



COMMUNICATION ON PROGRESS

2011

Company Name	PT Lontar Papyrus Pulp and paper industry		
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Sector	Pulp & Paper Industry	Member since	28 August 2008

Company at a Glance

Lontar Papyrus Pulp and Paper Industry (Lontar Papyrus) is a large integrated pulp and tissue mill located in the remote rural village of Tebing Tinggi in Jambi Province on the island of Sumatra. Its total production is over 1 million tons of pulp and tissue annually. The company started its operation on 1976 and currently employs more than 2,300 peoples.

Statement of Continuing Support

Statement of Support from APP Group



STATEMENT OF CONTINUOUS SUPPORT

During its third year as a member of the United Nations Global Compact (UNGC), companies under the APP Group Indonesia (APP) strengthen its sustainability commitment through various initiatives under the umbrella of the Global Compact. The previous World Water day, March, 22 2011, marked APP as one of the first Indonesian companies to pledge for the United Nations Global Compact CEO Water Mandate. Following the commitment, APP was chosen to lead the Indonesia Water Mandate Working Group, developed to help members implement the CEO Water Mandate Principles, not only within their own operations, but to also contribute in addressing water scarcity issues in the society generally.

Following the United Nations Human Rights Council endorsement of the 'Protect, Respect and Remedy' Framework in June 2011 as the guiding principles for business on human rights performance, APP committed itself to adopting this framework in improving human rights aspects in its operations. To realize this commitment, APP implements a one year project of corporate-wide Human Rights Assessment, including appointing an independent third party to do a comprehensive human rights audit in all its major operations.

The UN Global Compact Ten Principles are embedded in our various corporate policies and implemented on daily basis within our operations and major supply chain. APP keeps its commitment to sustainability by creating opportunities for community surrounding its operations and beyond. The commitment realize through its various community empowerment programs aim to support the national goals of the UN Millennium Development Goals. Together with its pulpwood suppliers, APP initiated conservation programs to protect biodiversity and the environment and increasing the use of sustainable forest management certified material. We adopt best practices technologies in our mill operations to continually reduce greenhouse gas emissions.

Through our second Communication on Progress Report, we would like to share with you highlights of the implementation of the principles of the Global Compact in our operations. As recommended by the UN Global Compact COP guideline, and as a part of our commitment to transparency, we have also released our APP Sustainability Report 2008-2009 based on the GRI A+ level.

Through these measures and future improvement plans APP dedicated itself company-wide to continuous improvement using the UNGC Ten Principles as one of its main guidelines.

Jakarta, 15 December 2011

A handwritten signature in black ink, appearing to read 'Aida Greenbury', with the number '11229' written below it.

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

Statement of Support from the Management of Lontar Papyrus Pulp and Paper Industries

Lontar Papyrus Pulp and Paper has been a member of the United Nation Global Compact (UNGC) since 2008. We understand the importance of UNGC ten principles in the areas of Human Rights, Labor, Environment, and Anti Corruption.

Progressively, we take appropriate actions in line with the principles, as fundamental guidelines for sustainable and socially responsible development of our business. We continue to support UNGC by incorporating the ten principles in the way we do business. This helps make us a better corporate citizen in Indonesia. For progress report this year we explain and describe about implementation of UNGC in 4 areas of Human rights, labor, environmental and anti corruption in our operations.

It is one of our top priorities to ensure our company's policies and regulations contain protection toward human rights in line with national and relevant international proclaim. We strongly realize that human resource is the most important asset for the company, therefore a strong relationship with and among employees has always been well-maintained and developed. We highly uphold the child protection policy by strictly forbid underage employee working in our company. This also applies to our suppliers and contractors and other third parties related to our operations.

Related to the implementation of environmental sustainability development, the company has high commitment to operate in compliance with national and relevant international laws and regulations on sustainability, fiber procurement, environmental protection and health and safety. The regulations are embedded into company's policies and operating procedures which implementations are continually monitored.

Related to the implementation of Good Corporate Governance (GCG), the company has a commitment to implement the GC Principles; transparency, accountability, responsibility, independency, and fairness. One of the GCG implementations was the launching of Whistle blowing Program on December 2008 to support the 10th global compact principle about anti corruption including extortion and bribery.

ELEMENT 1: HUMAN RIGHTS

Principle 1: Business should support and respect the protection of internationally proclaimed human rights

Principle 2: Business should ensure that they are not complicit in human rights abuses

We continually ensure that every policy concerning human resources in our Company is aligned with the national labor policies. To ensure the providence of healthy and working situation for our employees, we provide access to healthcare, educational facilities, employee dormitory and housing for the employees'

families. Through Medical Clinic named "Cipta Medika", the company provides health care for employees and their families, and the community around the operation area. The children of the employees and surrounding communities are educated through our education foundation, The Mayang Mangurai Foundation.



Lontar Papyrus education facilities in The Mayang Mangurai Foundation

Once in a week, all employees work together for one to two hours to clean surrounding site to create a clean and healthy working environment and develop sense of togetherness. Health and safety aspects are also covered in the Collective Bargaining Labour Agreement (CLA), which guarantee that all employees shall get Personal Protection Equipment (PPE) in accordance with the work area, a routine medical checkup, health insurance (for employees and their families), accident insurance, training, and others.

For employee development purposes, we believe that training and education can enhance the employee's quality of life. Therefore, various training programs are regularly conducted relevant with daily responsibilities in the mill. For the past three years, the number of employees that receives training programs increased for almost 50%. This signifies our commitment in personal development of our employees.

As a responsible manufacturer, improving livelihoods of local communities surrounding our mills is a great importance for us. A significant number of our employees are from the community surrounding our operations. Those who are not direct employees also have the opportunity to become our contractors, suppliers or temporary workers. The increasing opportunities have brought an economic growth around the mill. Traditional markets grow rapidly, along with small businesses such as restaurants, workshops, stores, and others.

To ensure that any violation of human rights are identified and properly addressed, Lontar have reporting procedures embedded in the Collective Bargaining Handbook. The Collective Bargaining Handbook is a set of working conditions regulations developed and agreed by both the management and labor union representatives and is consistent with local and national labor related government regulations. The Handbook is evaluated and updated regularly based on feedbacks from employees, labor unions and the Management.

In addition to its own employees, the mill also enforces labor laws and regulations to its partners including contractors and major suppliers.

To further improve the implementation of human rights practices in its operations, earlier this year the mill adopted the 'Protect, Respect and Remedy' Framework endorsed by the United Nations Human Rights Council as the guiding principles for business on human rights performance. Following the commitment, Lontar Papyrus held a one year Human Rights Project which aims to assess the implementation of the human rights practices against national and relevant international standard and best practices. The project include independent third party human rights audit for the whole operations.

ELEMENT 2: LABOUR

Principle 3: Business should uphold the freedom of association and the effective recognition of the right to collective bargaining

Lontar Papyrus is committed to establish and maintain good relationship with and among employees. We support employees' right for freedom of association by providing access for employees to establish labor union and to be actively participating in its activities without fear of intimidation.

The company also supports the right of every employee to be involved in religious, social, political, ethnic or any other activities. Any attempt to prevent employees to realize their rights will be considered as a violation and will be processed in accordance with applicable regulation.

These rights are clearly institutionalized in the Collective Bargaining Handbook and applied to all employees.

Currently, there are two labor unions in our company; they are, Serikat Pekerja Demokrat (Democratic Labor Union) with a total member of 1401 employees and Serikat Pekerja Hukatan (Hukatan Labor Union) with a total member of 1118 employees.

Both labor union representatives are involved in the development of the Collective Bargaining Handbook.

Principle 4: Business should uphold the elimination of all forms of forced and compulsory labor.

Lontar Papyrus is highly committed to eliminate all forms of forced labor. Prior to joining the company, all potential employees have to read and agreed on a contract covering job description and working terms and conditions. Standard employment contract is developed in accordance with Indonesian labor laws and regulations including working hours, overtime, wages, leave, and medical benefits. Working conditions are regularly audited through the ISO 9001 surveillance audit. Complaints procedure related to working conditions are included in the Collective Bargaining Handbook. To further improve employee's welfare, the company also developed an employee cooperative, where all employees can save and borrow money for urgent personal purposes. The Lontar Papyrus Cooperative had been running since 2006.

Principle 5: Business should uphold the effective abolition of child labor

Lontar Papyrus policies are strictly against under age employment. The policy to prohibit child employment also applied to our suppliers and contractors companies.

To comply with the Indonesian law in regards to child labor (*UU RI No. 13/2003*), we clearly stated in our recruitment regulations that a minimum age of 18 must be met to become our employee. This has been covered in operating procedure of Human Resource Department. Documents relating to employee personal information always requested and carefully checked during recruitment process.

As a preventive action against child labor, the company salary is significantly above the minimum standard required by the government. There is also annual salary increase that is expected to improve the employees' welfare so that they do not need to send their children to work.

As an active preventive action of exploitation against children, the company runs Corporate Social Responsibilities (CSR) programs to help communities to enhance their livelihood. These CSR programs provide development activities such as skills training and educational programs especially for children and youth. In 2010, we contribute to the education of more than 500 students through scholarships, additional class facilities, vocational trainings and school rehabilitation.



Lontar Papyrus's Corporate Social Responsibility in education program

Principle 6: Business should uphold the elimination of discrimination in respect of employment and occupation

Lontar Papyrus stands against all forms of discrimination, including discrimination based on age, gender, religion, ethnicity, ethnicity, political ideology, and others.

In the recruitment process, we ensure that there is no requirement that implies to the discrimination on gender, religion, and ethnicity. This also applies for employee's career development. It is clearly stated in the Collective Bargaining agreement that the workers job performance is the main reference in the provision of career rise, without any discrimination for age, gender, religion, or ethnicity. We provide jobs that require qualifications and place the employees based on their education, skills, and work experience. More than 50% of our employees are from local people and neighboring provinces. The number of female employees increases around 20% in 2010 compared to the previous year.

ELEMENT 3: ENVIRONMENT

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

Lontar Papyrus operation is in compliance with national laws and regulations including the aspects of fiber procurement, environmental protection and health and safety working environment. We have in place specific procedures for assessing the environmental impact of the mill. Mill environmental performance is monitored and reported regularly to the local and national level of government environmental agencies.

Our environmental management programs are in line with company targets and objectives (OT). In 2010, we conducted activities to support the implementation of the Environmental Management Programs. The activities are:

1. In support of the Montreal Protocol in Copenhagen 1992, on the reduction of substances that deplete the ozone layer, our company has controlled the use of CFC Freon with the objective of total elimination of the substances in the near future.
2. Before installation of any new equipment, all relevant staffs are given proper training to ensure operation safety. In early 2010, we held safety training in both storage and handling activities for the use of Liquid Natural Gas (LNG) following our plan to replace coal with natural gas a part of our green house gas reduction program. Considering the nature of the fuel, a highly secured system was developed for the operation and inspection of LNG storage and storage facilities. Proper warning signs were placed around the LNG storage and facilities, aiming to prevent potential risks of fire.

In order to monitor the implementation of our environmental performance, we do internal and external audits regularly using ISO 14001 standard. The mill has been ISO 14001 certified since 1997.

During 2010 and 2011, we have succeeded in maintaining ISO 14001 certification for Environmental Management System as well as our ISO 9001 for Quality Management System.

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

To become a sustainable company, we are committed to adopting an integrated strategy that is based on the environmental protection and natural resources saving, waste elimination, and active participation in protecting the ecological system.

In 2010, air emissions from our mills were below the emission limit set by the Indonesian Government. The mill's air emission quality is checked not only by our internal laboratory, but also by external independent laboratory. We continue to intensively monitor our emission using the CEMS monitoring equipment (Continuous Emissions Monitoring System). In addition to this, ambient air quality around the mill also always meets the Indonesian Government Standard.

Solid waste disposal and re-utilization has been particular concern in our company. As most of manufacturers do, our company manages disposal to a range of hazardous materials including used oil, laboratory chemicals, mercury lamps, and catalyst agents. For hazardous material, we use the service of

licensed third party for disposal. To minimize solid waste going to landfill, the mill has on-site a small paper machine dedicated to produce low grade paper. Some of the mills' solid waste is sent to this production facility as one of the materials to produce low grade paper.

In 2010, our company, along with other APP mills suppliers, has obtained a multi-level environmental certification issued by the Ministry of Environment of the Republic of Indonesia, usually called PROPER (Pollution Control, Evaluation and Rating). Our mill received a Blue rating in 2010. This rank is awarded due to the low levels of emissions we produced (below the government standards), the technology we use (clean technology), and other efforts in resource conservations and waste and pollution reduction.

To ensure the legality of raw material for our pulp, tissue and paper products, we maintain a good documentation of our supply chain. We developed a stringent Chain-of Custody (CoC) system that aims to ensure there is no illegal wood goes into our supply chain. The company ensures that only certified timber under Sustainable Forest Management scheme or legally verified timber that becomes our raw materials.

To strengthen our commitment in producing wood products from sources that can be accounted for, our company is certified under PEFC Chain-of-Custody (CoC) requirements since November 2009.

In addition, our mill has also achieved the LEI Chain of Custody (CoC) certification in 2009. Indonesian Eco-labeling Institute, or Lembaga Eco-labeling Indonesia (LEI), is an organization that works to promote sustainable management of forest resources by developing sustainable forest management and raw material sourcing standards relevant to the socio-economic conditions in Indonesia.

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

In line with the APP mission in minimizing the impact of our operations on the environment, we apply new and advanced technologies in our production facilities.

We use an Elemental Chlorine Free (ECF) for pulping process. This substance substitutes Chlorine Dioxide for elemental chlorine and sodium hypochlorite in the bleaching process thus significantly reduce the amount of hazardous pollutant in the waste water.

A replacement of Chlorofluorocarbons (CFCs) to non-CFC refrigerant is one of the efforts to protect the environment. Another program is to limit the number of vehicles entering into our company. We encourage our employees to ride a bike to commute around the plant. The purpose of this program is to reduce the amount of CO₂ released to the environment.

In order to support the conservation of natural resources, we have made great effort in regards to the water saving from our production process. Compared to 2009, we have successfully reduced our water consumption by 10% average.

Another program is to reduce fossil fuel consumption. Compared to the previous year, in 2010 we consume significantly less fossil fuel such as coal and diesel oil. To fulfill our energy needs, we switch the fuel usage to renewable sources such as bark, black liquor, palm shell, and saw dust. This is in line with our plan on taking part in the Clean Development Mechanism (CDM), a scheme to reduce green house gas reduction developed by the United Nations Framework Convention on Climate Change (UNFCCC). Until today, we have

several potential CDM projects aim to reduce our GHG rate further down, including condensate recovery and water pump efficiency.

ELEMENT 4: ANTI CORRUPTION

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

Our company upholds the principle of ethics and transparency in business. Any illegal actions such as bribery, fraud, theft, and money laundering will be processed in accordance with prevailing regulations in Indonesia.

To avoid corruption and bribery issue, the company has strict policies in developing contracts with third party suppliers. One of the policies requires that comparison of at least three suppliers is done before the decision to use any suppliers is made. This is to ensure no personal interest contaminates vendor selection process and the company's best interest is the main consideration in determining vendors.

To ensure that all employees comply with the regulations, Lontar Papyrus socializes all the rules intensively through various trainings and forums, along with signage within mills operations area. The company will impose sanctions against employees who engage in illegal acts and practices.



Sign board inside mill to remind employees not to give tips to contractors or suppliers

To monitor and control the implementation of the anti corruption policy, Lontar Papyrus took these following actions:

1. Established a team for sudden raids and random inspections;
2. Assign Patrol teams who address the identified issues that impact on company performance and profit loss;
3. Provide a hotline number to report ethical violations;
4. Provide an e-SMS program for all authorized employees.
5. Install a warning announcement board.

The company also implements strict regulations on corruption and bribery issue for both suppliers and other third parties. If the third party is found involved in corruption or bribery activities, the company has the right to terminate all contracts and/or employment agreements with them or any supplier.

The company has an internal audit team that ensures the internal control system is effective in protecting company assets from the fraud practices. Their duties are performed by reviewing the operational and financial information within the company regularly. Any problems found in violation of company policies will be presented to the management and the audit committee. Internal audit team also makes recommendations on the implementation of company strategies. More than 150 internal audits and inspections were carried out every year.

Our company also performs external audits in the production process, quality control, environmental-related issues, financial, safety and performance. External financial audit is conducted by public accounting firm and published through the company's annual financial report.

All these policies and measures to prevent and investigate any act of corruption and fraud within the company is covered in a program called The Whistle Blowing Program. This program is also applied to all major companies under the APP Group.