



COMMUNICATION ON PROGRESS 2011

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Sector	Pulp & Paper Industry	Member since	28 August 2008

Company at a Glance

PT. Indah Kiat Pulp & Paper, Tbk. ("IKPP") is part of the Asia Pulp and Paper Group (APP) family of companies. It was established in 1976 and has produced wood-free paper since 1978. It has been listed on the Indonesia Stock Exchange (formerly Jakarta and Surabaya Stock Exchange) since 1990.

The company has production facilities in three locations -- Perawang, in Riau Province, and Tangerang and Serang, in Banten Province. It produces pulp and paper for the consumer market, including writing and printing papers (coated and uncoated free-sheet) and photocopy paper. The company also manufactures industrial papers, including container board, corrugated shipping containers, boxboard and specialty colored papers.

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 realized 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 date '11/22/11' written next to it.

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

Statement of Support from the Management of Indah Kiat Pulp and Paper Mills

STATEMENT OF CONTINUOUS SUPPORT

In its commitment to corporate social responsibility, IKPP fully supports the United Nations Global Compact to improve human rights, labor rights, protect the environment and fight corruption.

The company is committed to aligning the principles of United Nations Global Compact with its strategy, culture, and day-to-day operations, and to clearly state this commitment to its employees, business partners, and the public. In addition, the company espouses public accountability and transparency and pledges to report its progress publicly in regular sustainability reports.

ELEMENT 1: HUMAN RIGHTS

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

All IKPP mills are committed to support and respect the protection of human rights. This principle has been implemented in the following manners:

a. Employee Health Insurance

To support and respect the protection of human rights, all IKPP mills have committed to provide a safe and healthy working condition. The Perawang mill provides health care support for employees and their families by developing a partnership with hospitals in Perawang and Pekanbaru. This partnership provides opportunities for employees to choose suitable treatment and health insurance programmes. All Indah Kiat mills also require their employees to have medical check-up once every year as preventive measure. In regards to the prevention efforts, the Tangerang mill conduct regular fogging every three months to the surrounding housing and community residences to eliminate Malaria/Dengue Fever which is an endemic disease in the area.

The Serang mill demonstrates health support for employees by improving the maternal health during pregnancy and childbirth, combat the spread of HIV/AIDS, malaria and other contagious diseases and reduce the infant mortality. The company also provides mobile health care service that support people who live in remote areas or have difficult access to healthcare facilities, in collaboration with local health institutions. Apart from the mobile health care service that benefits the community, the company also work together with local health clinics/centers to provide free service for health assistance, free supplementary food for infant, and free

medicine supply. This program can reach as many as 1000 patients per program cycle (five days).



Implementation of community health care with mobile clinic in Indah Kiat Serang

To combat children malnutrition and vitamin deficiencies, earlier this year Indah Kiat Serang mill developed Community Health Care Center (Posyandu) that provides health counseling and services for infants and lactating mothers. The mill also provide clean water supply during the dry seasons, supplementary feeding and vitamins for children to further enhance community health.



Clean Water Supply for community in Indah Kiat Perawang

b. Employee Health and Safety

All the IKPP mills are committed to operate in compliance with national laws and regulations on health and safety. All mills have maintained great effort in ensuring employees' health and safety during the work. Personal safety equipment such as helmets, earplug, gloves, masks, and safety shoes are provided in accordance with the work area and job description. In mill area, everyone who uses vehicles or motorcycles is required to have a valid driver license, along with ensuring the vehicles are properly equipped, such as having rear view mirrors. The maximum speed of 40 miles per hour must be met for driving in the area within the mill.

c. Salary

All IKPP mills realize that remuneration plays important part in maintaining and improving employee's work performance. The entry level salary of all IKPP mills employees are above the minimum standards required by Indonesian Government. Regular performance appraisal is applied for all employees in the mills to determine annual raise and additional incentives. Strict and clear standard operation procedure on the performance evaluation has been developed to ensure a fair and transparent process.

d. Community involvement

To maintain its commitment to increase living standard of people living around its operation areas, all IKPP mills have been involved in various community development programs.

- The Serang mill reuses paper waste to produce souvenirs and handicrafts, and recycles plastic waste into core plugs for paper rolls and plastic seeds for sale to molders who make various types of plastic products. This program helps to empower the local communities and provide additional income.
- The Perawang mill utilizes used plastic straps as the raw material for the making of woven household appliances. These plastic straps, which were considered as waste, are sent to community groups to be woven into various household appliances such as floor matt, basket, flower pots, etc. The results are sold to local market and provide significant additional income to the families in the area. The story is proposed to be featured in the next Indonesia Global Compact Network's publication of Growing Inclusive Market report planned to be released in 2012.
- The Indah Kiat Tangerang mill held souvenir-making trainings for the local housewives. This activity is facilitated by local organization and located in the local neighborhood area. The training benefits the community in empowering its women and enables them to provide additional income to their families.



Implementation of Souvenir making training in Indah Kiat Serang aim to empower local women

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

All IKPP mills ensure that human rights will not be ignored or abused. The implementation of the rights and obligations on both employee and the company are stated in the Collective Bargaining agreement, which fairly applies to all employees regardless of race, religion, class and regionalism. Collective Bargaining Agreement is a set of clauses of working terms and conditions developed and agreed by both management and the employees represented by labor unions in the company. Clauses in the agreement indicates that the rights of employees are carried out and guaranteed regardless the race, class or ideology.

In Collective Bargaining Agreement, the Serang mill stated that each of grievances or complaints from employees will be addressed relevant with company procedures. This policy is aimed to maintain and foster good relationships and harmony between the company and employees, in accordance with the principles of Indonesian Industrial Relations.



Development of Collective Bargaining Agreement through discussions between management and representative of labor unions in Indah Kiat Serang Mill

In cases where employee feels that their right has been violated, he/she can file a complaint individually or through the labor union. The complaint will then processed according to the procedures stated in the Collective Bargaining Agreement and the employee will be represented by the labor union to help defend her/his rights.

These arrangements indicate that the rights of employees are fully implemented and guaranteed by the company. Regular meetings are also conducted to allow more intensive communication between employees and the management. A variety of employment-related issues discussed in the regular meeting.

In order to improve the implementation of human rights principles in its operations, the Human Rights Audit (HRA) was conducted in all IKPP mills. The companies appointed an independent third party to do a corporate-wide audit of the implementation of human right principles on the

ground. The audit will be done against national and relevant international standard and best practices. The audit is a part of the companies' adaptation of the "Protect, Respect and Remedy" Framework endorsed by the United Nations Human Rights Council as the human rights guideline for business practices.



Explanation of Human Rights Audit mechanism by Mazars to the Management of Indah Kiat Serang

ELEMENT 2: LABOUR

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

All IKPP mills ensure that employees are given the freedom of association and the effective recognition of the right to collective bargaining. This principle has been implemented by giving every employee the right to join the labour union and to participate in its committee. The management fully supports activities of the Labor Unions and has developed proper mechanism to balance employees' working hour and labor union related activities.

In terms of its implementation, the Serang mill, for example, conducts monthly meeting with the Serang labour union. A variety of development issues are discussed in order to achieve a harmonious working relationship, along with employees' welfare. The union members can also put up announcements on the bulletin board to help communication within the union members. Since 2005, Indah Kiat Perawang mill has allocated four permanent buildings fitted with toilet, air conditioning, and computers in mills area, to serve as the union secretariat to accommodate four Labor Unions existing in the company. The buildings are located close to the mill area so that employees can perform the union activities without leaving the working area. This shows that the company is strongly support the development of labour union.



Monthly meeting between Management and Labour Union in Serang mill

With the implementation of these activities, the establishment of labour union is expected to foster the relationship between employees and the various elements within the company. These activities provide a positive impact for the creation of conducive working environment for the company in general.

Principle 4: Business should uphold the elimination of forced or compulsory labor.

All IKPP mills ensure that all forms of force labour are prohibited in company. It is described in the Collective Bargaining Agreement that the company may accept the employees who meet the requirements of the job through fair and transparent recruitment process. For those who pass the test, they will be given job and position in accordance with the educational background, previous working experiences, and skills. The type of employment, the terms and provisions of its implementation will be determined in accordance with the company's current needs and always clearly stated in the employment agreement. In the hiring process, IKPP mills prioritize the recruitment of local people relevant with existing needs of the company and the company's recruitment procedures.

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

All IKPP mills guarantee that the company does not employ under-aged workers. Minimum working age in each mill is relevant with applicable laws and regulations in the area. Company policy regarding the minimum working age is listed in each mills' Collective Bargaining Agreement.

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

All IKPP mills stand against all form of discrimination, including discrimination based on age, gender, religion, ethnicity, political ideology, and others. IKPP ensures that the recruitment and placement of employees is implemented in accordance with the employee's ability or the requirements of the position. Employees who meet the company requirements have the right to be promoted to certain position relevant with procedures set out by the company. There is no consideration made based on aspects other than professional performance in the promotion process for employees.

To support government's program for breastfeeding, Indah Kiat Tangerang mill allocated a special space for breastfeeding for its women employees. Equipped with comfortable chairs and refrigerators, the space can be used to express breast milk during working hours or to directly nurse the baby. For its dedication in supporting breastfeeding among the working mothers, company was awarded by Tangerang Selatan Head of District as the company with the best practice of Women Labour Principles in Banten Province. In addition, the mill is also actively involved in the family planning program for the community. The program was recognized as one of the best family planning program schemes in 2011 by the Provincial Government.



Breastfeeding Corner in Indah Kiat Tangerang Mill – supporting the basic rights of children

ELEMENT 3: ENVIRONMENT

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

As a responsible manufacturing company, IKPP is committed to ensuring that the impacts of its operation activities do not harm the global environment. To that end, it aims to achieve continual improvement in its environmental performance by following global best practices and adopting environmentally friendly production technologies. All IKPP mills have set the Standard

Operational Procedure (SOP) to minimize the negative impact of its operations on the environment. This procedure is applied for solid waste management, waste water treatment, handling and disposal of solid waste, and operational landfill. A compliance monitoring programme is also administered in all IKPP mills, along with its reporting. All the environmental parameters are evaluated and assessed to check its compliance to the Government regulation and reported to relevant government institutions on a regular basis.

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

IKPP mills are committed to operate and maintain its business with environmentally friendly technologies. All IKPP mills continually implement programs and support investment to reduce their consumption of fresh water, chemicals, and energy as well as lower their waste and emissions.

Indah Kiat's mills have incorporated the Reduce, Reuse and Recycle (3R) Policy of good resource stewardship into their quarterly Environmental Management System management review of operations. The following actions are examples of implementation of the 3R policy:

- The Perawang mill reuses and recycles a significant amount of its solid waste. Most waste from the pulping process is feed back to the loop as renewable fuels and recovered fibers from sludge are recycled to produce low-grade pulp.
- The Serang mill recycles reject plastic originated from the waste paper they use as raw material into core plugs for paper rolls and into plastic seeds for sale to molders who make various types of plastic products. This recycle plant benefits the community in providing additional income.
- Tangerang mill has a program to re-utilize its sludge as fuel to feed its power boiler.

Cleaner production implementation

The Perawang mill uses the environmentally friendly technologies, such as continuous digester, oxygen delignification, and G2 technology that reduce the use of chemical substances in bleaching process. The principle of waste minimization has also been implemented in the efforts to recovery, recycle, and reuse the production waste. The company also pursues continual improvement in its environmental performance that is maintained by using the following principles below:

1. To comply with relevant environmental legislation and other applicable procurement subscribed by the company.
2. Continuous improvement in production efficiency and energy resources, recycling and waste minimization
3. Optimize the use of wood resources through continual research and improvement in wood consumption efficiency.
4. Provide the employees with sufficient resources and knowledge to achieve environmental collective and targets

5. To communicate the company policy with all employees, contractors, suppliers, and other relevant parties.



Empowerment and coaching programme for farmers who live around Cisadane River near Indah Kiat Tangerang Mill

To further enhance the quality of its waste water treatment, Indah Kiat Serang Mill installed a new waste water treatment that combines aerobic and anaerobic treatment resulting in a significantly higher quality of waste water effluent. In addition, the new waste water treatment technology also emits methane gas which can be used to generate energy for production purposes. Recognizing the green value of the project, Indah Kiat Serang proposed the project to become a part of the Clean Development Mechanism (CDM) project. CDM is a carbon reduction scheme developed by the United Nations Framework Convention on Climate Change (UNFCCC).

Due to its urban location, Indah Kiat Tangerang Mill emphasizes its green program in tree planting and plastic waste re-utilization in addition to its production related efforts. The mill also encourages and facilitates surrounding community and local schools to plant trees and recycle wastes.

ELEMENT 4: ANTI CORRUPTION

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

IKPP mills are committed to prevent any corruption activities occurring within the mills. The Serang mill, for instance, has applied this principle in the form of bribery prohibition that takes advantage of positions, authorities and types of job held by employees. This principle was affirmed in Collective Bargaining Agreement which stated that all employees are strictly

prohibited in abusing positions and power conferred by company for the purpose of seeking personal benefit. The violation of this prohibition will be categorized as serious offence and heavy penalties will be imposed to the employee. Relevant with clauses in the agreement, if the corruption or bribery activity was found, an employment termination without severance pay will be placed.



Socialization of Whistle Blower program in Indah Kiat Serang

Following the company's commitment towards the clean organization, the Perawang mill has also implemented the whistle-blowing program to support its Good Corporate Governance (GCG) Program. This program provides a way for the employee to report any activities that might not adhere to GCG policies. Until recently, the Perawang mill has terminated 6 employees who were found to be involved in the corruption activities. This program is also run by Serang and Tangerang mills in order to maintain the company's commitment to eradicate corruption activities. In Tangerang mill, the program was carried out by putting up the warning signs around the mill area and implementation of similar policies. The signs are placed in the form of banners and stickers that could be easily seen by the employees and contractors.



The Implementation of Good Corporate Governance and Anti-Corruption banner