



Stakeholder Update

By its very nature, a Sustainability Action Plan necessitates real action on the ground—in the mills and in the forests—but it also requires the building of partnerships and support to make the best use of the resources that we've committed towards achieving full sustainability in 2007. On June 1, 2004, APP's major creditors announced agreement with the company over the environmental covenants of the Master Restructuring Agreements.

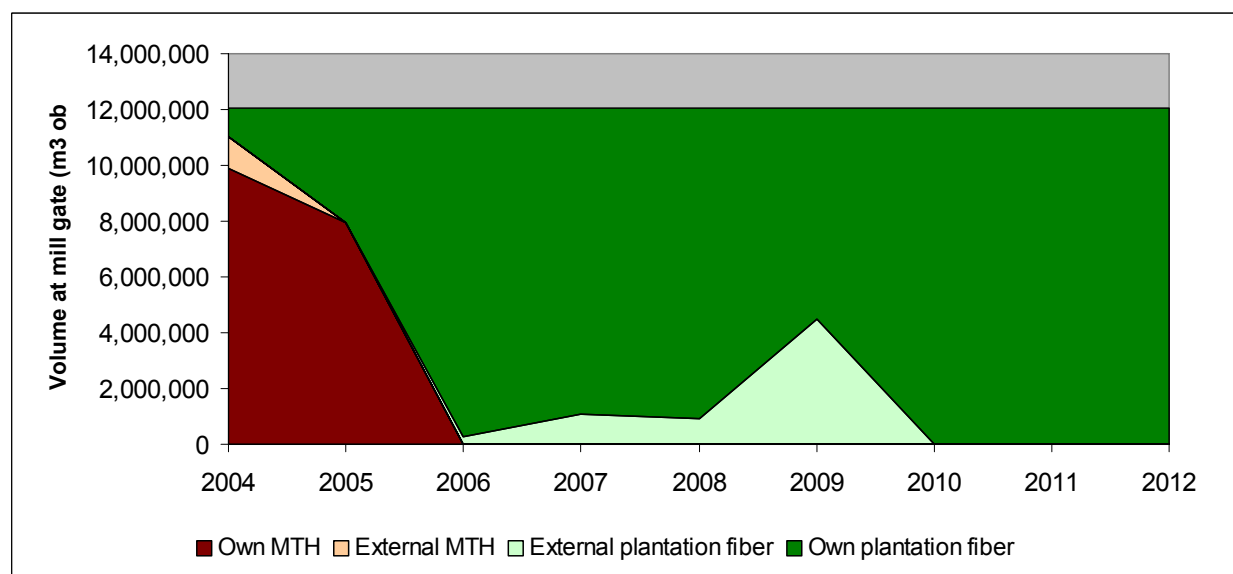
Yukio Kitazume, Vice Chairman of Japanese export credit agency, Nippon Export and Investment Insurance, stated in the creditors' press release that, "The company [APP] now has the opportunity to take a strong leadership position in the development of sustainable forestry. These covenants show the positive role that the private sector and international financial institutions can play in achieving sustainability in Indonesia and Asia."

APP clearly welcomes this agreement and the fact that it will become a legally binding contractual obligation. More information about the agreement and the specific actions being taken to implement it will be the focus of the next Update.

APP GETS ADDITIONAL FIBER SOURCE

One of the major strengths of the Sustainability Action Plan was its ability to confirm APP's plan to be fully dependent on plantation-grown fiber from 2007 onwards. Because APP is prioritizing the use of its own plantations over the next couple of years rather than developing new areas, other fiber supplies will be needed to fill a relatively small fiber supply gap of 8.1 million tons over a 4-year period leading up to 2010. This is shown in Figure 1 by the "External plantation fiber".

Figure 1 APP's Fiber Supply 2004–2011



The Sustainability Action Plan outlines the criteria the company will use for filling any gap. This means that *up to 2007*, all external wood will be fully tracked, there will be no activity in community claim areas, and international-standard Environmental Impact Assessments will be carried out for new areas. *After 2007*, all fiber will come from renewable plantations, managed responsibly by APP/SMG subject to full chain-of-custody tracking.



So, identifying renewable plantations has been vital. In the final week of April, APP was able to announce the first of these major steps towards ensuring a sustainable wood supply to meet the gap. The following press release was issued to trade media throughout the world.

APP ANNOUNCES INCREASE IN RENEWABLE FIBER SUPPLY

Established Plantation in Riau, Sumatra, to Support APP's Sustainability Commitments

Jakarta April 26, 2004 - Asia Pulp & Paper Co. Ltd. (APP) today announced that PT. Perawang Sukses Perkasa Industri (PSPI), an established acacia plantation in Riau, Sumatra, will become an exclusive fiber supplier for APP's pulp and paper operations. The establishment of an additional renewable source of fiber supply is part of APP's commitment to achieving 100% plantation-grown fiber in 2007.

The operations contain 20,000 hectares of established plantation forest in Lipat Kain and Petapahan Districts in Riau and meet all the requirements for additional fiber supplies, as set out under APP's Sustainability Action Plan, which was launched in February this year.

Michael Black, Deputy CEO of APP, explained, "We made a set of commitments to our stakeholders and we are now delivering on these. Focusing our fiber procurement on renewable resources demonstrates APP's commitment to sustainability in all its operations".

Arian Ardie, APP's Director of Sustainability and Stakeholder Engagement, continued, "APP's Sustainability Action Plan laid out clear requirements for any future additional fiber source that we would use. Efforts to bring this plantation into our program demonstrate the concrete steps our Fiber Supply team is taking to realize these requirements on the ground".

APP COMPLETES PILOT PROJECT WITH COMMUNITY

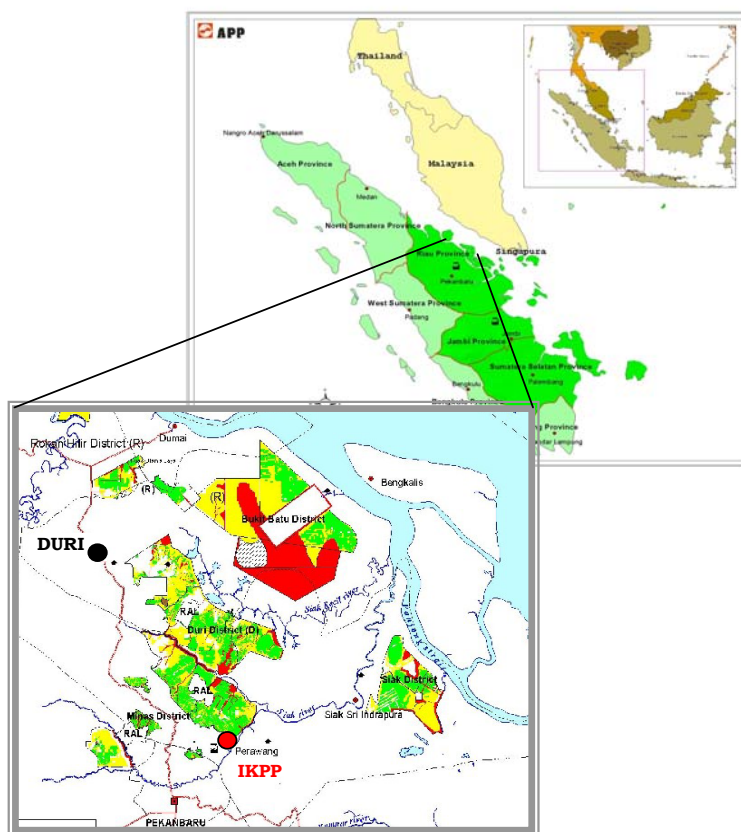
The Community Development division of APP and its same-chain fiber suppliers has been working to implement the approach to community development and community relations outlined in the Sustainability Action Plan.

A pilot program in Duri, in Riau, north Sumatra, has recently been completed to develop and test new approaches to community development or—more correctly—to create, on a permanent footing, good company–community relations. The program in Duri began in October last year.

One officer—one village

A basic requirement of a community relations exercise is regular communication between the company and the community. From the company's side, this has been achieved by allocating an officer to regularly visit a community. From the community's side, village development committees are being set up which will act as a forum for discussion, planning and monitoring purposes.

Figure 2 Map showing Duri in Riau, Sumatra



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Village mapping

Village mapping—or the collection of village data and information—has been carried out in all the villages and files created in the office. Databases such as these are essential if relevant community support or plans are to be drawn up. These databases will never close.

Community development plans

Community development plans (CDPs) are being drawn up for a period of six months. The plans, which include actions, activities and projects, attempt to support the entire community and, as a plan nears completion, another six-month plan will be drawn up. There are 15 communities or villages in the district and the officers are now drafting 15 CDPs. The first four should be finished in May.

APP TALKS ON SUSTAINABILITY AT ASIAN PAPER 2004

The Asian Paper 2004 Senior Management Symposium was held in Singapore at the end of April.

Arian Ardie, APP's Director of Sustainability and Stakeholder Engagement, spoke on the subject of "Sustainability: Perceptions versus Reality". The paper was well-received, and highlighted the differences between consumer and NGO demands for certification, as well as the reasons behind the geographical disparity in the number of certification awards made. For instance, only 5% of the world's forests are certified and, of this 5%, 93% of certification is given in North America, Western Europe and Eastern Europe collectively. Asia accounts for only 0.2%.

Copies of the paper are available from APP's Sustainability and Stakeholder Engagement team.



APP RESPONDS

Can you tell me how APP plans to handle the fiber shortage that the 20,000-hectare PSPI acquisition does not cover? Will you continue non-plantation cutting in Sumatra until 2007?

—Customer in US

The simple answer is that, yes, we will need to bring in fiber from non-plantation sources until we reach full sustainability in 2007, as there is not enough external plantation-grown fiber currently available. This does not mean that we will "clearcut wildlife-rich jungle" or "destroy wide tracts of irreplaceable old-growth forest". We will accept fiber from land legally allocated by the Government of Indonesia for development into plantations; this could be, for instance, fire-prone wasteland, or severely degraded forest with low conservation value. Before doing this, all of our suppliers will be required to follow a strict series of legally mandated and voluntary forest classifications, ecological assessments, and biodiversity studies. This approach makes good business sense to APP, provides the Government of Indonesia with the income it needs from greater industrialization and enables the company to fund its extensive conservation programs in the wide expanses of Indonesia's highest conservation value forest.

—Arian Ardie, Director Sustainability and Stakeholder Engagement