve productivity (efficiency & performance); provide a positive image of the mill to employees and customers; and ensure a safe workplace by achieving zero accidents. A competition among mill departments is held every month and is evaluated by a 6S auditor. The winning department receives an award and is recognized by mill management.

Other Environmental Activities, Actions, Programs and Issues

Tjiwi Kimia does not use, nor do its products contain, any of the raw materials listed in the table of "Chemicals Suspected of Having Endocrine Disrupting Effects" established by the Japanese Ministry of the Environment.

Emissions, Effluents and Waste

As is the case at the other APP mills, Tjiwi Kimia practices the "three Rs" of good resource stewardship — reduce, reuse and recycle — and has incorporated these measures into its EMS and into APP's Management by Olympic System (MBOS) management review of operations. Examples of resource stewardship at Tjiwi Kimia include: reducing water consumption in paper machines down to 5 m³/mt; reusing drums for chemical products in the chemical plant; and recycling waste paper from the paper machines in the deinking plant

Tjiwi Kimia has worked hard and successfully to maintain its emissions, effluents and waste below threshold limits. These metrics are monitored continuously and are audited by a third-party on, at a minimum, a quarterly basis. The following tables present a profile of key indicators of the mill's performance.

Spills

During all of 2005 and through August, 2006, there were no reportable spills of chemicals, oil or fuels at the Tjiwi Kimia mill.

AIR EMISSIONS (FLUE GAS FROM POWER BOILERS)

PARAMETER	AVERAGE [2005]	AVERAGE [8 MONTHS 2006]	INDONESIAN STANDARD
SOX (mg/m ³)	410.4	53.6	750
NOX (mg/m ³)	25.8	57.4	850
Particulate (mg/m ³)	30.0	12.7	150
Opacity (%)	2.3	NA	20

WATER EFFLUENT AT DISCHARGE

PARAMETER	AVERAGE [2005]	AVERAGE [8 MONTHS 2006]	INDONESIAN STANDARD
BOD (kg/MT)	0.23	0.26	5.0
COD (kg/MT)	0.53	0.59	10.0
TSS (kg/MT)	0.13	0.06	5.0
pH	7.04	7	6-9

SOLID WASTE

MEANS OF DISPOSAL	SLUDGE	
	2005	2006
Incinerate (m ³ /month)	0%	Est. 3%
Compost (fertilizer)	0%	0%
Sell	0%	0%
Landfill (m ³ /month)	100%	97%
Other	0%	0%
Total	100%	100%
Volume (Tons/Day)	267	209.5





FIBER SUPPLIER

ENVIRONMENTAL PERFORMANCE



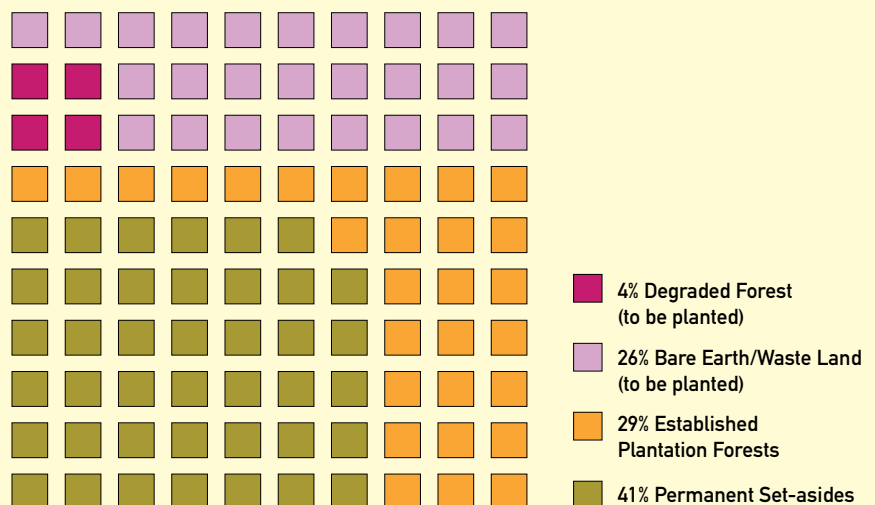
Overview

Sinarmas Forestry (SMF) serves as the exclusive supplier of pulpwood to the two pulp mills operated by APP. SMF forest management entities are located in Sumatra and Kalimantan islands in Indonesia.

As of June, 2006, the gross plantation concession in Indonesia totaled 2,159,600 hectares, of which the estimated area available for planting was 1,284,446 hectares (or 59% of the gross concession area).

More than 875,000 hectares (or 41%) of the gross concession area has been set aside for forest conservation, reserves for community use, indigenous species development and for related infrastructure. The aggregate area planted as of June, 2006 totaled 623,409 hectares, nearly 50% of the projected total area available for planting.

LAND USE IN HECTARES AS OF JUNE 30, 2006



AREAS IN HECTARES AS OF JUNE 30, 2006

	TOTAL GROSS CONCESSION AREA	SET ASIDE AREA ¹	SUB TOTAL	PLANTATION AREA		
				PLANTED	DEGRADED (TO BE PLANTED)	BARE LAND TO BE PLANTED
Hectares	2,159,600	875,154	1,284,446	623,409	95,161	565,876
Percent	100	41	59	29	4	26

¹Areas set aside for conservation, reserves for community use, indigenous species and infrastructure

Planting is proceeding well, with 230,000 hectares planned for planting during 2007. More than 86% of the area planned for planting consists of barren land with the remainder being land designated for reforestation (degraded forest).

The allocations of land use, cited in the preceding table above, were determined by following the government's spatial planning policy and processes. Consistent compliance is assured through the Indonesian government's periodic third-party audits.

Following a feasibility study to ensure sustained production of the plantation enterprise while at the same time mitigating environmental impacts, the Indonesian government requires each concessionaire to engage a government-recognized, independent consultant to carry out an Environmental Impact Assessment (known as an "AMDAL") before any concession can be developed. The government requires that a minimum of 30% of each concession be set aside for conservation, indigenous species development, community use and related infrastructure.

Macro- and Micro-Delineation Assessments are required for all plantation concessions which contain degraded natural timber stock. Since 2003, new licenses have been granted only on degraded and bare land.

The Macro-Delineation process subdivides the forest into basic vegetative cover types. The subsequent Micro-Delineation assessment identifies any natural forest area with high conservation values that should be protected. This requirement was further strengthened in 2006 by the Supporting Document of Annual Working Plan of the Ministry of Forestry of the Government of Indonesia, which states that these macro- and micro-delineations must lead to the protection of forest areas having high conservation value. SMF operates in compliance with government regulations, and supports the environmental assessment process as a means of assuring the protection of sensitive forest ecosystems.

In May, 2003, the Indonesian Government set forth a new decree, known as the Accelerated Plantation Development Program. This decree set the year 2009 as the target deadline for all plantation development companies to complete their plantation establishment activities.

It is forecasted that, with current pulp-mill capacity requiring 16 million cubic meters of pulpwood per year at an average mean annual increment of 25 m³/ha/yr, the current 623,409 hectares of plantation forests will more than adequately provide the fiber requirements for APP's two pulp mills in Sumatra by end of 2009.

During 2005, the mix of fiber delivered to pulp mills consisted of 40% Acacia and 60% mixed hardwoods. During the first nine months of 2006, deliveries approached a 50/50 mix.



Conservation and Protecting Biodiversity

Sinarmas Forestry has made a firm commitment to identifying and protecting areas of high conservation value on its concessions, and it is the company's conservation priority to protect large areas of intact forest.

As of June 2006, more than 875,000 hectares has been placed into set aside areas. In addition, SMF voluntarily studies selected forest blocks for which there is a need for more detailed and specific understanding of an ecosystem. Discussions of three of the more significant of these projects follow.

High Conservation Value Forest (HCVF) Pilot Project

During the last half of 2004 and in early 2005, SMF and APP initiated the first-ever high conservation value and biodiversity assessment of concession areas in Indonesia through third-party assessments. Three areas were selected for a trial evaluation of a new conservation assessment tool, known as the "HCVF Indonesia Toolkit."

In July, 2005, APP engaged the international non-profit organization Rainforest Alliance (RA), and signed a Verification Agreement authorizing RA to monitor the conservation of the identified HCVF forest areas in Sumatra, Indonesia.

Under the terms of the agreement, Rainforest Alliance was charged with monitoring the status and condition of High Conservation Value Forest areas and the boundaries within four forest concessions in Riau Province. The first verification audits were conducted during October, 2005. A fourth forestry concession that had previously been identified was added to the area to be audited by Rainforest Alliance, and was made a part of the agreement.

In its first audit reports, issued in April and May, 2006, Rainforest Alliance auditors found that the SMF had:

- delineated the HCVF boundaries on company maps for all four forest management units;
- refined current and developed new protocols requiring that field managers and contractors be reminded of the boundary locations before harvesting activities are initiated;
- strengthened management and oversight systems to uphold the company's commitment not to convert HCVF to plantations; and,
- provided training on conducting biodiversity surveys, begun the process of providing internal communications on the concepts and management of HCVF and understanding company maps and its no-cut policy.

However, the auditors found that the company needed to:

- be more aggressive in addressing the illegal logging problems found in the HCVF areas in all four forest management units;
- develop comprehensive management plans and form teams at the district level to implement these plans; and,
- develop protocols and set targets for a process to delineate the HCVF boundaries in the field.

These findings led the Rainforest Alliance auditing team to conclude, based on this first series of annual verification audits that all four of the HCVF areas were non-compliant with terms and conditions of the HCVF scope verified. However, all four of these HCVF areas were approved for a verification statement until the next audit, provided that specified corrective actions (CARs) were completed within the stipulated timeframe.



SMF and APP accepted the conclusions and recommendations reached in these audits, and both companies recognized that assessing HCVF and managing HCVF forests areas are two very different activities. Learning to manage these forests for conservation will be an important lesson for SMF and APP.

To remedy this situation, APP and SMF engaged a new team of sustainability and conservation experts to address these concerns and develop a comprehensive work program. In the first stage of their work, the team will address the boundary changes, and losses caused by fire, encroachment, and accidental felling.

Pragmatic plans drawn up in 2006 will be implemented in 2007, and the following actions will form the basis of model approaches that will be up-scaled to all concession areas:

- Develop an APP/SMF Conservation Toolkit;
- Complete the surveying and physical demarcation of high-conservation-value-forest boundaries;
- Improve the security system, procedure, and policing of identified high-conservation-value-forest areas to reduce access to the sites by illegal loggers and squatters;
- Prepare a conservation management plan to manage designated high-conservation-value forests with an integrated monitoring, evaluation and feed back system to verify impacts of management and enable improvements to be identified, and enacted;
- Strengthen environment management team capacity up to the District level for effective implementation and monitoring of the plan;

- Develop a Standard Operating Procedure for rehabilitation, defining silvicultural treatments aimed at enhancing the identified high-conservation-value attributes of the forest;
- Conduct additional training at the district level to support conservation planning; and
- Redesign some identified boundaries to enable more-effective protection and management of the high-conservation-value forest areas.

The engagement with Rainforest Alliance has generated key lessons for the APP and SMF organizations regarding management of conservation areas. These lessons have led to the development of new conservation teams to support the identification and management of conservation forest areas, training programs, and systems to improve and build conservation capabilities on the ground. In 2007, the launch of these programs and systems will strengthen the skills of the operational workforce, and will improve planning approaches to adopting landscape-design principles. Maintaining natural forest linkages, in particular wildlife corridors, is a key step to supporting wildlife attributes in a dynamic industrial landscape.

Challenges remain, and maintaining a balance between fiber production and conservation will continue to be a struggle for all paper producing companies for years to come. With careful design, sound management, skilled personnel and good systems this is a challenge that APP stands ready to meet in achieving an optimal socio-ecological balance.



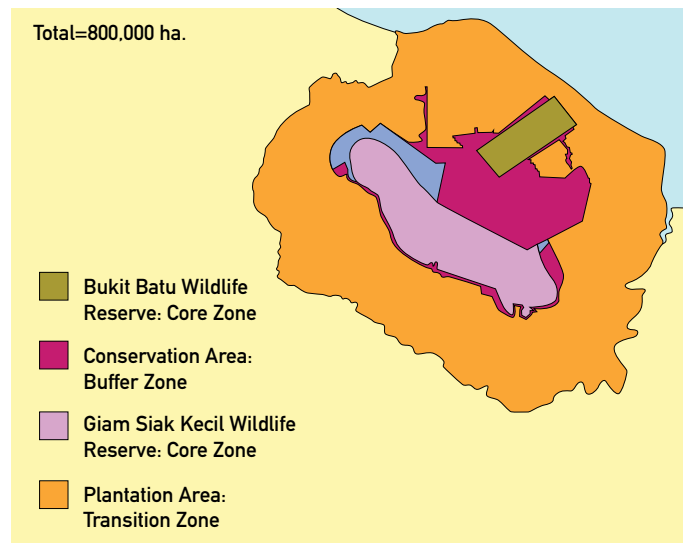
Tiger Sanctuary

Both APP and SMF recognize that some of the areas in their concessions provide sanctuary for endangered species. The companies' concern for wildlife protection in general, and for the Sumatran Tiger in particular, has motivated APP to initiate and foster a collaborative effort between SMF, the Sumatran Tiger Conservation Program (STCP), the Tiger Foundation, the Forest Service of Riau, the Minister of the Forestry Conservation Unit and Agricultural Service of Riau, and three other active forest concession license holders (PT. Suntara Gajapati, PT. Diamond Raya Timber and PT. Ruas Utama Jaya) to create a tiger sanctuary of 106,000 hectares.

The goal of this initiative is to develop and implement tiger conservation management programs in the Senepis Buluhala landscape in Riau. APP has been one of the key driving forces and the main sponsor of this program to date.

In October, 2006, the Forest Service of Riau formally approved the creation of a project management organization to be tasked with establishing the Senepis Buluhala Tiger Sanctuary Management (Number 522.4/PH/3795). This reserve in the Senepis forests of Northern Riau contains one of the highest densities of tigers in Sumatra. In addition to protecting the habitat of the Sumatran Tiger, the establishment of the reserve will help alleviate the potential for conflict between tigers and humans, saving the lives of both.

The collaboration with STCP began during a SmartWood assessment of the Serapung Forest Management Unit in 2004 when the auditors noticed the possible presence of the Sumatran Tiger, a critically endangered species listed on the IUCN Red List (The World Conservation Union – also known as International Union for Conservation of Nature and Natural Resources) and also listed in Appendix One of CITES (Convention on International Trade in Endangered Species of Wild Fauna and Flora). As a result, the company agreed to have STCP, an international non-profit conservation initiative of the Forest Protection and Nature Conservation Directorate of the Indonesian Ministry of Forestry and the Sumatran Tiger Trust (UK), conduct further field work in Serapung during early 2005. To further advance this effort, APP agreed to extend its existing moratorium on harvest operations in the area.



Bukit Batu & Giam Siak Kecil Biosphere Reserve

Of perhaps even more long-term significance, APP's collaboration, in 2004, with Citizens International (CI) and the Center for Local Government Innovation (CLGI) planted the seeds of the idea of investigating the development of a conservation plan for the Bukit Batu district. After reviewing the results of a CI/CLGI assessment in 2005 and the subsequent SmartWood monitoring assessment of Bukit Batu, the importance of this area as a forest with high conservation values was confirmed.

Following a series of internal discussions that began in late 2005 and continued throughout 2006, APP proposed that the conservation plan for this district be modeled on the Biosphere Reserve concept pioneered by UNESCO (the United Nations Educational, Scientific and Cultural Organization). This model calls for a landscape-level approach to conservation that combines conservation forests, buffer zones and transition zones of sustainable use.

APP and SMF are now establishing a multi-stakeholder process with key government departments and other identified groups to help establish such a Biosphere – one that would encompass more than 172,000 hectares of core conservation forests.

The proposed Biosphere Reserve will be unique due to its inclusion of a large swath of pristine peat swamp forest, and it is expected to have a high level of flora and fauna diversity. The extent of this diversity is the subject of further study to be funded, in part, by SMF. These studies also will help SMF better address the hydrology of the entire area, and to identify and protect rare and endangered species.

As with the internationally recognized Man and Biosphere Program, the goals of the Biosphere Reserve are to conserve landscapes, ecosystems, species and genetic variation, and to foster economic and human development which is socio-culturally and ecologically sustainable.

Included in the planned Biosphere area are Bukit Batu and Giam Siak Kecil – two wildlife preserves that are surrounded by Acacia plantations. As a measure of its commitment to conservation and this project, 66,800 hectares have been set aside as a buffer zone – a no-harvest area connecting the two reserves and forming a corridor for wildlife travel.

Community forestry operations help address the economic empowerment of forest dwelling communities to increase welfare, education and employment opportunities.

Sustainable Forest Management

For both APP and SMF, sustainable forest management is a commitment to the principles of responsible forest management in achieving a sustained yield of wood through economically, environmentally and socially sound forestry practices. As such, this effort cuts across a wide range of disciplines and activities that include: ensuring a sustained fiber supply for the mills, today and in the long-term; protecting the environment; and supporting the local communities in its areas of operation.

One of the key tools that APP uses to shepherd this complex, interlinked process is certification.

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. SMF's activities are further supported by comprehensive ISO14001 EMS-driven programs for managing the development and operation of its plantation resources and its forestry business. Forestry management planning with Annual, 5-year and 42-year time horizons is a key component of SMF's extensive program.

SMF operations include activities that range from improving soils before planting to selecting appropriate silviculture management regimes with ongoing monitoring. Improving harvesting quality also is a priority for SMF, which has implemented low-impact harvesting systems and measures to reduce wood residue, soil compaction and soil erosion.

SMF's main forestry operations in Riau, Jambi and Kalimantan have been certified by international, third-party auditing bodies as compliant with ISO 14001:2004 environmental management system standards.

Some of SMF's more important projects in Riau province have been driven by legal requirements and have been incorporated effectively into the EMS to ensure proper implementation and legal compliance. These include: water-quality monitoring in all rivers flowing across SMF forest concessions; soil-erosion monitoring in plantation sites; and rehabilitation and restoration of degraded conservation forests.

Sustainable Forest Management Certification

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.

Sinarmas Forestry and its paper company partner, APP, have long been interested in pursuing sustainable forest management certification as another means of demonstrating their stewardship to customers and the public. Even so, a variety of factors, largely outside a company's control, have made the pursuit of certification a significant hurdle for forest products companies operating in Indonesia. The pervasiveness and persistence of illegal logging and trade, the rehabilitation of degraded forestlands, the conservation of forest resources, and the economic empowerment of forest-dwelling communities are all matters that must be addressed by Indonesia's forest industry.

SMF and APP recognize, given the conditions and history of the forest areas in which they operate, that there are no "quick fixes" to the complex issues permeating Indonesia's forests. Transitions cannot be accomplished in one step, nor, perhaps, even in a short time frame. Rather, addressing the challenges of forestry in Indonesia, and verifying success through certification, will take persistence and a measured approach.

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. SMF believes that by implementing best practices and striving for continuous improvement, it will, sooner rather than later, attain the goal of certification for these forest-management units.



Community Forestry

As an added dimension to its sustainable forestry management programs, all five SMF forestry units have, or are developing, community woodlot programs. Community forestry is a means of meeting the critical economic needs of people living in forest areas who lack the expertise or experience to manage a forest sustainably. By developing sustainable, community forestry wood lots that feed into its fiber-supply chain, SMF also is better able to meet the long-term sustainable fiber supply needs of APP and its growing business.

At present, Arara Abadi (AA) and Wirakarya Sakti (WKS) have active, ongoing programs which they intend to expand. As of June, 2006, AA had 48,000 hectares of planted woodlots in a program encompassing some 3,500 people. This SMF forest unit also works closely with Community Forest Co-operatives. These community operations generated nearly US\$3,000,000 in revenue for some 4,378 people. Wirakarya Sakti's community forest program includes 114 co-operatives. The harvests from these community woodlots generated revenues of more US\$1,000,000 for the communities. In addition to these programs, the forest estate in West Kalimantan is being structured through community-based forest management.

SMF has set a target of developing and planting 50,000 ha of community woodlots per year, starting at the end of 2006, throughout its plantation areas in Indonesia. These community operations are viewed as a critical component of APP's sustainable forest management plans. In addition, they directly support government policy and help address one of the four key priorities the Ministry of Forestry has set for the next ten years – the economic empowerment of forest dwelling communities to increase welfare, education and employment opportunities.

Other Management Programs

In order to further support and leverage SMF's ability to maintain its position as a sustainable forest enterprise, the company has invested in a number of management tools.

One of the biggest challenges for SMF has been the establishment and maintenance of an accurate Stand Register. This information is critical in order to ensure proper rotation planning and accurate identification of resource in managing a sustainable forestry business.

To achieve its goal of maintaining an accurate Stand Register, SMF embarked, in 2006, on a multi-million dollar Aerial Mapping Project, employing the most-advanced radar technology available. The data from this project, along with SMF's existing Forest Management Information System, will make a wealth of information more readily available to those planning the management of the resource. Phase I of the project, underway as of the third quarter of 2006, involves the mapping of a 58,735 km² pilot area – the first step in mapping all the concessions in Riau and Jambi province.

SMF also is planning to make use of state-of-the-art processes to improve its forest management activities. One example is be SMF's planned use of the FastPro-100 program – a system designed to help prevent the loss of forest assets to fire and spurious land claims through competitive, incentive-based reporting programs. One of the critical components of this program, which will be implemented at the district level, is the proactive role taken by the Community Development department to involve the local communities in the process. Fore-Plex 45 is another sustainable forestry management tool. This program provides insights on how to improve plantation quality and harvesting efficiency.

Fiber Supply Integrity

Operating in a area of the world where there are numerous challenges, SMF faces issues that include poverty, an untrained and/or unskilled workforce, the illegal conversion of forests, and a lack of infrastructure.

People, who have lived for generations in the forest or near forested areas, rely on the forest for their livelihoods and have few, if any, other marketable skills. This dependency on the forest resource frequently results in the illegal harvesting of wood for fuel or for profit.

Illegal logging is integrated into the local economy of the villages, and supports a wide array of livelihoods – any perceived threat to this creates a rapid, and sometimes violent, reaction from the individuals and communities that derive the benefits from this environmentally destructive activity. As an example of the nature of this problem, in August 2006, five people were arrested in one identified HCVF area within Riau. In retaliation, 100 local villagers protested and threatened employees and company contractors.

SMF is committed to ensuring the integrity of its licensed and legally documented fiber supply to APP's pulp and paper mills, and to ensuring that its policy of "no illegal logs" is enforced throughout the supply chain. To address this proactively, additional actions will be taken by APP and SMF to target poor communities with the objective of supporting alternative income generation, using a "carrot, not stick" approach to reduce the problem. The Fast Pro-100 program discussed previously is just one example of the companies' proactive approach.

A number of steps have been taken to ensure and verify the legality of APP's fiber sources. Following its first Legal Origin Verification (LOV) and Chain of Custody (CoC) Audit using LEI's (Ecolabel Institute of Indonesia) Principles and Criteria in 2003, SMF significantly improved its wood-tracing systems and procedures in concert with LEI. Once in place, these systems were upgraded with improved administrative tracking capacity and the addition of supplemental check points and inspections throughout the delivery process.



In July, 2005, the Geneva-based firm SGS (Societe General de Surveillance) audited this system to verify its effectiveness in ensuring the integrity of the fiber supply to the Indah Kiat Perawang mill in Riau and to the Lontar Papyrus mill in Jambi. SGS found that no illegal wood was supplied to either of these mills. They also found that SMF and the two APP mills had developed formalized, systems to trace material throughout the supply chain, from registered suppliers and contractors to the company's pulp mills. SGS also reported that the wood used by the company could be confidently asserted as having been legally harvested. To ensure that this system maintains its integrity, APP had engaged SGS to audit its supply chain again by year-end 2006.

The summary of the SGS 2006 audit findings are:

- 1. Verification of Legal Origin:** The assessment resulted in finding no evidence of illegal material being supplied through APP and SMF supply chains that includes SMF own concession area, joint venture agreement areas and third party suppliers audited under the assessments. SMF has developed a formal system to trace material through the supply chain from registered suppliers and contractors to the APP pulp mill. The company uses On-Line Delivery Forms and monitoring forms as well as the Government Transport Document to record material to be transported from a supplier to the mill. SMF showed improvement in their system and has successfully addressed issues raised in respect to traceability of material to a harvesting compartment as well as their ability for calculation of the volume of material harvested within a compartment, which were identified during SGS Legal Origin Verification Assessment in 2005. The assessment also found that SMF has formal procedures to evaluate land claims within the concession and to protect areas classified as conservation areas.
- 2. Chain of Custody Systems:** The assessment of the chain of custody systems operated by SMF concluded that chain of custody systems ensuring the legal origin of the pulpwood entering the mill have been improved to support a clear CoC system, and that there was no evidence of any illegal material entering the current supply system. Major improvements since the July 2005 audit include implementation of an on line CoC documentation system with linkage to APP's logyard and pulp mill operations plus the introduction of radar mapping for the monitoring of forest compartments.

(Audit Statement Summaries covering 2005 and 2006 can be found in Appendix IV.)

As mentioned previously, in October, 2006, all of APP's mills were introduced to the new procedures to comply with Japan's updated Green Purchasing Law (GPL). Management of each mill has made a commitment to implementing these GPL-compliance procedures during 2007. The GPL was drawn up to certify the

legality and sustainable source/s of pulpwood, as the raw material of virgin pulp. The purpose of this certification is to demonstrate that there is an unbroken chain-of-custody from the raw material through the mill to the sale to a customer. There are three methods by which a supplier can certify its production. Given the extensive experience that APP and SMF have had with wood tracing systems, APP will start by using a self-certification method as specified under the terms of the GPL.

Finally, the company has put in place a program to engage stakeholders in the prevention of illegal logging. This program will focus upon raising public awareness and on creating profitable alternatives to a logging-based livelihood. This initiative is due to be rolled-out in Riau, beginning in 2007.

Recycled Fiber and Purchased Pulp

Virgin hardwood fiber accounted for slightly more than 50% of the total fiber used in the production of APP's pulp and paper products during 2005. The balance of fiber consisted of post-consumer recycled waste paper from Indonesia and offshore markets (23%), mill waste, recovered and recycled at the mills (12%), and purchased paper pulp – primarily softwood – that is certified as being from sustainable forests by the Forest Stewardship Council [FSC] or the Program for the Endorsement of Forest Certification [PEFC] (13%).

Through its extensive use of recycled fiber, APP is having two significant positive impacts on the environment. The first positive impact is that the use of post-consumer waste fiber reduces the forest harvest each year. The second positive impact results from recovering fiber throughout the manufacturing process – from the white water system all the way to trimmings from paper-finishing operations. This reduces the amount of solid waste produced and reduces the load on the wastewater-treatment system at each mill.

By purchasing FSC- and PEFC-certified paper pulp, APP ensures that all of the pulp it procures from outside sources originates in forests that have been managed sustainably and harvested legally.

SMF's forest marshals and fire teams work closely with local communities to provide education and training on the hazards and risks of forest fires.

Fire Prevention and Protection

Because of the importance of protecting the forest and its ecosystems from fire, SMF has operated on a strict "no-burn" policy since 1996. Today, the company maintains substantial fire-prevention and fire-suppression teams comprised of more than 800 trained fire officers in Sumatra and Kalimantan. The leaders of the Fire Brigades based in Riau during 2005 and 2006 received training at the renowned Rural Fire Service in New South Wales, Australia, and in Prince George, Canada, respectively, providing a critical core capability within SMF. Directed by a trained Fire Marshal in each of the operating units on Sumatra and Kalimantan, each Fire Brigade team carries out a proactive schedule of fire patrols (on land and by speedboat) and makes use of SMF's early warning system.

SMF has a put in place a comprehensive support system to enable the teams to respond to new fires promptly, as well as to communicate about incidents and progress through a centralized reporting system. SMF's stated operational goal is to detect any new fire within two hours of the time it starts, and to limit the area burned to just 0.25 hectares. Once a fire is targeted for suppression, the team on the ground receives aerial support from one of two water-bombing helicopters, or water-borne support from one of the ten fire-fighting barges located on rivers and canals throughout the concessions.

The company also is constructing a network of fire lookout towers. These 23- to 25-meter-tall structures will be manned during peak fire seasons by radio-equipped personnel, facilitating early detection of fires in active forest blocks.

Many, if not most, fires originate near the boundaries of SMF concessions, and occur during the dry season when local farmers are preparing sites for farming or palm-oil-estate planting. As these fires can spread deep into the forest, SMF's forest marshals and fire teams work closely with local communities to provide education and training on the hazards and risks of forest fires. Through the distribution of leaflets and children's educational materials, and through door-to-door canvassing of villages, SMF's forest marshals also encourage the development of community-based, fire-management programs.

In inactive forest blocks, SMF deploys existing fire marshals with capabilities in fire protection, water management, infestation and conservation. These rangers form a needed link throughout the concession areas to ensure that all the land under license is being protected.

Each SMF forestry operation reports fire statistics on a monthly basis and tracks its progress in reducing the number and size of these forest fires.



Forestry Research & Development

One of the critical components of Sinarماس Forestry’s plans for sustainability requires a sophisticated and far-reaching research and development effort. SMF has a number of major programs under way, including work in tree improvement, silviculture, soil nutrients, pest and disease control, and nursery improvements. With a staff of more than 400 people, including 50 researchers, SMF has made its investment in forestry research and development (R&D) a key part of its sustainability program.

SMF’s R&D operation has a clear, singular objective: to produce the best quality pulpwood in the world.

In practice, SMF’s R&D mission is threefold: to enhance competitiveness by adopting world-class standards and environmental friendly practices; to improve plantation productivity through the development and application of leading technologies; and to conduct research to overcome problems encountered in existing plantations.

The Research and Development department supports forestry operations by: providing technical training to field districts (e.g., nursery training); developing Standard Operating Procedures and manuals for plantations; making recommendations regarding infestation and disease control; undertaking best practices in fertilization; and providing material such as stool plants, rooting powder, compost and minerals to nursery operations.

SMF’s tree-improvement programs are focused both on growth (as measured by mean annual increment or MAI) and on yield (reducing the green tons of fiber required to produce one metric ton of pulp). The main goals of the tree-improvement program

are identifying, multiplying and producing genetically superior planting material, and doing so by adopting leading technologies.

SMF’s research projects cover a wide spectrum of activities, among them: species and provenance trials; generative and vegetative improvement; polyploid breeding; and the development of native species. Clonal work is focused on a number of species with a concentrated effort on more than 250 clones of *Eucalyptus pellita* to find a superior tree. Clonal work also is being pursued with *Acacia mangium* and *Acacia crassicarpa*.

Eucalyptus is a species of particular interest to SMF because it is fast growing, has good pulping characteristics, and has 10% higher pulping productivity than Acacia. Eucalyptus stands also may experience fewer pest and disease losses. In addition, the species shows no sign of aging effect when cloning, and has shown some promise in terms of enhanced growth and yield. SMF’s efforts to develop a superior Eucalyptus clone offer strong potential for supporting the company’s goals for sustainability through improved yields and productivity in the forest and at APP’s mills.

Making the transition from laboratory work to the production plantation requires myriad silviculture research projects including spacing trials, pruning and singling trials, fertilization trials, demonstration trials, and cultivation trials. Despite the work involved, SMF’s plantation-focused efforts continue to deliver multiple benefits, among them an increasingly sustainable supply of fiber to meet the market’s need for paper, and the lessening of the burden of harvest on Indonesia’s forest ecosystems.



Where better living grows on trees

Row upon row of melons, rose apples, and dragon fruit ripen in the summer sun. Corn rises to meet the sultry Sumatran sky, and green and purple eggplant sit in bushel baskets, having just been brought in from the fields. All of it is just waiting for a cadre of would-be community farmers who will soon be introduced to nature's bounty.

A year in the making, the produce farm at the Riau Forest Community Development Center near Perawang is a vision of personal empowerment created, in large part, by Center Manager, Mr. Agus Pratomo. "Our idea is to introduce the local people to farming by letting them see, feel, and taste a bountiful harvest. We can talk all we want, but exposing them to what could be the fruits of their labor is a much more effective way of getting them to believe that they can rise above the impoverished lifestyles they now maintain."

Villagers who enroll in the Center's agribusiness training program will become skilled in soil preparation, planting, tending their crops, harvesting and selling them in the open market. "We will teach techniques to protect their crops from the voracious insects we have here in Riau – right now we use physical barriers and chemical pesticides, but soon we hope to be able to teach them how to use organic means to drive away pests," notes Mr. Pratomo.

As the Center's agribusiness program evolves, it also will provide training in the care and feeding of livestock. "First we need to teach people how to successfully grow feed crops. Once there is sufficient feed, we can introduce animals, and continue the training from there," said Mr. Pratomo. "We're helping members of our community find a better life, one little step at a time."



The catch of the day: A brighter future


APP and Sinarmas Forestry often teach community members new skills. Sometimes the companies help people find new, more productive lives as well.

In the province of Jambi, Sumatra, Sinarmas Forestry and the Lontar Papyrus mill were faced with the dilemma of relocating a small group of people who had been camping on the concession forestland. The presence of these people on the concession posed the potential for disrupting the company's forestry operations, as well as creating an increased risk of accidental or intentional forest fires.

As is typical of villagers living in rural Jambi, the group of settlers had few skills, and was living at a subsistence level. Rather than merely moving the people, and shifting the problem from one area to another, Sinarmas proposed a solution that would not only provide housing, but new, marketable skills and an improved standard of living as well.

With their consent, the settlers were moved from the forest to a newly constructed fishing community along the Rawa Panjang River. The company provided skills training in aquaculture, as well as fish food, fish fry, nets and other fishing equipment to get them started as fish farmers. Today, the fishing village of Tebing Tinggi is becoming increasingly self sufficient, and is actively trading its fresh and dried fish with people in nearby villages.





GLOSSARY OF PULP & PAPER TERMS

Archival Paper

Paper made in accordance with ISO-9706, containing an alkali reserve to provide characteristics of permanence.

Biodegradable

Waste material composed primarily of constituent parts that occur naturally, are able to be decomposed by bacteria or fungi, and are absorbed into the ecosystem. Paper is normally biodegradable.

Biodiversity

Refers to the variety of life on three levels: the variety of ecosystems (ecosystem diversity), the variety of species (species diversity) and the variety within species (genetic diversity).

Biosphere

Part of the earth and atmosphere capable of supporting living organisms.

Bleached Pulp

Pulp whose natural brightness has been improved using chemicals.

Bleaching

Bleaching method using chlorine or other chemicals to whiten the color of the pulpwood used in papermaking.

Broke

Paper machine trim or damaged paper that is pulped and returned to the papermaking process within the mill

Carbon Storage and Carbon Sinks

Trees and other plants absorb carbon dioxide from the atmosphere. Through a process called photosynthesis, plants store this carbon as cellulose, starches, and sugars. This carbon remains stored (or "bound") until it is released through the burning or decomposition of the wood fiber. A young forest, composed of growing trees, binds carbon dioxide more efficiently than does a mature forest and acts as a "sink" by storing that carbon for years to come.

Chain of Custody (CoC)

The step-by-step of monitoring process through which products are traced from their origin to the final end product. In the case of paper, the chain of custody stretches from the forest/pulpwood plantation to the finished paper product.

Chlorine Dioxide (ClO₂)

A heavy reddish-yellow gas used as a bleach and disinfectant.

Commercial Forest

Forestland that supports the growth of commercial volumes of timber within an acceptable time frame and is designated for such a purpose.

De-Inking

Removal of printing ink and impurities from recovered paper to produce recycled fiber pulp with improved whiteness and purity.

Ecolabel

In general terms, an ecolabel is a special seal or mark displayed on a product signifying that it has an environmentally beneficial property or properties. The "Ecolabel" referred to in this document is a mark that is awarded following an audit process conducted by an accredited, independent body against a set of environmental standards and criteria. A range of Ecolabeling schemes exist in various countries. However, the Ecolabel standard recognizes reciprocal systems and is supported by its strong international network.

Elemental Chlorine

Chlorine gas (Cl₂), often used as a bleaching agent in paper-making.

Elemental Chlorine Free (ECF)

A bleaching process that substitutes chlorine dioxide for elemental chlorine and sodium hypochlorite in the bleaching process. Often used to describe paper bleached using this process.

Environmental Management System (EMS)

The part of an overall management system that includes structure, planning activities, responsibilities, practices, procurements, processes and resources for developing, implementing, achieving, reviewing and maintaining an environmental policy. An example of an EMS certification system is ISO 14001.

High Conservation Value Forest (HCVF)

The concept of High Conservation Value Forests was developed by the Forest Stewardship Council (FSC) and first published in 1999. This concept moves the forestry debate away from definitions of particular forest types (i.e. primary and old-growth forests) or methods of timber harvesting to focus on the values that make a forest important. By identifying these key values and ensuring that they are maintained or enhanced, it is possible to make rational management decisions that are consistent with the maintenance of important environmental and social values.

ISO 14001

An international Environmental Management System standard that specifies rigorous requirements that must be met before a facility can be certified as compliant.

LBKP

Leaf Bleached Kraft Pulp – short-fiber pulp used in paper making, typically hardwoods

NBKP

Needle Bleached Kraft Pulp – long-fiber pulp used in paper making, typically softwoods

Recycled Content

The portion of a product that is made from recycled materials diverted from the waste stream; usually stated as a percentage by weight.

Recycled Material

1. Post-Consumer Waste

Discarded used consumer items collected for recycling from homes and businesses with the intention of incorporating these materials into new products.

2. Pre-Consumer Waste

Materials generated during manufacturing, such as scraps generated in a mill (including damaged or obsolete products, overruns and trimmings) that can be incorporated into the manufacture of new products.

Recycled Product

A product made exclusively, or in part, from materials diverted from the waste stream.

Sodium Hypochlorite

Bleaching chemical produced by mixing sodium hydroxide and elemental chlorine. Mills are eliminating the use of this chemical from bleaching processes because it produces large quantities of chloroform.

Sustainable Development

According to a definition used by the World Bank, sustainable development is "a process of managing a portfolio of assets to preserve and enhance the opportunities people face." Sustainable development includes economic, environmental, and social sustainability, which can be achieved by rationally managing physical, natural, and human capital.

Sustainable Forest Management

Management that maintains and enhances the long-term health of forest ecosystems for the benefit of all living things while providing environmental, economic, social and cultural opportunities for present and future generations.

Sustainable Forest Management (SFM) Certification

A market-based instrument aimed at promoting sustainable forest management. SFM Certification takes into account environmental, economic and social issues. The more-credible SFM Certification schemes require the independent assessment of forest management practices according to internationally and/or nationally accepted standards.

Virgin Fiber

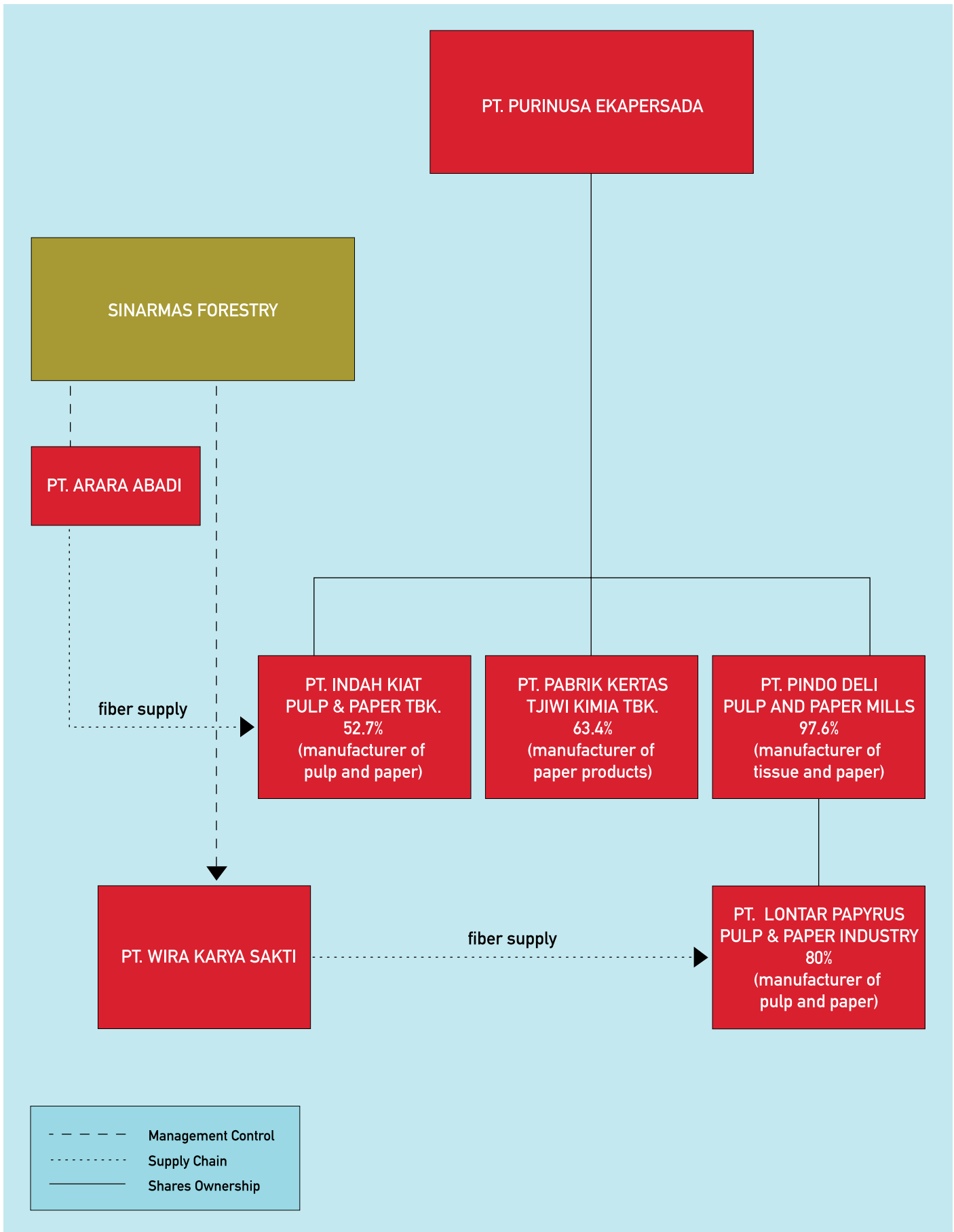
Wood fiber that has never been used in the manufacture of paper or board.

Wood-free Paper

Bleached coated or uncoated printing and writing paper that contains no more than 10% ground wood or mechanical pulp. Also commonly referred to as "free sheet".

APPENDIX I

GOVERNANCE STRUCTURE



PT. Purinusa Ekapersada

Board of Commissioners

President Commissioner: Muktar Widjaja

Commissioner: Hajjah Ryani Soedirman

Commissioner: Letjen TNI (Purn.) Soetedjo

Commissioner: Agustian Rachmansjah Partawidjaja

Board of Directors

President Director: Teguh Ganda Wijaya

Director: Drs. John Ferdinand Pandelaki

Director: Suresh Kilam

Director: Arthur Tahya

PT. Indah Kiat Pulp & Paper Tbk.

Board of Commissioners

President Commissioner: Yudi Setiawan Lin

Vice President Commissioner: Ir. Gandi Sulistyanto Soeherman

Commissioner: Indah Suryasari Wijaya Limantara

Commissioner: Show Chung Ho

Commissioner: Kuo Cheng Shyong

Commissioner: Lo Shang Shung

Independent Commissioner: Hj. Ryani Soedirman

Independent Commissioner: Mas Achmad Daniri

Independent Commissioner: Prof. Dr. Teddy Pawitra

Independent Commissioner: Kamardy Arief

Independent Commissioner: Letjen TNI (Purn.) Soetedjo

Board of Directors

President Director: Teguh Ganda Wijaya

Vice President Director: Hendra Jaya Kosasih

Vice President Director: Suresh Kilam

Vice President Director: Chen Wang Chi

Vice President Director: Lin Shun Keng

Director: Raymond Liu, Phd.

Director: Didi Harsa

Director: Ir. Buyung Wahab, MM

Director: Baharudin

Director/Corporate Secretary: Agustian Rachmansjah Partawidjaja

In accordance with Good Corporate Governance, the Company had formed an Audit Committee comprising 3 (three) members as follows:

Chairman: Prof. Dr. Teddy Pawitra

Member: Drs. Rusli Prakarsa

Member: Drs. Pande Putu Raka, MA

- The Audit Committee holds routine meetings with the management to review the Company's Quarterly Financial Statements. The Audit Committee also participates in the drawing up of the Company's Annual Budget.

- Routine meetings with the Internal Auditor of the Company are being held to discuss its findings to enhance internal control.
- Furthermore the Audit Committee holds discussions with the External Auditors regarding the Company's Consolidated Financial Statements and reports such discussion to the Company's management. The Company's 2005 Consolidated Financial Statements have been presented in accordance with the prevailing laws and regulations in Indonesia.

PT. Pabrik Kertas Tjiwi Kimia Tbk.

Board of Commissioners

President Commissioner: Teguh Ganda Wijaya

Vice President Commissioner: Ir. Gandi Sulistyanto Soeherman

Commissioner: Drs. John Ferdinand Pandelaki

Commissioner: Arthur Tahya

Commissioner: Linda Suryasari Wijaya Limantara

Independent Commissioner: Prof. Dr. Teddy Pawitra

Independent Commissioner: Letjen TNI (Purn.) Soetedjo

Independent Commissioner: Hajjah Ryani Soedirman

Independent Commissioner: Kamardy Arief

Board of Directors

President Director: Yudi Setiawan Lin

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PT. Pindo Deli Pulp And Paper Mills

Board of Commissioners

President Commissioner: Teguh Ganda Wijaya
Commissioner: Yudi Setiawan Lin
Commissioner: Arthur Tahya
Commissioner: Drs. John F. Pandelaki
Independent Commissioner: Letjen TNI (Purn.) Soetedjo
Independent Commissioner: Hajjah Ryani Soedirman
Independent Commissioner: Drs. Pande Putu Raka

Board of Directors

President Director: Tsai Huan Chi
Vice President Director: Hendra Jaya Kosasih
Vice President Director: Suresh Kilam
Director: Suhendra Wiriadinata
Director: Huang Hua Ching

In accordance with Good Corporate Governance, the Company had formed an Audit Committee comprising 3 (three) members as follows:

Chairman: Prof. Pande Putu Raka, MA
Member: Drs. Kamardy Arief
Member: Hotbonar Sinaga, SE

- The Audit Committee conveys Committee Audit Charter to the management.
- Routine meetings with the Internal Auditor of the Company are being held to discuss its findings to enhance internal control.
- Furthermore the Audit Committee holds discussions with the External Auditors regarding the Company's Consolidated Financial Statements and reports such discussion to the Company's management. The Company's 2005 Consolidated Financial Statements have been presented in accordance with the prevailing laws and regulations.

PT. Lontar Papyrus Pulp & Paper Industry

Board of Commissioners

President Commissioner: Teguh Ganda Wijaya
Vice President Commissioner: John Ferdinand Pandelaki
Commissioner: Sukirta Mangkudjaja
Independent Commissioner: Letjen TNI (Purn.) Soetedjo
Independent Commissioner: Hajjah Ryani Soedirman
Independent Commissioner: Drs. Pande Putu Raka

Board of Directors

President Director: Lin Fu Li
Vice President Director: Hendra Jaya Kosasih
Director: Suresh Kilam
Director: Lin Shun Keng
Director: Ir. Buyung Wahab, MM
Director: Arthur Tahya

In accordance with Good Corporate Governance, the Company had formed an Audit Committee comprising 3 (three) members as follows:

Chairman: Prof. Pande Putu Raka, MA
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- The Audit Committee conveys Committee Audit Charter to the management.
- Routine meetings with the Internal Auditor of the Company are being held to discuss its findings to enhance internal control.
- Furthermore the Audit Committee holds discussions with the External Auditors regarding the Company's Consolidated Financial Statements and reports such discussion to the Company's management. The Company's 2005 Consolidated Financial Statements have been presented in accordance with the prevailing laws and regulations.

APPENDIX II

POLICY DOCUMENTS



Fiber Procurement Policy

APP is committed to purchasing wood fiber for pulp-making operations from sustainably managed forestry sources, which conserve areas of outstanding habitat and operate in harmony with local communities. To implement this commitment, APP will:

- Ensure that wood suppliers maintain compliance with all relevant regional, national and international regulations for sustainable forestry and land-use management;
- Ensure that a multi-stage environmental assessment process is conducted prior to plantation development. The environmental assessment process will meet or exceed the standard required by national law;
- Ensure that wood is properly checked and verified as to legal origin and chain of custody before it enters the mill;
- Maintain systems and procedures to reasonably ensure that wood coming from illegal sources shall be rejected before it enters the mill;
- Expect that wood suppliers comply with relevant universal human rights regulations;
- Expect that wood suppliers undertake community relations programs based upon participatory assessment and planning principles, involving all relevant stakeholders;
- Ensure that wood suppliers who are found in breach of relevant legal requirements and the provisions of the policy shall be immediately warned and, for repeated violations, have their contracts terminated.

Jakarta, 2004

APP

Sinarmas Pulp and Paper Products

Last Updated: December 2006



Declaration of Sustainability

One of the world's largest, vertically integrated pulp and paper companies, APP is recognized internationally for the quality of its paper products. With current annual combined pulp, paper and packing grades capacity of more than seven million tons in Indonesia, APP ranks as the number-one producer in Asia, outside of Japan. Headquartered in Jakarta, APP currently has multiple manufacturing facilities in Indonesia and markets its products in more than 65 countries on six continents.

Our 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 fulfil this vision, APP has committed itself to being socially, environmentally and economically sustainable in all its operations. APP will keep this commitment by helping to empower the people in the communities where we operate, initiating conservation programs to protect the environment, using only the most efficient and ecologically sound harvesting technology, adopting best practices in our mill operations, and dedicating ourselves company-wide to continuous improvement.

This statement has been developed as part of APP's commitment to sustainability and good governance in all its operations. The meaning of sustainability to APP is the balance of economic, environmental and social interests.

On environmental sustainability, we believe that continuous improvements in raw material sourcing and utilization, process efficiency, waste minimization and supply chain management are core disciplines in achieving a better environment. Using national protocols as the baseline, we believe in protecting high conservation value areas of forest identified to be home to endangered species of wildlife and plants or that is important to local communities.

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 respecting the cultural contexts in which we operate.

On economic sustainability, we have a responsibility to our employees and their families, our customers and the communities who depend on APP 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.

To achieve sustainability, APP commits to the following:

- Compliance with national legislation and relevant international regulations;
- Maintaining robust standards for fiber suppliers through APP's Fiber Procurement Policy covering environmental standards, conservation principles and social impact;
- Continuing investment in recycling technology and promoting efficient uses of recyclable resources;
- Continuing to explore innovative ways of recycling the waste products that arise from paper-making;
- Minimizing pollution from operations and benchmarking processes against international best practice, as well as continuing to minimize energy use and its resulting environmental impacts;
- Improving the safe handling and storage of raw materials, process intermediates, chemicals, products and waste;
- Introducing the best available technology that ensures maximum efficiency, but also enables progress toward the goal of supporting local communities through employment opportunities and development programs;
- Implementing detailed operational unit guidelines to manage emergency and social conflict situations, should these arise; and
- Investing further in employees through training and education.

These commitments have been developed by listening to our stakeholders and consulting experts in a variety of professional fields. This has taken place with the recognition that the balance of the three sustainability pillars – environmental, social and economic – can only be achieved with an equal weighting of each.

This statement is supported by APP's technical documents and relevant certifications. Should you need further information on APP's Sustainability, please do not hesitate to contact us or go to our website – www.asiapulppaper.com.

Jakarta, 2004
APP
Sinarmas Pulp and Paper Products

Last Updated: December 2006

APPENDIX III

STAKEHOLDERS SURVEYED FOR THIS REPORT

STAKEHOLDER NAME	TITLE	STAKEHOLDER RELATIONSHIP	LOCATION—MILL AFFILIATION
Daniel Sunotoredjo	Sales Manager, Amazon Papyrus Chemicals	Supplier	Pindo Deli
Asikin Horio	Sales Manager, PT Eka Chemicals Indonesia	Supplier	Pindo Deli
Mr. Omon Sumantri	Formal Village Leader of Kutapohaci	Local Authority	Kutamekar Village Pindo Deli
Mrs. Yayat Rahayu	Formal Village Leader of Kutapohaci	Local Authority	Kutapohaci Village Pindo Deli
Mr. M. Soleh	Leader of Lembaga Pemberdayaan Masyarakat (Community Empowerment Organization)	Community Leader	Kutamekar Village Pindo Deli
Mr. Ade Rasmadi	Leader of Farmers Group	Community Leader	Kutapohaci Village Pindo Deli
Mr. Wawan	Youth Leader	Community Leader (official)	Kampung Baru Utara Village Indah Kiat, Tangerang
Mr. Rusdi Mr. Sukarta		Community Leaders (official)	Kampung Baru Selatan Village Indah Kiat, Tangerang
Mr. Drs. Muhdini	Youth Leader	Community Leader (official)	Kampung Wates Jaya Village Indah Kiat, Tangerang
Mr. H. Suhardjo	Religious Leader	Community Leader (unofficial)	Kampung Wates Jaya Village Indah Kiat, Tangerang
Mr. Arsid	Head of Serpong Subdistrict	Local Authority	Indah Kiat, Tangerang
Ms. Nani Suparni	Head of Pakulonan Subdistrict	Local Authority	Indah Kiat, Tangerang
Mr. Decky Saprudin Bsc	Member of Regional Representative of Tangerang Regency	Local Authority	Indah Kiat, Tangerang
Mr. Zulkifli	Official Secretary of Tualang Subdistrict	Local Authority	Tualang Subdistrict Indah Kiat, Perawang
Mr. Mukhtar M.		Community Leader (official)	Pinang Sebatang Village Perawang, Riau Indah Kiat, Perawang
Mr. Maasri	Leader of “Bunut Abadi” Cooperation	Community Leader	Pinang Sebatang Village, Riau Riau Forest
Mangara Silalahi	Leader, Forum Komunikasi Kehutanan Masyarakat (FKKM—Community Forestry Communication Forum)	NGO	Riau Forest

STAKEHOLDER NAME	TITLE	STAKEHOLDER RELATIONSHIP	LOCATION—MILL AFFILIATION
Mr. Ahmad Syah	Tokoh Masyarakat	Community Leader (unofficial)	Tebing Tinggi Village, Jambi Lontar Papyrus
Mr. Ishak	None	Fish farmer—relocated settler	Tebing Tinggi Village, Jambi Lontar Papyrus
Mr. Pahrin E. Siregar	Executive Director Yayasan Citra Bina Mandiri (Citra Bina Mandiri Foundation)	NGO	Telanai Pura, Jambi Jambi Forest
Mr. M Sholeh	Tokoh Masyarakat	Community Leader (unofficial)	Kelagian Baru, Tebing Tinggi Village Jambi Forest
Mr. Sudirman	Tokoh Masyarakat	Community Leader (unofficial)	Kramat Temenggung Village, Sidoarjo, East Java TjiwiKimia
Mr. Entus Mahmud	Head of Kragilan Subdistrict	Local Authority	Kragilan Village, Serang Indah Kiat, Serang
Mr. Endang Ariesta	Leader of FORKLIP (Forum Komunikasi Lintas Industri dan Pemuda; communication forum for intra-industrial and the youth)	Community Leader	Kragilan Village, Serang Indah Kiat, Serang
Paulus Ridwan Mulyana	Unknown, PT BASF Indonesia	Supplier	Tjiwi Kimia
Budiono, Ir.	Head of environmental Impact Control Environmental Department, Mining and Energy	Local Authority	Tjiwi Kimia

APPENDIX IV

AUDIT STATEMENT SUMMARIES



AUDIT STATEMENT

Verification of Legal Origin & Chain of Custody

Organisation:	APP Indonesia	Reference#	SGS/IND/TLTV/07-01 APP
Address:	Plaza BII Tower II, 22 Floor, Jl M H Thamrin No 51, Jakarta 10350, Indonesia	Audit Dates	11-15 December 2006
SCOPE OF ASSESSMENT			
Evaluation of legal origin of raw material (plantation wood & mix hardwood residues from plantation development) into Indah Kiat Pulp & Paper Mill, from all fibre sources managed by PT Arara Abadi in Sumatra, Indonesia, under the Sinarmas Forestry companies. (Note: "legal origin" is defined according to criteria and indicators of Ecolabel Institute of Indonesia / LEI.)			
SUMMARY OF FINDINGS			
<p>1. Verification of Legal Origin: The assessment resulted in finding no evidence of illegal material being supplied through PT Arara Abadi supply chain that includes its own concession area, joint venture agreement areas and third party suppliers audited under this assessment. PT Arara Abadi has developed a formal system to trace material through the supply chain from registered suppliers and contractors to the Indah Kiat pulp mill. The company uses On-Line Delivery Forms (Surat Pengantar) and monitoring forms as well as the Government Transport Document (Faktur Angkutan) to record material to be transported from a supplier to the mill. PT Arara Abadi showed improvement in their system and has successfully addressed issues raised in respect to traceability of material to a harvesting compartment (petak) as well as their ability for calculation of the volume of material harvested within a compartment, which were identified during SGS Legal Origin Verification Assessment in 2005. The assessment also found that PT Arara Abadi has formal procedures to evaluate land claims within the concession and to protect areas classified as conservation areas.</p> <p>2. Chain of Custody Systems: The assessment of the chain of custody systems operated by PT Arara Abadi concluded that chain of custody systems ensuring the legal origin of the pulpwood entering the mill have been improved to support a clear CoC system, and that there was no evidence of any illegal material entering the current supply system. Major improvements since the July 2005 audit include implementation of an on line CoC documentation system with linkage to log yard and pulp mill operations plus the introduction of radar mapping for the monitoring of forest compartments.</p>			
RECOMMENDATIONS			
The need for improvements to enable better monitoring of forest harvesting progress plus improved reconciliation of volume extracted from a defined harvest area revealed in the 2005 audit have been partially addressed but need further improvement. The assessment also revealed that improved procedures for social assessment, communication and conflict resolution have been developed but need to be implemented more consistently.			
NOTICE			
This statement is valid for the time of audit and does not represent an ongoing verification. It neither represents a certificate of legality nor an eco certification of the management of the forest PT Arara Abadi. This statement draws support from term of reference and from the report of the audit prepared by SGS in January 2007 and is bound by the SGS General Conditions for Legal Origin Timber Verification Services.			

SGS Forest Monitoring Services





AUDIT STATEMENT

Verification of Legal Origin & Chain of Custody

Organisation:	APP Indonesia	Reference#	SGS/IND/LTV/07-02 APP
Address	Plaza Bili Tower II, 22 Floor Jl M H Thamrin No 51 Jakarta 10350, Indonesia	Audit Dates	03 - 06 December 2006
SCOPE OF ASSESSMENT			
Evaluation of legal origin of wood fibre raw material (plantation wood & mix hardwood residues from plantation development) into Lontar Papyrus Pulp Mill from all fibre sources managed by PT Wirakarya Sakti and PT RHM in Sumatra, Indonesia (Note: 'legal origin' is defined according to criteria and indicators of Ecolabel Institute of Indonesia / LEI)			
SUMMARY OF FINDINGS			
<p>1. Verification of Legal Origin: The assessment resulted in finding no evidence of illegal material being supplied through PT Wirakarya Sakti supply chain that includes its own concession area, joint venture agreement areas and third party suppliers audited under this assessment. PT Wirakarya Sakti has developed a formal system to trace material through the supply chain from registered suppliers and contractors to the Indah Kiat pulp mill. The company uses On-Line Delivery Forms (Surat Pengantar) and monitoring forms as well as the Government Transport Document (Faktur Angkutan) to record material to be transported from a supplier to the mill. PT Wirakarya Sakti showed improvement in their system and has successfully addressed issues raised in respect to traceability of material to a harvesting compartment (petak) as well as their ability for calculation of the volume of material harvested within a compartment which were identified during SGS Legal Origin Verification Assessment in 2005. The assessment also found that PT Wirakarya Sakti has formal procedures to evaluate land claims within the concession and to protect areas classified as conservation areas.</p> <p>2. Chain of Custody Systems: The assessment of the chain of custody system operated by PT Wirakarya Sakti concluded that chain of custody systems ensuring the legal origin of the pulpwood entering the mill have been improved to support a clear CoC system, and that there was no evidence of any illegal material entering the current supply system. Major improvements since the July 2005 audit include implementation of an on line CoC documentation system with linkage to log yard and pulp mill operations plus the introduction of radar mapping for the monitoring of forest compartments.</p>			
RECOMMENDATIONS			
The need for improvements to enable better monitoring of forest harvesting progress plus improved reconciliation of volume extracted from a defined harvest area revealed in the 2005 audit have been partially addressed but need further improvement. The assessment also revealed that improved procedures for social assessment, communication and conflict resolution have been developed but need to be implemented more consistently.			
NOTICE			
This statement is valid for the time of audit and does not represent an ongoing verification. It neither represents a certificate of legality nor an eco certification of the management of the forest PT Wirakarya Sakti. This statement draws support from term of reference and from the report of the audit prepared by SGS in January 2007 and is bound by the SGS General Conditions for Legal Origin Timber Verification Services.			

SGS Forest Monitoring Services





AUDIT STATEMENT

Verification of Legal Origin & Chain of Custody

Organisation:	Asia Pulp & Paper Co. Ltd.	Reference#	SGS/IND/FMP/TLTV/05-10/020
Address:	Plaza Bill Tower II, 22 Floor Jl M H Thamrin No 51 Jakarta 10350, Indonesia	Audit Dates	12-17 July 2005
SCOPE OF ASSESSMENT			
Evaluation of legal origin of raw material (plantation wood & mix hardwood residues from plantation development) into Indah Kiat Pulp & Paper Mill, from all fibre sources managed by PT Arara Abadi in Sumatra, Indonesia, under the Sinar Mas Group of companies. (Note: "legal origin" is defined according to criteria and indicators of Ecolabel Institute of Indonesia / LEI.)			
SUMMARY OF FINDINGS			
<p>1. Verification of Legal Origin: The assessment resulted in finding no evidence of illegal material being supplied through PT Arara Abadi supply chain that includes its own concession area, joint venture agreement areas and third party suppliers audited under this assessment. PT Arara Abadi has developed a formal system to trace material through the supply chain from registered suppliers and contractors to the Indah Kiat pulp mill. The company uses the Surat Pengantar (delivery forms) and monitoring forms as well as the Faktur Angkutan (government transport document) to record material to be transported from a supplier to the mill. The assessment also found that PT Arara Abadi has formal procedures to evaluate land claims within the concession and to protect areas classified as conservation areas.</p> <p>2. Chain of Custody Systems: The assessment of the chain of custody systems operated by PT Arara Abadi concluded that chain of custody systems ensuring the legal origin of the pulpwood entering the mill were on the whole good, and that the overwhelming majority of the wood used could be confidently asserted to have been legally harvested, uncontaminated by any illegal material.</p>			
RECOMMENDATIONS			
The assessment revealed a need for improvements to enable better monitoring of forest harvesting progress plus improved reconciliation of volume extracted from a defined harvest area. The assessment also revealed a need for improved procedures for social assessment, communication and conflict resolution and the results to be more reflected in management planning. While the assessment finds no evidence of the CoC systems having been breached a number of improvements were suggested to decrease further the likelihood of this occurring.			
NOTICE			
This statement is valid for the time of audit and does not represent an ongoing verification. It neither represents a certificate of legality nor an eco certification of the management of the forest PT Arara Abadi.			
This statement draws support from term of reference and from the report of the audit prepared by SGS in September 2005.			
This statement is bound by the SGS General Conditions for Legal Origin Timber Verification Services.			

SGS Natural Resource Monitoring Services

SGS Société Générale de Surveillance SA
Trade Assurance Services Division

1, place des Alpes P.O. Box 2152 CH-1211 Geneva 1
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Member of the SGS Group (Société Générale de Surveillance)



AUDIT STATEMENT

Verification of Legal Origin & Chain of Custody

Organisation:	Asia Pulp & Paper Co. Ltd.	Reference#	SGS/IND/FMP/TLTV/05-10 001
Address:	Plaza BII Tower II, 22 Floor JI M H Thamrin No 51 Jakarta 10350, Indonesia	Audit Dates	18 - 23 July 2005
SCOPE OF ASSESSMENT			
Evaluation of legal origin of wood fibre raw material (plantation wood & mix hardwood residues from plantation development) into Lontar Papyrus Pulp Mill from all fibre sources managed by PT. Wirakarya Sakti and PT.RHM in Sumatra, Indonesia (Note: "legal origin" is defined according to criteria and indicators of Ecolabel Institute of Indonesia / LEI).			
SUMMARY OF FINDINGS			
<p>1. Verification of Legal Origin: The assessment resulted in finding no evidence of illegal material being supplied through PT Wirakarya Sakti supply chain that includes its own concession area, joint venture agreement areas and third party suppliers audited under this assessment. PT Wirakarya Sakti has developed a formal system to trace material through the supply chain from registered suppliers and contractors to the Lontar Papyrus pulp mill. The company uses Surat Pengantar (delivery forms) and monitoring forms as well as the Faktur Angkutan (government transport document) to record material to be transported from a supplier to the mill. The assessment also found that PT Wirakarya Sakti has formal procedure to evaluate land claims within the concession and to protect areas classified as conservation areas.</p> <p>2. Chain of Custody Systems: The assessment of the chain of custody systems operated by PT Wirakarya Sakti concluded that chain of custody systems ensuring the legal origin of the pulpwood entering the mill were on the whole good, and that the overwhelming majority of the wood used could be confidently asserted to have been legally harvested, uncontaminated by any illegal material.</p>			
RECOMMENDATIONS			
The assessment revealed a need for improvements to enable better monitoring of forest harvesting progress plus improved reconciliation of volume extracted from a defined harvest area. The assessment also revealed a need for improved procedures for social assessment, communication and conflict resolution and the results to be more reflected in management planning. While the assessment founds no evidences of the CoC systems having been breached a number of improvements were suggested to decrease further like the likelihood of this occurring.			
NOTICE			
This statement is valid for the time of audit and does not represent an ongoing verification. IT neither represents a certification of legality nor an eco certification of the management of the forest PT Wirakarya Sakti.			
This statement draws support from term of reference and from the report of the audit prepared by SGS in September 2005.			
This statement is bound by the SGS General Conditions for Legal Origin Timber Verification Services.			


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APPENDIX V

TEXT OF MINISTER OF FORESTRY SPEECH

14 November 2006

Message of the Minister of Forestry of the Republic of Indonesia

Delivered by Mr. Koes Saparyadi

Senior Advisor on Legal Cases of the Forestry Minister of the Republic of Indonesia

APP Sustainability Seminar in Tokyo, Japan _ November 14th 2006

Good Afternoon,

I would first like to thank APP Indonesia, APP Japan and Sinarmas Forestry for inviting me to participate in this important forum. And I would also like to express our gratitude to the Embassy of the Republic of Indonesia in Tokyo for their diligent efforts to promote and safeguard international commerce in Indonesia's non-oil and gas sectors, including forest products such as pulp and paper.

The Ambassador of Indonesia for Japan has previously stated that the bilateral trade between Japan and Indonesia is a key driver to economic growth in both countries. For Indonesia, this, among other things, includes the responsible development of natural resources. The sustainability of raw material supply of our pulp and paper industry is an important part of these activities.

In line with the Ministry of Forestry's vision to guarantee forest sustainability for the improvement of the prosperity of the community, it is our role to work together with the private sector and stakeholders such as APP and Sinarmas and with non-governmental organizations, to manage, support and monitor forest resources to ensure economic, social and environmental sustainability.

Allow me to expand on the issue of environmental sustainability.

It will come as no surprise to you that Indonesia's forests are among the richest ecosystems in the world. Surely such a wealth of biological diversity is worth protecting. And that is just what the Indonesian government is doing. Indonesia covers a land mass of roughly two hundred million hectares. Of this, around 126 million hectares or 65% is forest area. Through our Spatial Planning Policy, the Indonesian government has identified the areas with the highest conservation value, and has permanently set-aside forty four percent of Indonesia's natural forests as conservation forests and protected forests. These set-asides are protected by law. This shows the serious commitment Indonesia has made to forest conservation, to ensuring the protection of biodiversity, endangered flora and fauna, and nature services, and to preserving the cultural identities and meeting the basic needs of local communities.

Currently, around three percent of Indonesia's forests have been designated for pulpwood plantations. These are the least ecologically significant forested areas in our country – they are comprised largely of degraded forests and barren land.

I would like to make the point here that the Indonesian government is committed to protecting areas of high conservation value wherever they occur – even on the three percent of forestland that is designated for use as pulpwood farms. That is why we have enacted regulations requiring companies holding forest concessions to conduct rigorous environmental impact assessments and to submit forest management plans for our approval prior to any harvesting activity. Concession holders first must undertake a third-party Environmental Impact Assessment of their holdings to identify a minimum of 30% of the area that is to be set aside for conservation, community use, indigenous species development and related infrastructure.

The Government of Indonesia is committed to the sustainability and long-term viability of its forests. We are committed to alleviating the pressure on our natural forests by requiring that all of Indonesia's pulp and paper companies be 100% reliant on plantation grown wood by end of 2009. This Acceleration of Plantation Development Program was enacted in 2003 and, to ensure that the interim years do not become a free-for-all of cutting natural forests to create plantations, we have put in place strict regulations regarding conservation set-asides and the sustainable supply of raw materials.

Once the set aside areas have been identified according to guidelines of the Environmental Impact Assessment, the Acceleration of Plantation Development Program compels the concession holder to conduct both Macro-delineation and Micro-delineation analyses to further identify and protect any natural forest areas of high conservation value.

The Government's renewed focus on forest conservation, protection, and restoration comes at a time when Indonesia's forests are more valuable and more vulnerable than they have been at any time in our nation's history. For centuries, the people of Indonesia have relied on our forests for their livelihood. During the past twenty years, our forests have become an increasingly more important contributor to our national economic growth.

The rewards reaped from the commercial use of our forests have come at a high price, and we recognize that our forests were in a state of rapid decline. To address this issue, the Indonesian government has now enacted legislation, policies, and regulations to stop further forest destruction, and to conserve the forest's biological richness and diversity. The main priority of the

Forestry Ministry for the next five years is to develop, implement, and enforce policies that will rescue and rebuild our valuable forest resources and to further improve the community's prosperity. As you might imagine, this is not a simple, nor an easy, assignment.

We have identified five areas as priorities for our work. I would like to spell them out for you now and briefly expound on one of them in a moment.

The priority areas on which the Indonesian Ministry of Forestry will focus its efforts during the next ten years are: eradication of illegal logging and illegal timber trading; revitalization of the forestry sector, especially the forestry industry in order to secure the availability of the required raw material; rehabilitation of degraded forest and wasteland as well as conservation of high conservation value forests; economic empowerment of forest dwelling communities to increase welfare, education and employment opportunities; and the strengthening of forest areas.

Allow me to talk for a moment about the issue of illegal logging and trade in illegally harvested timber.

While our ministry receives, and appreciates, the full cooperation of companies such as those of APP and Sinarmas Forestry in complying with forest regulations, there are many who choose to operate outside the law. The problems of illegal logging and trade in illegal timber are rooted in social as well as economic issues. Among the big drivers of the illegal trade are poverty, unemployment, and the lack of education and vocational skills. The demand on the international market for high-value timber at low cost also fuels the trade in illegal timber. It has become an untenable situation.

So what are we doing about it?

The Indonesian government has launched a five-prong attack on illegal logging. First, we gather and thoroughly investigate the locations where illegal logging is being carried out. Second, we step-up coordination with the police, army, attorney general and other related sectors to bring illegal logging operations to an end. Third, we conduct illegal logging and illegal trade eradication operations. Fourth, we foster community concern for

illegal logging and its eradication. Last but not least, we reduce the threats to forest areas, by providing forest management access to the local community via the establishment of community forests, for example. In addition, the Indonesian government continuously improves its regulations in combating forest crimes. And to gain international support in combating illegal timber trades, our government is also active in international forums. Examples of this include our recent Memorandum Of Understanding with China, and our participation in Asia Forest Partnerships and in the International Tropical Timber Organization.

Every concessionaire is required to comply with the law. Our Ministry is encouraged by the extraordinary efforts of companies such as APP, who use compliance with the regulations as a baseline for their efforts. To date, APP and Sinarmas Forestry have been fully supportive of our five policies; through their sustainable plantation development, reforestation, community empowerment, community forest programs and legal wood tracking, and other practices.

Having proactively fulfilled their legal commitment, APP and its fiber supplier have even gone beyond mere compliance, and have implemented dynamic conservation initiatives such as their collaborative efforts to develop the Sumatran Tiger Sanctuary and the Biosphere reserve in Riau Province. These initiatives demonstrate APP's extraordinary commitment to the long-term conservation of Indonesian forests, to the protection of our robust biodiversity for this and future generations and to sustainability as a whole.

We sincerely hope that this seminar will achieve the desired positive outcome, which is to reach a clear, profound understanding among producers and buyers for the benefit of both the people of Japan and Indonesia.

Thank you.

Jakarta, November 14th 2006
The Minister of Forestry
The Republic of Indonesia

APPENDIX VI

ASSURANCE STATEMENT OF INDEPENDENT REVIEW BODY

Sustainability Report 2006

Independent Assurance Statement

To:
Management of APP
Indonesia



Introduction

Bureau Veritas has been engaged by APP, and by association its principal Indonesian operating companies (refer to Scope of this Report) to provide assurance for its sustainability reporting. This Independent Assurance Statement applies to APP's 2006 Sustainability Report ('the Report'), its first such report to date covering the reporting period of January 2005 to December 2006. The preparation of the Report is the responsibility of the management of APP. Our responsibility is to provide assurance on the reliability of the information therein and to express our overall opinion on the Report as per the scope of assurance.

Scope of the assurance

- a) The scope of our work was determined in consultation with APP and is summarized as follows:
- review and assess the reliability of environmental, health, safety, social and related information and associated performance data included in the Report for the period of January 2005 to December 2006;
 - assess the effectiveness of systems deployed in the collection and compilation of performance information;
 - provide impartial commentary on progress and propose recommendations for further development, as appropriate.
- b) We reviewed the complete Report to ensure its consistency with the findings of our work.
- c) Excluded from the scope of our work is assurance against information relating to:
- activities outside the defined assurance period;
 - positional statements (expression of opinion, belief or future intention provided by APP) and statements of commitment.

Assurance methodology

Bureau Veritas assessed whether the information reported was supported by underlying evidence and underlying systems that support sustainability performance. To do this we conducted:

- interviews with APP and Sinarmas Forestry employees and a review of documentary evidence and relevant systems where appropriate, to understand management of information within APP;
- reference to work undertaken by recognised external parties;
- audit of performance data back to source data and where this has not been possible, we have ensured that data has been accurately transposed into the Report;
- site visits to Sinarmas Forestry fiber sources in Riau and Jambi, Sumatra; PT. Indah Kiat Pulp & Paper Tbk. mill in Perawang, Riau, Sumatra and PT. Lontar Papyrus Pulp & Paper Industry mill in Tebing Tinggi, Jambi, Sumatra; PT. Pabrik Kertas Tjiwi Kimia Tbk. mill in Mojokerto, East Java and PT. Pindo Deli Pulp And Paper Mills in Karawang, West Java, Java; and APP and Sinarmas Forestry Head Office, Jakarta;
- review of the complete Report for consistency with the findings of our detailed work.

This assurance statement applies to APP's Sustainability Report 2005-2006

Basis of opinion

APP's sustainability reporting covers its operations and activities in Sumatra and Java, Indonesia. Our opinion is formed on the basis of available information, observation and discussions with APP's and Sinarmas Forestry's management and operational staff during site visits in November 2006 which incorporated four pulp/paper mills across four locations and two fibre source operations in Sumatra, and the Head Office. Where information in the Report is directly sourced from APP's individual sites' annual reporting and accounts we consider this to be reliable as it has been audited by an independent Chartered Accountant. In conducting this engagement we have considered the principles and practitioner requirements of the AA1000 Assurance Standard. The work conducted as described in the 'scope of the assurance' above was planned and carried out to provide reasonable, rather than absolute assurance and we believe it provides a reasonable basis for our conclusions.

Assurance Conclusions

In our opinion the Report:

- provides a fair and reasonable representation of APP's sustainability performance for the reporting period and effectively establishes a baseline for future reporting;
- provides information on relevant sustainability policies, strategies and issues in a clear, and understandable manner;
- has been corrected for mistakes and inaccuracies identified through the assurance process with a positive view to providing best available information;
- as such, provides information for the visited sites that we consider to be reliable and free from significant error or bias.

Commentary on Reporting and Assurance

Highlights

- the Report demonstrates a commitment to material issues facing the forestry industry in Indonesia, including illegal logging, sustainable plantations, conservation and environmental and social management;
- certified systems for the management of environment, health and safety at mill operations and environment at plantation operations;
- as a minimum, legal compliance with national environmental, health and safety requirements;
- externally audited chain of custody to ensure the supply of legal pulpwood to mills;
- initiatives that work towards providing occupation, income support and social improvement to local communities.

Key areas for ongoing improvement

APP should consider the following:

- ensure that all relevant information undergoes greater internal control with regard to collection, compilation and management to guarantee accuracy and consistency between that reported and actual performance data; this will support the integrity of information and thus enable a higher level of confidence to be delivered through external assurance;
- further development of measurable and relevant performance indicators and targets against environment, health, safety and social concerns to enable meaningful benchmarking and reporting; this could include incorporating broader standard performance indicators selected from the Global Reporting Initiative framework that relate to APP's core business;
- address the management of health and safety aspects more systematically, fully and transparently within the mill and plantation operations;
- integration of the health and safety system into a single management system over time, based on existing certified ISO frameworks;
- expand consultation with key stakeholders, particularly employees as a key stakeholder group, to identify further social, economic and environmental concerns for consideration, response and reporting;
- raising awareness at management level across the organisation over time regarding the overall concepts of sustainability to encourage constructive interaction with key societal stakeholders in the field;
- a systematic approach to assessing the benefits to local communities of social programmes to ensure effective implementation and deployment of resources.

Considerations and limitations

In relation to our assurance work and conclusions the following considerations and limitations should be noted:

- certain information is excluded from the scope of our assurance work, as stated above;
- in relation to the performance data we have audited source data wherever possible; where this has not been possible we have ensured that the data has been accurately transposed into the Report;
- it was not possible to verify the detailed spend for certain community programme initiatives;
- The work does not provide assurance that environmental, health and safety performance information generated at sites other than those visited is reliable or free from error / bias.



PT. Bureau Veritas Indonesia
Bureau Veritas United Kingdom

January, 2007

Statement by Bureau Veritas of independence, impartiality and competence

Bureau Veritas is an independent professional services company that specialises in Quality, Health, Safety, Social and Environmental management with over 180 years history in providing independent assurance services, and an annual turnover in 2005 of Euros 1.7 billion.

Bureau Veritas has implemented a code of ethics across the business which is intended to ensure that all our staff maintain high ethical standards in their day to day business activities, we are particularly vigilant in our the prevention of conflicts of interest.

Competence: Our assurance team completing the work for the Report have extensive experience in conducting assurance over environmental, social, ethical and health and safety information, systems and processes and has over 25 years combined experience in this field with a thorough understanding of good practice in Corporate Responsibility reporting and assurance.



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