



APP FOREST CONSERVATION POLICY

PROGRESS UPDATE
SEPTEMBER 2018

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ABOUT THIS REPORT

This report continues APP's commitment to provide regular updates of our Forest Conservation Policy (FCP) and covers the period February to September 2018. The contents of this report should be read alongside the information provided in the sustainability section of the APP website and APP's annual Sustainability Report which provides wider context to our management approach, materiality assessment and stakeholder engagement activities.

The content and quality of this report is guided by the latest Global Reporting Initiative Standards (GRI Standards). We apply the guidelines and associated indicators to ensure we report against our relevant economic, social and environmental impacts and mitigation activities. The contents of this report also contribute towards the disclosure of APP's support for the UN Sustainable Development Goals (SDGs) and our Communication on Progress (COP) for the United Nations Global Compact (UNGC).

The contents of this FCP Progress Update will also be reflected in our annual Sustainability Report in 2019.



GRI/SDG references

102-50	Reporting period
102-51	Date of most recent report
102-52	Reporting cycle
102-54	Claims of reporting in accordance with the GRI Standards



SENIOR MANAGEMENT STATEMENT

In this pivotal year, 5 years on from the launch of our Forest Conservation Policy, we are reflecting on progress as we look out to the next five years and beyond to 2030 to ensure that our policies and associated targets are still driving us towards achieving our sustainability objectives and delivering shared value for our stakeholders.

We were the first company in Indonesia to undertake the commitment of eliminating deforestation from our supply chain, and we have been working hard since that day to ensure that our commitment is upheld. The commitment was also the basis for a broader aspiration to transform our company to a more responsible business that contributes positively to environmental, social and economic outcomes at a local, national and global level, defined in the UN's Sustainable Development Goals.

We listened to stakeholders' concerns at the time to develop the four pillars of the strategy as they exist to date:

1. Zero deforestation
2. Best practice peat management
3. Social conflict resolution
4. Responsible sourcing

Overall, we're proud of our progress in achieving our sustainability commitments¹, acknowledging that we still face a number of challenges which we are continuing to explore solutions to address. Challenges include third-party deforestation within our concessions, agreeing on strategies for peatland management across Indonesia, resolving conflicts over land use and rights, and assessing how to ensure the sustainability of supply given growing debate around the effectiveness of certification.

Since we last updated stakeholders in May, we're pleased to report a few exciting updates addressing these key challenges:

Zero deforestation

- We've managed to further reduce incidences of third-party encroachment through remote satellite monitoring of forest cover change and increased forest security patrols, among other initiatives. In under six months, we've reduced from 0.1% to 0.06 % forest cover change of the total conservation area within APP concessions and supplier concessions.

Peat management

- While we await the Government's decision on peatlands, we are continuing to advance in our research into various restoration approaches including improving our ability to monitor and assess impacts of our efforts. We have recently implemented a water monitoring system across all our plantations in order to assess groundwater depth and land surface subsidence. This Digital Terrain Model is the result of a very unique level of

efforts to describe, as precisely as possible, peat profiles in our concessions and all around them. This will allow APP to design the most appropriate plans to retire from deep peat² and on how to begin restoring areas identified for conservation in partnership with the government. The Model will also provide information that will help us to continue to improve our peat management practices including maintaining the optimal water level in all concessions throughout the year.

Social engagement

- We are continuing to build on our Integrated Forestry and Farming System (IFFS) program by identifying additional partners where we have synergies, building on our ongoing partnership with CIFOR and ICRAF. Along this line, we have recently partnered with the Martha Tilaar Group to facilitate greater access to markets for female farmers and greater overall empowerment, recognizing the vital role that women play in providing sustainable livelihoods for their households.
- We are also continuing to expand our rollout of women's groups in each IFFS village in order to contribute to women's empowerment, recognising the vital role they play in providing sustainable livelihoods for their households.

Sustainable fibre supply and sourcing

- Earlier this year we announced the revision of our Supplier Evaluation Risk Assessment process in order to provide time for public consultation on any new supplier. This way we can assess suppliers not only on the information they provide us and our verification of indicators, but we can also incorporate the wider view and evidence provided by stakeholders.

APP was a signatory to the 2014 New York Declaration on Forests which set 2020 as the date by which to end deforestation worldwide. APP is proud of the progress that we have made within our own concessions, but we – alongside many other companies – continue to struggle with how to eradicate deforestation by third parties.

At the same time, we are looking ahead to the next 10 years, and what we want to accomplish. We've taken stock not only of our progress and challenges faced, but also aimed to think about how the targets and commitments we've made have influenced our direction of travel. Over the last 6 years since V2020 was adopted we have changed considerably – as has the global context we're operating in – and as we've gone along we've addressed these changes with ad hoc initiatives. We see that we now have an opportunity to develop a vision, to be called Vision 2030, which brings together our range of initiatives in a more cohesive way and allows us to be more strategic in the activities we take forward.

As we conclude the development of our Vision 2030, we are also assessing any changes which need to be made to the Forest Conservation Policy in order to make sure it continues to push us and remains relevant to all of our stakeholders for the next decade to come.

Elim Sritaba

Director of Sustainability & Stakeholder Engagement
October 2018

GRI/SDG references

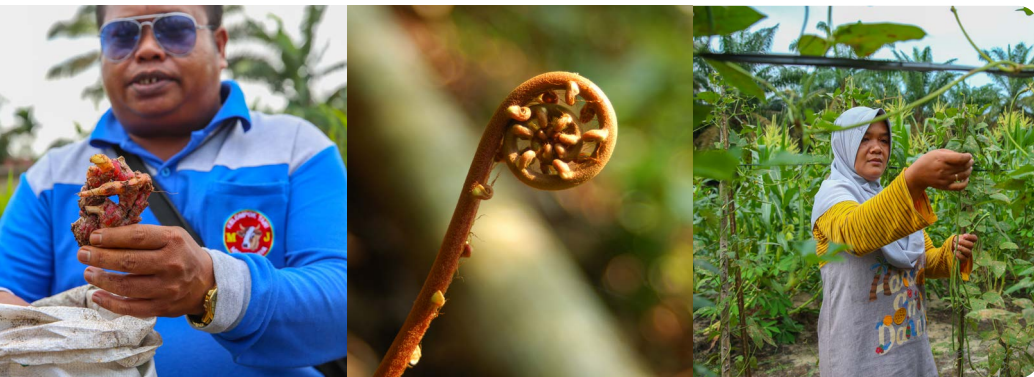
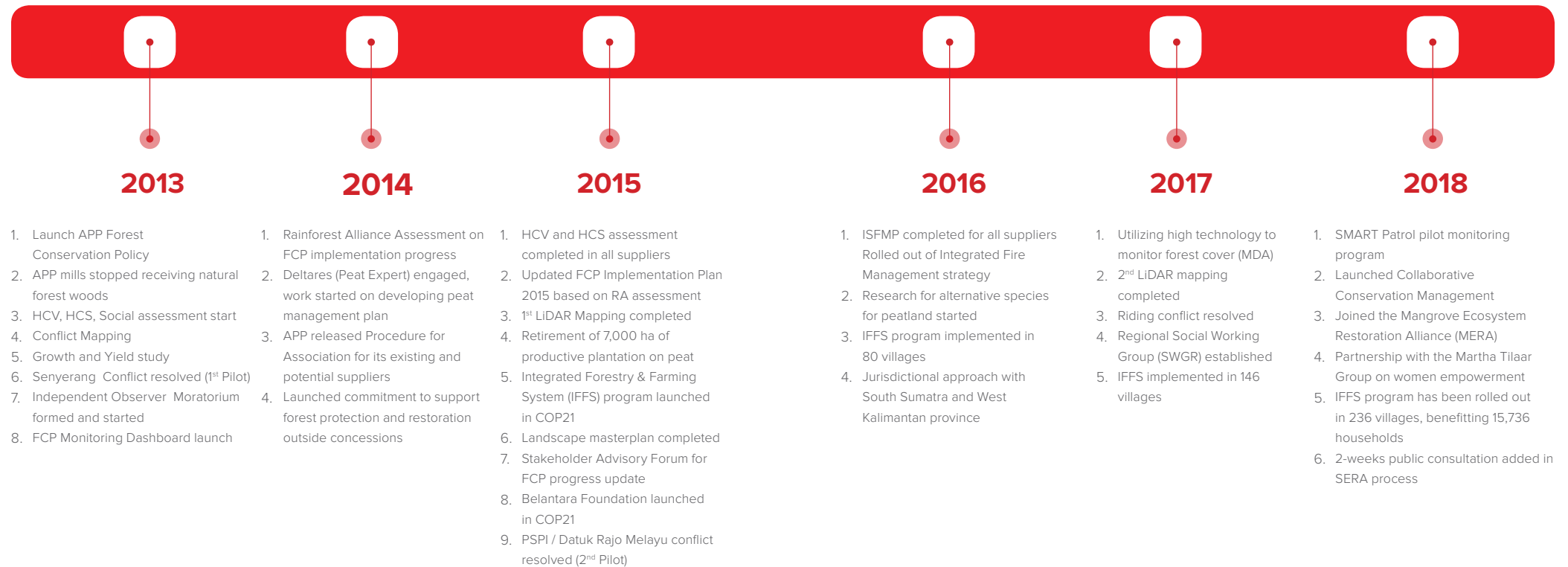
102-14

Statement from senior decision-maker

¹ See Section 6 for summary of progress to date

² Parameters still to be defined pending Government of Indonesia regulation. Current regulation sets a threshold of 3m (300cm), over which would be considered as 'deep peat'

OVERVIEW OF FCP (HISTORY TIMELINE 2013-2018)



FCP COMMITMENT 1: NATURAL FOREST PROTECTION

Key updates (February – September 2018)

Zero deforestation within APP supplier concessions:

- Despite our zero deforestation policy, deforestation occurs through third party encroachment and illegal logging. In the period of March – August 2018, the rate of deforestation in APP's suppliers concessions (APP owned concessions and long term suppliers all in all 38 concessions) **was 0.06 %**. We are on track to keep the rate of deforestation in 2018 lower than that of 2017, which was 0.1%.
- In continuing our efforts to combat third-party deforestation, we have launched a Collaborative Conservation Management approach to raise collaboration and awareness of communities and other critical stakeholders to reduce threats to and protect the HCS/protected forest area. A pilot project has been started in the concession area of one of APP's pulpwood suppliers in Riau, Arara Abadi, with land use change analysis and mapping of critical stakeholders completed. In August 2018 we have engaged three villages which are located near the protected area and have a high level of dependence on the forest land, with the aim to work with these communities on reducing deforestation by providing training and information on the importance of conservation for communities.
- SMART Patrol pilot monitoring program initiated in Musi Banyuasin, South Sumatra in June. The SMART Patrol technology provides information on potential threats to conservation areas and allows ground teams to update and access information quickly to respond accordingly. A team consisting of experts in conservation, tenure rights, security, forest fires and forest protection and Indonesian army forces has been assembled to use the SMART patrol data and respond together with local authorities. The pilot is planned to run through the end of 2018 with the potential to then roll out more widely. **Based on our monitoring specific to this area, there is no forest cover change detected in the period of June - August 2018.**

Support protection of natural forest through fire reduction

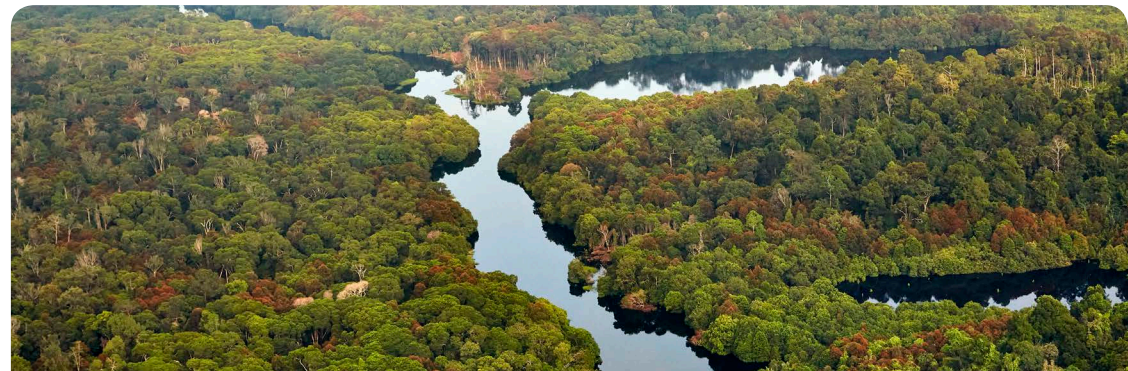
- In anticipation of the 2018 dry season, we established 70 additional fire monitoring towers -39 of which were in South Sumatra- and 19 fire-fighting dispatch centers, supported by 6 helicopters and more than 200 fire-fighting vehicles. We also improved our communications with the establishment of situation rooms in HQ all the way to the district level, as well as developing Fire Reporting Online System (FROS) mobile application used in the field. As a result, we were able to verify 86% of identified hotspots in under 24 hours and kept the area impacted by forest fire in the period of January to August 2018 to 0.06% of our suppliers' concessions.

Achieving conditions for key species to flourish

- New program in Riau aimed at reducing conflict with tigers by keeping cows in a free stall environment to prevent from roaming into tiger habitat, while using cow dung to produce biogas.
- In September 2018, APP participated in a Sumatran island wide survey regarding the Sumatran tiger population.

Landscape scale restoration

- In August 2018, APP joined the Mangrove Ecosystem Restoration Alliance (MERA) to support the conservation and restoration of Indonesia's mangrove ecosystems. As part of the agreement, APP Sinar Mas will commit IDR 4.2 billion (US\$300,000) to the MERA programme over five years.



APP is committed to protecting and restoring forests, maintaining habitat for key species – both inside and outside its concessions, and thus contributing to the overall goals of Indonesia in addressing climate change and maintaining biodiversity. APP requires that all suppliers adhere to this same commitment and we will not accept any supplier that has converted any natural forest since 2013. We are proud of our record with maintaining 100% plantation fibre supply to all of our mills since the launch of our FCP.

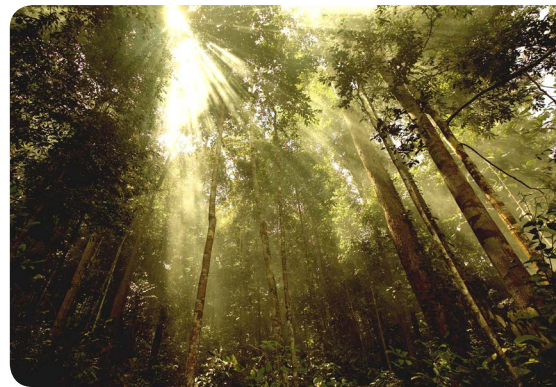
To identify forested areas for protection and restoration, APP conducted High Conservation Value (HCV) and High Carbon Stock (HCS) assessments and subsequently developed integrated sustainable forest management plans (ISFMPs) for each concession which outline areas for conservation, production, community use, and infrastructure. As a result of this process, we identified over 600,000 hectares – or more than 20% of the total concession areas – of HCS and HCV areas that we committed to protecting. APP is committed to restoring degraded areas within the conservation areas, with an initial target of at least 60,000 hectares within next 5 years – or 10% of the forested area.

APP has allocated 4 million dollars over the next five years to facilitate restoration of degraded HCS and HCV areas within our suppliers' concessions which will include restoring forest cover through the planting of native tree species. In order to ensure adequate availability of local tree species, APP has established nurseries in each region. Moving forward we plan to increase the number of nurseries of local species, by involving local communities as well.

Our hope is that by maintaining and improving the natural forest area within our concessions, as well as reducing human-animal conflict occurring, we will also create adequate conditions for key forest species to flourish. APP supports the Government of Indonesia's commitment to increase the population of currently endangered species, especially elephants, orangutans, and the Sumatran tiger and works together with local partners on specific strategies for species revival.

The two biggest threats to forests within our concessions are third party encroachment and fires. APP has implemented an Integrated Fire Management Plan since 2016 which includes four linked programs of prevention, preparation, early detection and rapid response and covers a range of activities from better hotspot detection and response, to community fire prevention and patrols. We still face challenges with third party encroachment into forests in our concessions. As a first step, to address this issue we knew we had to improve our systems for monitoring. In 2017, we began using a satellite driven 'Forest Alert Service' to monitor any changes in forest cover in the 600,000 hectares of protected forest in our suppliers' concessions. The technology detects forest change accurate to five meters by using Synthetic Aperture Radar (SAR) imagery from RADARSAT-2 satellites. The technology provides data every 24 days alerting on any change in forest cover, which can then be verified through ground patrols and dealt with accordingly. As a result of access to much quicker and reliable data covering the full forested area within our concessions, we have been able to significantly reduce deforestation.

We've also launched a new program to address both the practice of third-party encroachment, and the longer term objective of forest restoration. Collaborative Conservation Management (CCM) was developed to maintain the existence and function of HCS /HCV areas within APP concessions in collaboration with local communities and other stakeholders. The CCM approach includes i) the identification of target sites, ii) mapping of threats and stresses to the area, iii) mapping of interested stakeholders; and iv) establishment of baseline and target for improvement.



RESTORATION OUTSIDE APP SUPPLIER CONCESSIONS THROUGH BELANTARA FOUNDATION

Understanding that forest protection and restoration can only be achieved by addressing the challenges across the landscape, APP committed to support the restoration and protection of 1 million hectares of forest by 2020 across ten priority areas in the 5 provinces where APP is engaged in Indonesia. To facilitate these efforts, APP provided seed funding for the Belantara Foundation, an independent grant-making institution, that funds forest restoration and protection initiatives outside of APP concessions. Social forestry projects that would contribute to overall restoration or protection are also eligible for funding.

TO DATE, BELANTARA HAS AGREED/ BEGUN IMPLEMENTATION OF PROJECTS COVERING:

Restoration

(includes programs to restore and rehabilitate forest and peatlands, whether through enrichment or natural regeneration)

**7,573
hectares**

Protection

(includes funding to increase and maintain (in the case of already protected areas) forest and peatland areas and to enhance the biodiversity within those areas through key species protection)

**836,000
hectares**

Social Forestry

(includes funding to assist local communities in gaining social forestry land use permits and funding for building sustainable livelihoods on social forestry permitted lands)

**70,249
hectares**

Belantara has also recently launched a community empowerment program targeting 500 villages in surrounding areas outside APP concessions, with the program rolled out in 87 villages to date. This program builds on the model that APP has developed with the Integrated Forestry and Farming Systems program.

GRI/SDG references

304-3	Habitats protected or restored
SDG - 13	Climate Action
SDG - 15	Life on Land

FCP COMMITMENT 2: PEATLAND BEST MANAGEMENT PRACTICES

Key updates (February – September 2018)

Critical peatlands are protected

- APP is in the process of finalizing land zoning for each concession which identifies areas for deep peat³ retirement, buffer areas or water reservoirs for critical peat domes, and areas that can be used for production.

Rehabilitating peatlands

- In order to better understand the impact of APP's ongoing activities to rehabilitate and manage peatlands, APP is exploring the use of LiDAR for monitoring canal and ground water levels. APP has installed a series of dipwells across all plantations to monitor ground-water depth and land surface subsidence which are compiled in a central database (Operational Water Management System/OWMS) in order to assess the impact of canal blocking and changes as a result of rainfall.



³ Parameters still to be defined pending Government of Indonesia regulation. Current regulation sets a threshold of 3m (300cm), over which would be considered as 'deep peat'

APP is supporting the Government of Indonesia in their goals related to sustainable peatland management, including the protection of critical peat domes and the rehabilitation of critical peat areas. The ultimate aim is to manage peatlands in a way which maximizes environmental benefits, namely GHG reductions, social benefits through sustainable livelihoods, and economic benefits for the overall development of Indonesia.

In order to manage peatlands sustainably, the first step is to know exactly where and what constituted peatlands and in what condition the peat was in. We began by collecting data on distribution, elevation, water table, vegetation cover and fire risk. This was made much faster through the use of LiDAR (Light Detection and Ranging) mapping which we began in 2016. We are continuing to increase the resolution of our LiDAR mapping, including coverage of all our concessions' perimeter canals, which has resulted in an elevation model with an accuracy within 0.5meters that will be used to improve water management zoning and design. A new technique was also developed to determine Canal Water Depth (CWD), resulting in the production of canal water depth maps.

Through this information we were better able to understand where the critical peat domes, and areas

where the deepest peat, are located. In all of the peat areas in APP's suppliers pulpwood concessions, APP is working with Deltares to develop land zonation to identify areas potential for retirement, water reservoir or for production.

We are using the range of information collected to then run pilot rehabilitation and restoration activities to assess impacts over time before rolling out on a larger scale. Two of our pilot sites are in Kerumutan, Riau and in Musi Banyuasin, South Sumatra where, based on the quickscan of the data captured by LiDAR, we have retired 7,000 hectares of productive plantation on critical peatland after consultation and agreement with the Government, and are regularly monitoring the impacts of our efforts to increase water levels surrounding these blocks. Initial results indicate that new vegetation is growing rapidly in areas close to natural forests, and the remaining acacia has died off.

For the peatland areas which are outside of critical peat domes but will need to serve as buffer zones, APP is working to identify alternative tree species which can grow in rewetted peatlands and can also be used for productive use for fibre and pulp. APP has identified an initial list of 12 species and is now running pilots with the Gajah Mada University (UGM) to assess which species are most viable.



GRI/SDG references

304-3	Habitats protected or restored
SDG - 13	Climate Action
SDG - 15	Life on Land

FCP COMMITMENT 3: RESPECTING RIGHTS AND EMPOWERING COMMUNITIES

Key updates (February – September 2018)

Conflict resolution

- Disputes resolved as of September 2018 is 46%. Since March 2018, there are 6 disputes that have now moved to the final stage towards agreement or MOU signing.
- Partnership with Econusantara addressing boundaries and land use terms for old villages inside APP suppliers' concessions, with initial pilot in Riau. The objective is to help to facilitate learning that can be applied to facilitate resolution of conflicts involving old villages across suppliers' concessions.

Community empowerment

- APP launched a partnership with the Martha Tilaar Group, a leading company that produces and provides beauty products and services based on natural Indonesian ingredients. APP's collaboration with MTG will see the latter work and train women who are living in the communities within the IFFS program. Through this collaboration, MTG will train the women on how to identify and process valuable local herbs, which will then enable a community-level entrepreneurship that will provide alternative livelihoods to the women in a sustainable way. The collaboration hopes to train 1,000 women by 2020.
- As of September 2018, APP has established a total of 49 women's groups in Jambi, Riau, and South Sumatra benefitting more than 445 households.
- As of September 2018, the IFFS program has been rolled out in 236 villages, benefitting 15,736 households and is on track to meet the target of 300 by the start of next year, the fourth year of the program.

APP recognizes that communities are at the heart of conservation, and that forests cannot thrive unless people do. We also recognize that the survival of our business depends on being able to balance the interests of the company with those of local communities and the environment, and finding a solution that works for everyone.

The foundation of APP's approach to all members of communities inside our suppliers' concessions is the respect for human rights. APP adopted the UN Guiding principle on Business on Human Rights when it was first launched in 2011, and conducted a corporate wide human rights audit based on the framework. The result of the audit formed the basis of our current human rights policies, which include the implementation of the practice of Free Prior and Informed Consent (FPIC), responsible conflict management, community empowerment programs for forest protection, an effective grievance mechanism, and other procedures and standards that are embedded within our operational activities. These policies have been rolled out across our suppliers' concession through development of guidelines and associated training.

One specific challenge we have faced and continue to face is resolving conflicting land use claims. Land use and title gets to the very heart of people's lives and is not an issue easily resolved when there are multiple claims and historical issues affecting the willingness of parties to come to agreement. In order to effectively address these conflicts in a way that also builds a more inclusive model of working together with communities, APP has undertaken a complete

mapping of the type and cause of the conflict in order to deploy targeted methods for conflict resolution. We have now grouped conflicts into eight categories; of these, APP has a direct role in driving the resolution in four – old villages, new villages, customary land tenure, and livelihood purposes. In the other four categories – illegal land trading, speculation, non-procedural land use, and overlapping licenses – where APP can act as a mediator, but where the resolution is ultimately a legal one. This latter group makes up 41 percent of the total conflicts of which 46 percent of these still remain unresolved. These categories are more complicated and can take longer to resolve as the resolution is not within APP's control. This means that we need to work with – and rely on – other stakeholders to help facilitate timely resolution of conflicts. We have partnered with local NGOs in order to build trust among various parties to the conflicts and developed Regional Social Working Groups to bring the range of stakeholders together. While improvements are still needed in many areas, in Jambi good initial results have been achieved with NGO participation and local government involvement helping to develop resolution quicker.

One of the key components of forest conservation is thriving communities. APP launched the Integrated Forestry and Farming Program in 2015, targeting 500 villages, to build sustainable livelihoods while addressing forest encroachment, fire risk, and land use conflict. The IFFS program supports communities to improve their livelihoods through training on agro-ecological practices and climate-smart agriculture, thus reducing pressure on forests from agricultural expansion and one of the driving forces behind



uncontrolled fires and land clearance. The programme has to date been implemented in 236 villages, benefitting a total of more than 15,736 households. Of these villages, more than 70% have progressed past the initial planning and program establishment phase. APP has partnered with the Center for International Forestry Research (CIFOR) and the World Agroforestry Centre (ICRAF) to understand the impacts and improve our ability to attribute impacts to specific components of the programme, with the aim of developing a feasible business model that can be adapted and scaled up with smallholders across forest landscapes in Indonesia.

APP provides direct financial support for each community for them to determine how to use, along with the provision of machinery and tools to support climate smart agriculture practices. As the programme is rolled out, APP will also work with communities to improve market access for the products they produce by facilitating relationships and agreements with off-takers. As well as lending technical and financial support, we believe in the importance of building capacity at the local level. In 2017 APP also signed an MoU with the Ministry of Village, Underdeveloped Region and Transmigration on collaborating to strengthen village-based institutions.

Through the roll-out of the IFFS program, APP has continued to assess how to improve the program's effectiveness in each village going forward. One key element noted in the rollout of the IFFS is the role of women in the overall success of the household. APP has designed the IFFS program to focus on supporting women's initiatives, and to empower women's groups to build on their role in bettering the lives of their communities.



GRI/SDG references

102-21	Consulting stakeholders on economic, environmental, and social topics
102-43	Approach to stakeholder engagement
411-1	Rights of Indigenous People
SDG-1	No poverty
SDG-8	Decent work and economic growth

FCP COMMITMENT 4: SUSTAINABLE FIBRE SUPPLY & SOURCING

Key updates (February – September 2018)

Zero deforestation in supply chain

- Since March 2018, APP has added a two weeks public consultation period to the review of any new potential supplier. APP first screens the potential supplier and then publishes their SERA results and asks for input from interested stakeholders.
- The SERA screening process has been divided into two streams –
 - *One-time supplier*: supply is limited from one **approved harvesting location** based on the agreed Annual Work Plan (annual allowable cut).
 - *Continuous supplier*: supply from **one concession continuously** (mostly more than 1 rotation).
- In 2018, APP has approved 12 new one time suppliers after reviewing compliance with SERA and submitting the supplier to public consultation. APP monitors all suppliers on an ongoing basis so if anything changes in violation of SERA, APP would end the relationship.



All existing and potential APP suppliers must comply with the FCP and the [Responsible Fiber Procurement & Processing Policy \(RFPPP\)](#). APP developed and uses a tool called Supplier Evaluation & Risk Assessment (SERA), to continuously ensure compliance and to monitor risks associated with potential suppliers entering our supply chain. The SERA was developed in line with the national requirements of the Timber Legality and Assurance System (SVLK), as well as voluntary standards such as Programme for the Endorsement of Forest Certification (PEFC), The Indonesian Ecolabelling Institute (LEI), Forest Stewardship Council (FSC).

APP's SERA includes 12 criteria which suppliers are assessed against, which represent the key elements of APP's FCP including respect for human rights, protection of key species, and a commitment to no natural forest conversion as of 2013. This means that

APP only accepts wood from suppliers that have not converted natural forest since 2013. In this respect, APP's policy is more stringent than many voluntary standards. Additionally, APP requires suppliers to conduct HCV and HCS assessment covering the entire scope of the concession for permanent suppliers and only the approved harvesting location for one-time suppliers.

Results from the risk assessment are used to categorize potential suppliers into "significant risk" or "negligible risk". If a potential supplier is categorised as "significant risk", they will be required to implement corrective actions (CARs) to bring them into compliance within an agreed period of time. Only if this is done will they be accepted as an APP supplier. APP regularly rescreens suppliers on an annual basis and makes public any change in supplier risk.

Key facts and statistics on APP's wood suppliers:

100%

of APP's 38 suppliers in Indonesia are in compliance with Indonesian verification rules (PHPL/SVLK)

89%

are IFCC-PEFC certified

83%

are LEI SFM certified

All purchase of wood from international market/global suppliers are checked to ensure compliance with the RFPPP policy.

GRI/SDG references

308-1	New suppliers that were screened using environmental criteria
414-1	New suppliers that were screened using social criteria



