

APP FCP PROGRESS UPDATE:

S E P T E M B E R 2 0 1 5





Foreword

APP is now in the third year of its Forest Conservation Policy implementation. Work in the field is intensifying, particularly now that recommendations from the various assessed elements of the FCP such as the High Conservation Value (HCV), High Carbon Stock (HCS), peatland, plantation productivity, and social conflict are being weaved into Integrated Sustainable Forest Management Plans (ISFMPs).

The ISFMPs will form the blueprint for how our suppliers manage their concessions, balancing plantation productivity with conservation and local community development needs. This work has been a valuable learning process for us and our suppliers and I appreciate the time and resources that have been invested in it by our many local stakeholders.

We also continue to intensify efforts to manage challenges such as illegal logging, overlapping land use, forest fires and forest security. Forest security is an emerging issue that we have placed a priority on over the past six months. These challenges highlight the complexity of our sustainability and zero deforestation journey.

This FCP update also covers a very significant announcement we made in early August – our commitment to retire five areas of peatland plantation for conservation purposes. We understand this is the first time a company has retired productive plantations on peatland, and it marks an important milestone in the delivery of our FCP peatland commitment. More information can be found on page 5.

The last few months have also seen heightened activity around our landscape conservation and restoration initiative. In March, we took part in the Bonn Challenge – a global initiative to restore 150 million hectares of degraded and deforested lands by 2020. We have also continued the work to support the conservation and protection of one million hectares of forest in Indonesia. More detail on the progress we're making here can be seen on page 8.

We now look ahead to COP21 in Paris this coming December. Our hope is that we can use this global platform to continue catalysing activity amongst actors in the public and private sectors in support of forest protection and APP's conservation goals.

Aida Greenbury

Managing Director,
Sustainability and Stakeholder Engagement



Integrated Sustainable Forest Management Plan (ISFMP)

At the heart of APP's Forest Conservation Policy (FCP) and its Zero Deforestation commitment with its aim to ensure the long term viability of valuable landscapes in Indonesia. Conserving forest is a complex process that has so far had limited success in Indonesia and we believe this is partly because attempts to date have not been able to fully implement a landscape approach and engage all key stakeholders.

When we announced our FCP in February 2013, all new plantation developments of our suppliers were halted pending the recommendations from a series of ecological, social and commercial assessments. They included High Conservation Values (HCV), High Carbon Stock (HCS), Pulpwood Supply, Social Conflict and Peatland assessments. Those studies were completed in 2014 and work to combine the recommendations into Integrated Sustainable Forest Management Plans (ISFMPs) for APP's suppliers began in late 2014.

The ISFMP process, developed by APP, is unique in that it considers landuse in the context of the wider landscape within which a supplier operates, rather than at the individual concession level. This approach recognizes that land cannot be managed or conserved in isolation from the wider impacts and demands made on it by a variety of different actors.

The approach also includes extensive stakeholder consultation through the establishment of local task forces. These task forces are designed to involve local stakeholders, including communities, in the land-use decision-making process thus ensuring more sustainable and equitable outcomes which seek to reconcile conservation, development and commercial needs and objectives.

ISFMP Delivery

Our pulpwood suppliers' ISFMPs are being developed in stages and have been split according to the main wood fibre regions supplying our pulp mills – Riau, Jambi, South Sumatra, West Kalimantan and East Kalimantan. As of August 2015, the process had been initiated for all regions with South Sumatra and Jambi nearing completion.

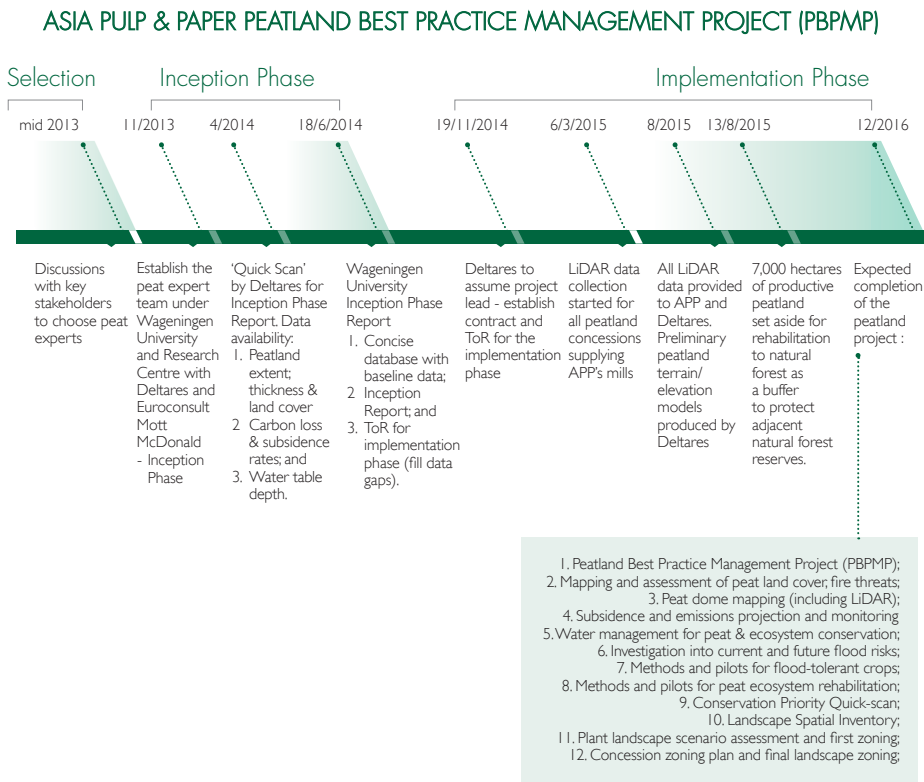
Over the course of the last six months, we have learned a lot but also encountered a number of challenges in the forest management planning process. A recurring pattern throughout the ISFMP development is cases where recommendations are not mutually supportive. For example, where an area has been found to be both a high carbon stock area, as well as an area that the local community would like to develop for their livelihood. In these instances, the relevant ISFMP Task Force has conducted field visits and recommendations for harmonizing the different interests were developed and agreed.

All ISFMPs are targeted for completion by December 2015. They will set out the blueprint for sustainable forest management at APP's suppliers' concessions, informing the business' operations, local community needs and conservation efforts for the foreseeable future. For more detail on the ISFMP process, please access APP's FCP dashboard [here](#).



Peatland Management

Building on the work conducted in the first half of 2014, good progress was made in the delivery of our FCP Peatland commitment in the period of February – August this year. Deltares – an institute focusing on applied research in the field of water, subsurface and infrastructure – completed its initial peatland analysis work in the form of a ‘Quick Scan’ assessment to identify critical areas of peatland inside APP supplier concessions requiring immediate intervention



The LiDAR mapping (see Box 1) of 4.5 million hectares of peatland in and around APP's suppliers' concessions was also initiated. The data produced from this mapping will support the development of Peatland Best Practice Management (PBPMP) to be implemented by APP's suppliers.

As a result of progress made, in early August, APP achieved an important milestone in the delivery of its Peatland commitment when it announced its commitment to retire five peatland plantation areas for conservation purposes in two (2) of APP's supplier concessions. The areas total 7,000 hectares, pending field verification to confirm the extent of peat in those locations. These five (5) areas include one plantation block in an APP supplier concession near the Kerumutan Wildlife Reserve, Riau province and four (4) plantation blocks in another APP supplier concession bordering the Sembilang national park, South Sumatra province.

The areas for retirement were identified by APP's Peat Expert Team (PET) to have a significant impact on the neighboring protected forest areas inside and outside the concessions, including the Sembilang National Park.

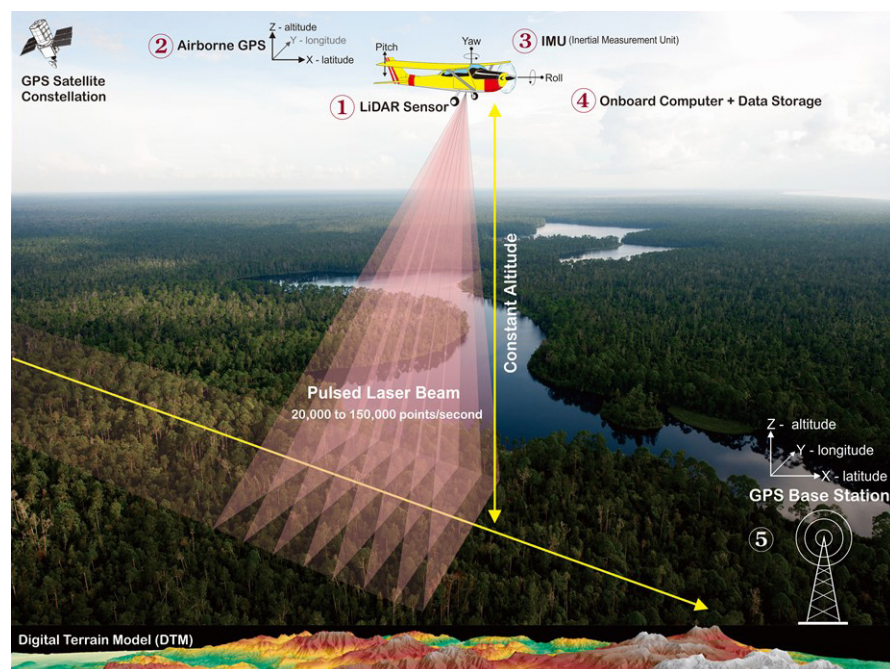
We believe that this is the first time plantation areas on peatland have been retired for conservation purposes and it will be a learning experience for both APP and its stakeholders. As a first step in the land retirement process, APP will now implement Free, Prior and Informed Consent (FPIC) with local communities who have customary and/or legal rights over the areas concerned and who may potentially be impacted by the land use changes in the five retirement areas. Appropriate rehabilitation measures will then be implemented.

For more detail on APP's Peatland commitment, including the work being undertaken by Deltares as part of its two-year Peatland Best Practice Management Project (PBPMP), please visit APP's FCP dashboard. The data and recommendations from all ongoing peatland assessment work - including the decision to retire the five (5) critical areas – will be fed into the ongoing ISFMP development process.

Box 1. What is LiDAR mapping?

LiDAR, which stands for Light Detection and Ranging, is a remote sensing technology that uses light in the form of a pulsed laser to measure ranges (variable distances) to the earth. These light pulses, combined with other data recorded by the airborne system, generate precise, three-dimensional information about the shape of the earth and its surface characteristics - digital terrain models, commonly called topography.

APP is using LiDAR data and other remote sensing technologies to map 4.5 million hectares of Indonesia's peatland, equal to approximately 25% of Indonesia's total peatland area; a significant undertaking, never before attempted in Indonesia, on this size and scale. This mapping will enable APP to understand the characteristics of the peatland, including its depth and contours. The data generated by the mapping will be used by APP and Deltares to develop Peatland Best Management Practice (PBMP) to be implemented in APP suppliers' concessions.



LiDAR System (Light Detection and Ranging)

1. LiDAR Sensor - a pulsed laser beam oscillating side-to-side as the aircraft advances forward;
2. Airborne GPS connected to the GPS satellite constellation;
3. IMU to correct changes induced by aircraft roll, pitch and yaw;
4. Onboard computer and data storage devices; and
5. GPS ground station connected to the GPS satellite constellation - currently comprising 32 satellites.

Landscape Conservation Initiative

We continue to make progress on our landscape conservation initiative and over the last six months we have begun to move out of the planning phase into implementation.

A draft landscape conservation Master Plan has been completed by YAPEKA, a national non-profit conservation organisation contracted by APP. It has been peer reviewed, socialized at a national stakeholder consultation session, and key inputs have been further incorporated. The document sets out the various priorities for implementation across the ten landscapes identified by APP and its stakeholders.

At the same time, small working groups in each landscape have identified initial conservation projects, such as community-based forest restoration programmes in Berbak Sembilang as well as species research and protection in Kubu and Dangku.

For more details of how APP is collaborating with conservation NGOs and other stakeholders across critically important landscapes, please see Box 2.



Box 2. Multi-stakeholder collaboration in Berbak-Sembilang

The Berbak-Sembilang landscape is one out of ten areas identified as critical in APP's landscape level conservation commitment. The landscape refers to a large area in the east coast of South Sumatra and Jambi provinces, and which is home to two national parks – Berbak and Sembilang, both of which are known as globally important wetland areas and listed as RAMSAR sites. These areas are dominated by peat swamp forest rich in biodiversity, storing vast amounts of carbon, a priority tiger conservation landscape, and also recognized for its critical role in forming part of the north-south migratory route for birds.

APP has been supporting the Kehijau Berbak Consortium, a multi-stakeholder consortium working to conserve vitally important peatland and forested areas in this landscape. The consortium includes the Zoological Society of London (ZSL), NGOs, universities and consulting organisations such as Deltares, KKI Warsi and the Research Center for Climate Change of the University of Indonesia. Through an in-kind donation, APP has commissioned an extensive peatland LiDAR mapping exercise to cover areas within the Berbak Sembilang landscape, thereby providing critical new data on peat surface morphology, below-and-above-ground biomass and natural forest structure. The data will play an important contribution to the conservation of approximately 163,000 ha of protected forest in the Berbak National Park, the restoration of more than 13,000 hectares of peatland as well as the restoration and conservation of portions of the 203,000 hectares Sembilang National Park.

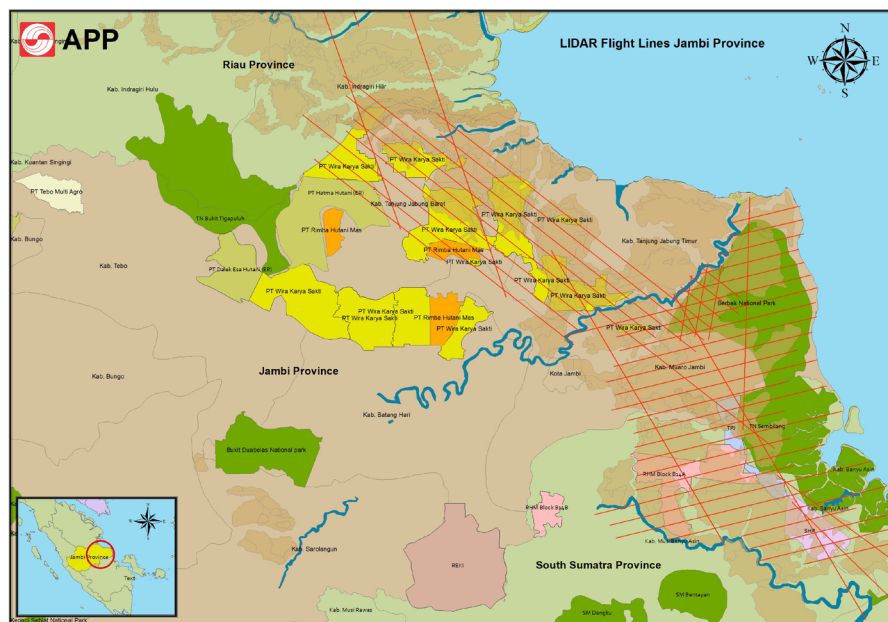
Rainforest Alliance Wood Fibre Supply Evaluation

Rainforest Alliance (RA) recently completed their independent evaluation of the pulpwood supply study conducted by The Forest Trust (TFT) and Ata Marie. The TFT/Ata Marie study was conducted to evaluate whether our suppliers' plantation has sufficient capacity to fulfill the demand needs of our mills, up to 2020, including the planned OKI mill, while maintaining our zero deforestation commitment.

We are pleased that the evaluation concluded that based on this specific scope, TFT and Ata Marie's work was independent and technically robust for the period up to 2020.

The TFT and Ata Marie study was useful in verifying the foundational data of our existing supply chain and helping to identify some of the challenges and opportunities facing the business in the years ahead. We agree with the Rainforest Alliance that the future fibre supply of a business cannot be entirely predicted on the basis of one report, and that the work to ensure that our plantations are efficient and productive, as documented in our FCP Implementation Plan 2015 and Beyond, must be an ongoing priority.

Our internal teams continue to work to demonstrate that our zero deforestation commitment is sound. APP will continue to monitor and evaluate our plantation resources to ensure the ongoing success of this commitment.



Update on FCP Commitments

On the second anniversary of our FCP, we issued an FCP implementation plan for 2015 and beyond, which identified priorities to be addressed by APP and its pulpwood suppliers to further improve our FCP implementation. This section provides an update on some of the key work completed for those priority areas as they relate to the FCP commitments.

POLICY COMMITMENT 1:

Maintaining natural forest in our pulpwood suppliers' concession areas

Third-party clearance

1.1

- A draft Forest Protection and Security Manual was disseminated to suppliers for feedback and to identify potential improvements relevant for each region. Workshops were held to discuss feedback and the Manual is now being revised and finalised based on that feedback.
 - An internal guideline for conducting threat risk assessments was completed in May 2015. Suppliers received training on how to conduct the threat risk assessments, and the assessments were carried out in each region. Based on the results from those assessments, suppliers developed and submitted draft strategies and action plans to APP for feedback in June. A number of suppliers have subsequently provided their revised strategies and plans.
 - The implementation of protection and security management plans has started for some suppliers in Riau and the South Sumatra-MUBA regions. Others in the rest of the regions are still in the process of revising their plans.
 - Following the incident in Jambi at APP supplier PT. WKS in February 2015, APP is in the process of engaging an external security expert team to review its current security systems. Once confirmed, the team will conduct a gap analysis on APP's current systems and processes and provide recommendations for improvement.
- APP has established internal teams designed to help improve coordination with local stakeholders and government enforcement agencies as a means to help address third-party clearance.

Protection, Management and Enhancement of HCVs

1.2

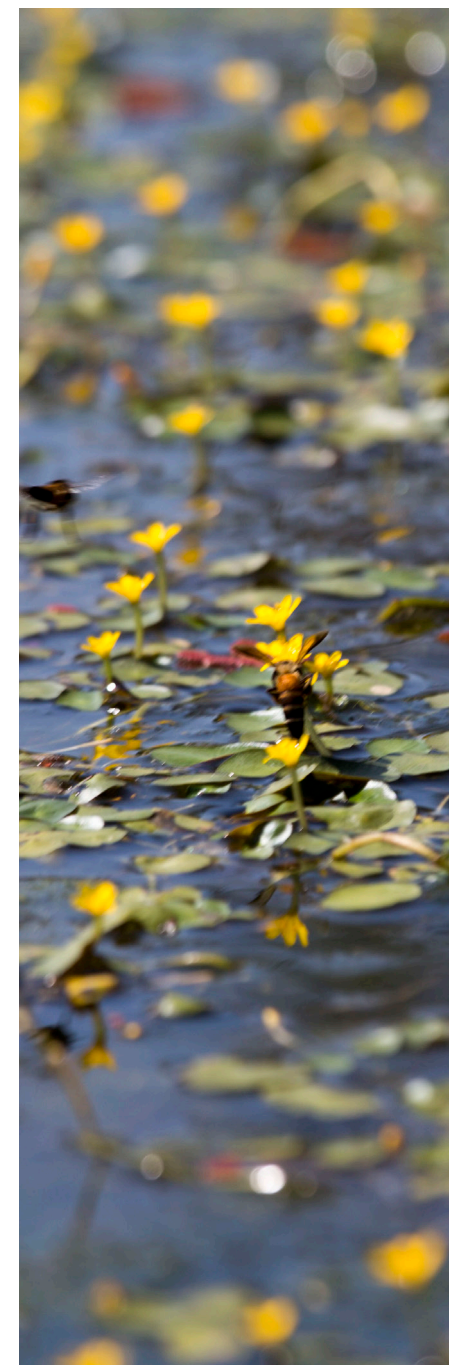
Work to incorporate the management recommendations from the HCV assessments into our suppliers' current Standard Operating Procedures and processes continues. Recommendations are being addressed in two ways:

- Spatial: recommendations affecting a concession's spatial plan are being addressed through the ISFMP development process. That process has now been initiated for all APP fibre supply regions (see page 4).
- Non-spatial:
- non-spatial recommendations are being addressed through suppliers' current operational procedures. The process of revisions and development of SOPs to address HCV recommendations has been on-going across the 5 provinces where our suppliers are located with completion of that process anticipated in December 2015.

High Conservation Values (HCV) Assessments – APP China

1.3

APP China has started preliminary HCV data collection for its operations in China that is available in the public domain. APP China is also engaging national universities to assist APP in the assessment process. APP China has contacted three (3) national universities and so far, received one (1) written proposal. APP China intends, by Q2 2016, to establish some pilot projects as a means of developing and refining the assessment process and protocols.



Update on FCP Commitments

On the second anniversary of our FCP, we issued an FCP implementation plan for 2015 and beyond, which identified priorities to be addressed by APP and its pulpwood suppliers to further improve our FCP implementation. This section provides an update on some of the key work completed for those priority areas as they relate to the FCP commitments.

POLICY COMMITMENT 3: Social commitments

FPIC and Social Conflict Resolution - Indonesia

3.1

- APP has committed to implement FPIC in areas where new development areas and/or new conservation areas are proposed. This is being carried out in parallel with the ISFMP development process once the new concession spatial plans have been identified.
- Based on input received during RA evaluation, APP has expanded the scope of FPIC to include other activities on plantation areas where this will significantly impact communities who have legitimate tenure rights over the area. For example, expanding roads or building new bridges.
- APP is in the process of reviewing and developing its community engagement plan to ensure it is in line with community needs and in support of efforts to prevent and resolve conflicts, and to prevent third-party forest clearance. The first step in this effort is to carry out Social Impact Assessments (SIA) across all suppliers in order to identify local needs and opportunities. An SOP for carrying out these SIA's has been developed and field tested, and all suppliers have now been trained. SIA's for all suppliers commenced in August. Once completed, strategic plans for enhanced community engagement will be developed.
- Progress on APP's pilot conflict resolution projects is regularly updated on the FCP monitoring dashboard (www.fcpmonitoring.com). Highlights of the progress in this reporting period is as follows:
 - **PT PSPI:** a resolution to the conflict has been agreed between the 2 parties with a MoU signed in June 2015. An implementation plan for the MoU is being prepared.
 - **Riding:** APP and the external mediator are in the process of verifying that all the community members who are part of the negotiation process have approved the community representative.
 - **PT SGP:** a resolution to the conflict has been agreed in principle. A formal agreement is in the process of being finalised and signed.
- APP has continued to resolve all other social conflicts identified in and around APP's concession areas. A significant number of conflicts have reached phase 3, indicating an agreement for a resolution option has been achieved.

- At the end of February 2015, we were informed of the tragic death of a local community member in one of our pulpwood supplier in Jambi. An internal investigation team was set up and provided initial recommendations that included replacing the contracted security company at the time, suspending operations in the area, and providing support to the ongoing separate investigations by the Human Rights Commissions and the police. The incident has since then been largely resolved through direct engagement between APP and the local community, facilitated by a local NGO.

Social - China

3.2

- The APP China team has completed draft policies and guidance documents relating to free, prior and informed consent (FPIC), social conflict management, grievance, and land acquisition that will be trialed in the field and refined and finalised over time.
- Social conflict training programme has started in two (2) of APP China's forestry operations, one in Guangxi province and the other in the Lancang Lahu Autonomous County in Yunnan province.
- Earlier in 2015, APP China established a social conflict mapping database and has start initial data gathering in two (2) pilot areas; one in Hainan province and the other in the Lancang Lahu Autonomous County in Yunnan province. The pilot projects aim to establishing and further refining the necessary processes and protocols.
- Two locations have been identified for pilot community engagement project implementation. Lessons learned from these projects will be applied across other locations in APP China Forestry operations.



Workers' Rights and Welfare 3.3

- APP is establishing an internal guideline to set up minimum requirement for workers' facilities by contractor and sub-contractor companies. It has been completed in August 2015.
- APP has started to prepare budgets for the work that is needed to renovate and/or build new staff facilities in the field.
- APP is in the process of developing a Contractor Management System that will ensure alignment with APP's RFPPP and FCP. The system will provide guidelines to assess contractors' compliance with APP's health, safety and workers' rights requirement including implementation monitoring and enforcement.
- The contracts of all APP suppliers' contractors and sub-contractors are being reviewed to include clauses that will strengthen the implementation of good working and living condition for their staff.

