



2006 Sustainability Report



 2006 Sustainability Report

driving
a sustainable
culture



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APRIL Invitation

Welcome to our third Sustainability Report, covering January 2004 to June 2006. As with the earlier editions, this Report presents an account of our company's economic, environmental and social performance, broadly following the framework set out by the Global Reporting Initiative. For the first time, it also sets out our present standing in relation to the Global Compact's 10 Principles as a result of APRIL becoming a signatory to the Global Compact in 2006.

At the outset of this reporting initiative, we have always been of the view that the Sustainability Report is both a communications and management tool. As a voluntary report, it enables us to document and elicit feedback on what we're doing and commit to do towards responsibility and sustainability in our operations. Beyond that, it also enables us to track our progress and identify areas where decisions and actions on changes are called for.

Bureau Veritas again undertook independent verification of this 2006 edition.

At APRIL, we value your continuing interest in our Sustainability Report and in our operations as a whole. Those who wish to express their feedback, raise further questions, or see our operations for themselves are welcome; our contact information are given towards the end of this Report.

Sustainability has to be the foundation for any business, not only in the interests of risk management, but also to ensure a balance of commercial, social and environmental needs in the management of resources.



President's Statement



Welcome to our third Sustainability Report. Looking back over the reporting period of the last two years, a number of considerable achievements stand out along with the ongoing reality of the challenges we face. The difficulties and issues that are an everyday part of operating in an environment with diverse values, continue to influence our approach and actions. At every level and in every function of our business we are working to enhance or introduce still more rigorous standards. In this, we inevitably face some barriers to understanding and acceptance. When we seek to apply these same or similar standards in our dealings with our stakeholders, including partners, suppliers, and neighbors, a difference of interest can emerge.

There is no better example of this contrast in understanding than our commitment to protect the Tesso Nilo forest area where our aims are totally consistent with those of WWF. We want to see a fully protected, expanded and properly designated area of national park that will provide shelter for the Sumatran elephants. However, our ability to see the vital importance of protecting this unique natural environment is not always shared with the same level of urgency by others who look to the forest for no

more than short-term commercial gain. Illegal encroachment continues at a distressing rate with little or no abatement. We continue to work with WWF on the creative initiative of establishing Elephant Flying Squads to reduce the incidence of human/elephant conflict, but we are limited in how much we can achieve. As we know from our own operations, success requires education, understanding, authority and leadership, backed up by action. We have repeatedly called for urgency in addressing the protection of Tesso Nilo and continue to hope that the essential steps will soon be undertaken to preserve this area of natural distinction for future generations.

With regard to our own operations, there have been notable achievements. Recently we achieved Sustainable Plantation Forest Management certification under the Lembaga Ekolabel Indonesia (LEI) for 159,500 hectares of our concessions. The LEI certification scheme is supported by various stakeholders, including leading NGOs, the ITTO and other international organizations. We are proud to be the first Indonesian company to gain this distinction. We have previously stated our desire to seek FSC certification and our readiness to work

towards meeting their high standards. However their exclusion of all plantations established in areas converted after November 1994 effectively precludes all but traditionally developed plantation regions of the world. We very much hope that a review of this policy will lead to change.

However, we will be even more pleased when other operators follow our lead in seeking certification standards in their operations. Sustainability has to be the foundation for any business, not only in the interests of risk management, but also to ensure a balance of commercial, social and environmental needs in the management of resources. Despite their protestations, only those whose main focus is short-term gain would neglect the components of sustainability.

We have publicly committed to identify, protect and manage the High Conservation Value Forests in our concession areas, becoming only the second pulp and paper company in the world to do so. To this end, we adopted the Mosaic Plantation Concept by which we retain and protect areas of high conservation value, and develop plantation on non-HCV areas. We believe this is the only way to protect Indonesia's remaining forest resources and generate economic and social growth for the country. Leaving the forest alone, as some groups would prefer, is not an option; social deprivation would lead to continuing rates of forest encroachment and illegal logging. Far preferable, we believe, is to protect and manage unique landscapes while at the same time

provide employment through our own legitimate commercial endeavors and well-designed mosaic plantations.

In fact, in my meetings with customers I have been heartened by their recognition of our work towards achieving sustainability. Also the consistency of our approach, actions and words has undoubtedly helped our adoption of complementary management and operational standards.

However, it would be wrong to suggest we are no longer the focus for criticism. During the past two years, WWF and Jikalahari have both been actively monitoring our operations and publicizing their concerns. While we accept that we will never be in total agreement, we are secure in our belief that our conservation and sustainability values fully support our decision-making. This is a consistency in approach that applies as much to our operations in the Kampar Peninsula as it does to our support for Tesso Nilo. As a result of the importance that we place upon the opinions of our stakeholders, we have documented in the chapter on Stakeholder Engagement (page 25) the criticisms we have received. We are happy to talk about these issues and any others raised in this Report and would urge you to contact us with your own opinions or if you should like more information.

In 2006 we became a partner of the UN Environmental Programme in their Champions of the Earth Awards, and a signatory of the UN Global

Compact, a decision we committed to in our last Report. We regard the latter as a significant step in our development and welcome this further window on our activities. We are hoping to become active participants in a Global Compact network in order to share our experiences and learn from others. To provide a benchmark for future reporting, you will see that we have indicated how we believe our practices currently correspond to the Global Compact Principles and selected performance indicators from the Global Reporting Initiative. In order to improve the accessibility to our Communication on Progress, we will not only send this to the UN, but will also place it on our website.

Across the range of commitments we made in our 2004 Report we have achieved the majority. However, we have to do more to bring outstanding land disputes to resolution and to embedding sustainability governance readily. It is essential that every employee and contractor understand the relevance of our commitment to sustainability to their role in our operations. This will be achieved most effectively by the consistent and continuous application of sustainability practices combined with an education process involving direct, personal applicability.

In the last Report, I mentioned that we were looking at expanding in China. This has started through the acquisition of a 90% stake in SSYMB, a major pulp and paperboard manufacturer in Rizhao, Shandong Province. The acquisition took place in late 2005 and

is currently being integrated into our operations. We expect to be able to fully include its operations in our 2008 Report.

Reflecting on the last two years, I am proud of what has been achieved and continue to greatly appreciate the commitment of all those who work for APRIL. All the hard work done in the past several years, not just in the last two, towards the establishment of a sustainable framework, backed by responsible standards and practices, provide us with a solid platform for the pursuit of further growth in our operations in the next years.

We are important to the economy of Riau Province and Indonesia as a whole. We see ourselves as a global company, but with a firm base in Indonesia, and have striven to play a leadership role within the local community. We envisage the same in China. We want to continue to set the standards, to show what can be achieved in a region that presents so many challenges but where the rewards are great for those who see the value in sustainability and like us will work towards that goal.



A. J. Devanesan
President



About this Report

Readers of our previous Sustainability Reports will notice that we have developed a format that we believe, and have been told, is easy to follow and makes information readily accessible. Broadly this mirrors the structure set out in the Global Reporting Initiative. Additionally, for the first time and as a result of becoming a signatory to the UN Global Compact, we have set out our current position on the Global Compact's 10 Principles against relevant sections from the GRI.

Scope of this Report

Although we have a growing presence in other markets such as China, these operations are yet to be of the same level of impact as our activities in Indonesia. We are also aware that our presence in Riau is of key interest to our various stakeholders and therefore this Report remains focused on our Indonesian operations. However, following our recent acquisition of SSYMB in Rizhao, this will change with the inclusion of China in the 2008 Report.

Reporting on 2004 Commitments

In our last Report we gave commitments in relation to specific activities and more general corporate actions. Most of these commitments have been achieved although some have had to become longer-term objectives and are additionally referenced under the relevant sections of this Report.

Corporate Governance

Commitment: To review our approach to good corporate governance with a view to embedding it at all levels.

Action: We recognize that every employee and contractor should understand the relevance of our commitment to sustainability to their role in our operations and that progress on the implementation of sustainable activities should be monitored. We have undertaken various education campaigns to embed sustainability principles in different aspects of our operations but recognize that they need to be more sufficiently coordinated and reinforced. We continue to look for how best we can make our sustainability principles intuitive for all employees at the same time as creating a system for effectively monitoring the full and consistent application of agreed practices.

Responsible Fiber Plantation Management

Commitment: To work towards LEI (Lembaga Ekolabel Indonesia) certification.

Action: Achieved. In early 2006 APRIL became the first company in Indonesia to gain LEI Certification for sustainable plantation forestry management, particularly for our concession under SK 137/1997 license which covers 159,500 ha.

Tesso Nilo

Commitment: To support WWF's bid for the expansion of the Tesso Nilo national park.

Action: While agreement has been reached in principle, we are concerned that a formal plan has yet to be put in place. We will continue to support the WWF and Government in seeking official enforcement of the expansion of Tesso Nilo National Park to 100,000 ha and in ensuring its sustainable conservation.

Emission Monitoring

Commitment: To have all continuous emission monitoring (CEM) equipment operational by end of 2004.

Action: Achieved. All 13 CEM equipment located at the Power Boilers, Recovery Boilers, Dissolving

Tanks, Lime Kilns and Digesters have been operational since 2004.

Occupational Health and Safety

Commitment: To increase safety training, develop a comprehensive health and safety policy for manual workers, including contract labor, and to seek OHSAS 18001 certification in 2005.

Action: Achieved. OHSAS certification was achieved for fiber operations in October 2005, and for the mill in May 2006.

Community Development

Commitment: To continue our involvement in the community and expand our Community Development Program.

Action: As a first step, those Community Development activities not directly related to our operations have been granted to a separate body. This non-profit organization will be able to raise funds from APRIL and other institutions to expand its impact beyond our sphere of influence. Other community development activities will continue to be funded directly by us as part of our ongoing Corporate Social Responsibility (CSR) Program.

Sustainability Reporting

Commitment: To continue to publish Sustainability Reports.

Action: We are committed to publishing a Sustainability Report every two years. The next report will therefore be published in 2008.

Solid Waste Management

Commitment: To complete the new landfill site by end 2004. Additionally, to undertake remediation of Section A in 2004, Section B in 2005 and Section C in 2006 of the existing landfill. Further, to investigate the re-use and recycling of the mill's solid wastes.

Action: On 8 June 2005, we secured a new Landfill License – Category III (SK 114/2005) from the Indonesian Ministry of Environment for our permanent waste landfill beside the mill complex. Phase 1, covering 4.83 ha, was completed in September 2004.

Our original landfill has been subjected to a phased remediation program. This program involved the installation of measures to ensure there can be no leaching of harmful substances into the soil or watercourses. Phase I (10 ha) was completed in June 2005. Phase II (10 ha) was 88.9% complete as of June 2006. Phase III (10 ha) is planned for 2007.

The use of composted boiler ash as plantation soil ameliorant, which was started in November 2004, was stopped in December 2005. While its use as soil input was proven effective, transporting huge volumes of the composted ash across vast lowland plantations was found impractical. Eventually, the application of micro-nutrients provided the more feasible option.

United Nations Global Compact

Commitment: To become a signatory by end of 2006.

Action: We signed up to the UN Global Compact in May 2006. This Report defines our current position on the 10 Principles contained in the Global Compact on which we will report progress in our next Sustainability Report.

Land Disputes

Commitment: To seek resolution of outstanding land disputes and involve independent third parties in the process.

Action: Despite intense activity and some success, we still have a number of outstanding land disputes and have not been able to involve independent third parties as we had intended, notwithstanding our search for suitable organizations. We will continue to seek expert mediation skills to bring outstanding and any future disputes to early and peaceful resolution.

Reporting Period

This, our third Sustainability Report, covers a reporting period from January 2004 to end June 2006.

Statistics

All updated figures are accurate as at end June 2006 unless otherwise stated.

Accessibility

We are delighted to mention that such has been the demand for the 2004 Report that an additional print run was required. While this year's report is available in hard copy, it is also downloadable from our website as a pdf file (www.aprilasia.com).

Independent Verification

The content of this Report has been verified by Bureau Veritas, an international specialist in corporate social responsibility accountability, and QHSE (quality, health, safety and environment) management. Their independent assurance report can be found on pg 91. APRIL has no significant commercial or other relationship with Bureau Veritas other than the provision of third party assurance services.

Stakeholder Assurance

We have an ongoing interest in understanding and learning about the interests and concerns of our stakeholders. The principal observers and critics of our environmental actions are local, national and international environmental NGOs. While we have had a number of meetings with different groups, many of which were confirmed through subsequent correspondence, these discussions were not always officially recorded. However, all contacts, as far as possible, have been verified by Bureau Veritas. Two stakeholder groups in particular have expressed their concerns to us – WWF and Jikalahari – and their views are reflected in the section on Stakeholder Engagement.

Moving forward, we want to know that we are providing our stakeholders with all the information and access they require in order to form an opinion on our behavior objectively. We will always welcome opportunities for constructive feedback and collaboration with interested stakeholders on issues of mutual interest.

**Relationship between the UN Global Compact Principles, the Global Reporting Initiative,
and APRIL Sustainability Report
Reference and Status 2006**

Global Compact Principle	GRI Content	Current APRIL Status
<i>Human Rights</i>	<i>Human Rights Indicators</i>	
<p>Principle 1 Businesses should support and respect the protection of internationally proclaimed human rights</p>	<p>HR1 Policies to deal with all aspects of human rights HR2 Evidence of consideration of human rights impacts as part of investment decisions, including selection of suppliers/contractors HR3 Description of policies/procedures to evaluate human rights performance within the supply chain HR4 Description of global policy preventing discrimination in operations</p>	<ul style="list-style-type: none"> • We apply strict health and safety regulations to all employees and particularly those operating in the mill and plantation/harvesting operations. • For evidence of our personnel and health and safety procedures, please see Our People and Fiber Operations.
<p>Principle 2 Ensure no complicity in human rights abuses</p>	<p>HR2 Evidence of consideration of human rights impact as part of investment decisions, including selection of suppliers/contractors HR3 Description of policies/procedures to evaluate and address human rights performance within the supply chain</p>	<ul style="list-style-type: none"> • We require our contractors to apply our own fair employment principles. • We apply strict health and safety regulations to our contractors and monitor that these are being applied. • OHSAS 18001 certification has been achieved. • We have a formal land disputes resolution process in place. • For information on our personnel and health and safety procedures, please see Our People and Fiber Operations.
<i>Labor</i>	<i>Social Performance Indicators – Labor and Human Rights</i>	
<p>Principle 3 Businesses are asked to uphold the freedom of association and the effective recognition of the right to collective bargaining</p>	<p>HR5 Description of freedom of association policy and extent of application independent of local laws LA3 Percentage of employees represented by independent trade union organisations or other bona fide employee representatives LA4 Policy/procedures involving information, consultation, and negotiation with employees over changes in the reporting organization’s operations</p>	<ul style="list-style-type: none"> • Every employee is entitled to join the trade unions representing the forestry industry and their affiliated organizations (e.g. SPSI and Timber and Forestry Labor Union Federation of Indonesia). • Employees are not required to inform us of their trade union membership. • We hold regular consultations with trade unions and employee associations with membership in APRIL. • For information on our relations with trade unions, please see Our People.

Global Compact Principle	GRI Content	Current APRIL Status
<p>Principle 4 The elimination of all forms of forced and compulsory labor</p>	HR7 Description of policy to prevent forced and compulsory labor, monitoring systems/results	<ul style="list-style-type: none"> Indonesia is a democracy and we operate in a free labor market. We have no forced or compulsory labor within our operations.
<p>Principle 5 The effective elimination of child labor</p>	HR6 Description of policy to exclude child labor as defined by the ILO Convention 138	<ul style="list-style-type: none"> The minimum employment age in Indonesia is 15. We do not employ anyone under this age and insist that our contractors follow this policy. We also check the employment records of our contractors.
<p>Principle 6 The elimination of discrimination in respect of employment and occupation</p>	<p>HR4 Description of global policy/procedures/programs preventing all forms of discrimination in operations</p> <p>LA10 Description of equal opportunity policies/programs</p> <p>LA11 Composition of senior management and corporate governance bodies (including the board of directors, female/male ratio and indicators of diversity as culturally appropriate)</p>	<ul style="list-style-type: none"> We do not discriminate in our employment selection. However, given the nature of our operations and our respect for local cultural and religious beliefs, other than in our office-based support functions, the majority of employees are male.
<i>Environmental</i>	<i>Environment Indicators – Overarching Policies and Environmental Performance</i>	
<p>Principle 7 Businesses are asked to support a precautionary approach to environmental challenges</p>	3.13 Explanation of whether and how the precautionary approach or principle is addressed	<ul style="list-style-type: none"> With our commitment to sustainability we focus considerable energy on research and monitoring to ensure we preserve and protect unique landscapes. We have adopted a High Conservation Value policy. For information on our approach to environmental sustainability, please see Conservation, Fiber Operations and Manufacturing Operations

Global Compact Principle	GRI Content	Current APRIL Status
<p>Principle 8 Undertake initiatives to promote greater environmental responsibility</p>	<p>1.1 Statement of the organization's vision and strategy on sustainable development</p> <p>EN1 Total materials used other than water by type</p> <p>EN2 Percentage of materials used that are wastes (processed or unprocessed) from external sources</p> <p>EN3/4 Direct and indirect energy use</p> <p>EN5 Total water use</p> <p>EN6 Location and size of land owned/leased/managed in biodiversity rich areas</p> <p>EN7 Description of major impacts on biodiversity associated with activities/products</p> <p>EN8 Greenhouse gas emissions</p> <p>EN9 Use and emissions of ozone-depleting substances</p> <p>EN10 NOx, SOx and other significant air emissions</p> <p>EN11 Total amount of waste by type, destination</p> <p>EN12 Significant discharges to water</p> <p>EN13 Significant spills of chemicals etc</p> <p>EN14 Significant environmental impacts of products</p> <p>EN15 Percentage of product reclaimable at end of life</p> <p>EN16 Incidents of fines for non-compliance with applicable international, national, regional and local regulations on environmental issues</p>	<ul style="list-style-type: none"> • We operate in a part of the world with many unique characteristics and that this brings with it a responsibility to conserve, wherever possible, as well as to operate in an environmentally sustainable way. • We have adopted a policy to protect and manage High Conservation Value Forests. • Our best practices in fiber operations ensure reduced impact on the environment. • We partner with other stakeholders in combating illegal logging, and supporting other conservation projects. • We measure our emissions against applicable international standards. • All key indicators are monitored and independently checked at regular intervals. • Community health impacts are independently monitored. • We recover, recycle or reuse materials at every opportunity. • Our mill performance has been rated 50% above legal standards for use of technology that minimizes wastes, prevents pollution, and conserves resources. • There is no data available on indicator EN9. • For information on our approach to environmental responsibility in the fiber operations and the mill, please see Conservation, Fiber Operations and Manufacturing Operations

Global Compact Principle	GRI Content	Current APRIL Status
<p>Principle 9 Encourage the diffusion of environmentally friendly technologies</p>	<p>EN17 Initiatives to use renewable energy sources and to increase energy efficiency</p>	<ul style="list-style-type: none"> • The boiler uses black liquor recovered from the manufacturing process, bark and reject chips. • We also burn sludge wastes in the power boiler. • For information on our approach to environmental responsibility in the mill, please see Manufacturing Operations.
<p><i>Anti-Corruption</i></p>	<p><i>Social Performance Indicators - Society</i></p>	
<p>Principle 10 Business should work against corruption in all its forms, including extortion and bribery</p>	<p>SO2 Description of policy, procedures, management systems and compliance mechanisms addressing bribery and corruption</p>	<ul style="list-style-type: none"> • We do not tolerate corruption and as a matter of principle, do not pay bribes. • The detail of applicable policies are not identified in this Report but may be viewed at our offices.





Corporate Profile

Our vision is to be one of the largest, best managed, most profitable and sustainable pulp and paper companies in the world, and be a preferred supplier to our customers and the preferred company to our people.

Asia Pacific Resources International Holdings Ltd. (APRIL) is one of the world's leading producers of fiber, pulp and paper. The company is headquartered in Singapore and has its main production operations in Riau Province, central Sumatra, Indonesia, with growing sales and manufacturing operations in China. APRIL is a privately held company owned through family trusts associated with Mr. Sukanto Tanoto, Chairman.



APRIL Group

PT Riau Andalan Pulp & Paper (Riaupulp)

- 98.5% owned by APRIL
- Runs one of the largest pulp mills in the world on a 1,750 ha site in Pangkalan Kerinci, Riau, Central Sumatra, Indonesia.
- Began operations in early 1995
- Fiber drawn primarily from government-granted concessions

PT Riau Andalan Kertas (Riaupaper)

- 99.8% owned by APRIL Fine Paper which is 100% owned by APRIL
- Operates a 350,000 tonnes per year uncoated wood-free paper machine

Asia Pacific Enterprises Limited (APEL) and APRIL Fine Paper Trading Limited (AFPT)

- 100% owned by APRIL
- APEL markets the Group's pulp products; AFPT markets the Group's paper products

APRIL China

- Comprises a stationery plant in Suzhou near Shanghai, a converting plant in Xinhui, and a pulp and paperboard mill in Rizhao in Shandong Province.
- The sales operation is run from Guangdong.

Board of Directors

Sukanto Tanoto, Chairman

A J Devanesan, President

Willie Sia, Chief Financial Officer

Dr Ibrahim Hasan

Lim Ah Doo

Ian Wayne Spence

Corporate Governance

During the current reporting period we have introduced a number of new management systems and processes which impact all our operations. Each of these disciplines serves our commitment to sustainability by reinforcing our belief in the application of consistently high standards. They are overseen by the President, A.J. Devanesan, and

supported by the Executive Management team representing all company functions.

We believe an understanding of our commitment to sustainability exists in a significant cross-section of our company. However, we have not so far formalized the process by which we can ensure that relevant principles, policies and practices are supported by an appropriate monitoring mechanism. Over the next two years we will consider what further measures need to be put in place to satisfy ourselves that true embedding of our commitment to sustainability is leading to an intuitive belief in its importance and application.

Bribery and Corruption

We do not tolerate corruption and as a matter of principle, we do not pay bribes. We channel our contributions through our community development programs where we make payment or provide the agreed benefits for livelihood generation or social infrastructure projects.

Transparency

As a business operating in a sector with a variety of stakeholders that might wish to know more about or even to challenge what we do, we believe our best approach is to be as accessible and transparent to our critics as we are to our supporters.

With this belief, we operate an open door policy which means stakeholders may request to see our operations, receive an introduction to the production cycle taking in our nurseries and plantations as well as visit the mill complex and our community development training centers. We place no restrictions on the questions that can be asked and may only ask for time to respond to issues requiring our investigation or other consideration.

During the reporting period we received 88 visits from a wide variety of guests. Visitors came not only from many parts of Indonesia but also from countries including China, Singapore, India, USA, Hong Kong, Japan, Sweden, Germany, UK, Finland, Canada, Malaysia, and the Philippines. Guests included a

delegation from the United Nations Environment Programme (UNEP), the Ambassadors of Canada, Sweden and Finland, a delegation from the Embassy of the People’s Republic of China, and Commission VII DPR RI from the Indonesian Parliament. Many local and international NGOs such as WWF, Jikalauhari, FKMM, Pelangi, and Sawit Watch, also came and observed our activities. Visiting local and international media included Wall Street Journal, Financial Times, NHK, Finance Asia, Metro TV, Channel News Asia, Straits Times, TVRI, Koran Tempo, Media Indonesia, Bisnis Indonesia, and Antara.

Among our eminent visitors were Prof. Dr. Emil Salim, former Minister of Environment, former President Megawati Soekarnoputri, Mr M S Ka-aban (Minister of Forestry), and H M Rusli Zainal (Riau Governor).

Engagement with Stakeholders

Operating in an environment that does not only have many unique qualities but also experiences socio-economic deprivation, a range of local, national and international NGOs follow and challenge our approach and our practices. Wherever possible, we engage them in dialogue to listen to their comments and advice, and will continue to do this. The verifiers of this report, Bureau Veritas, have verified our contact and correspondence with stakeholders to the extent that this is possible.

Within each area of our operations, we hold discussions with appropriate stakeholders to improve our knowledge and develop joint and individual initiatives. These are referenced within the relevant sections of this Report.

Corporate Milestones

Year	Event	Corporate	Mill	Fiber Operations	Community
1993	Large-scale plantation development begins			•	
1994	Asia Pacific Resources International Holdings Limited (APRIL) is formed	•			
1994	First pulp produced		•		
1995	Commercial pulp production begins		•		
1998	Community development committee set up				•
1999	Introduction of Integrated Farming System (IFS)				•
1999	Commissioned the Institut Pertanian Bogor to conduct an internal study of the biodiversity of our concessions. Results were used to identify and set aside conservation areas.			•	
1999	Phase One begins for the design and management of Corridors for Biodiversity Conservation in Large Plantation Landscapes with the Centre for International Forestry Research (CIFOR)			•	
2000	Development of Criteria & Indicators for Sustainable Forest Management of Industrial Tree Plantations and Code of Forest Practice with the Center for International Forestry Research (CIFOR)			•	

Year	Event	Corporate	Mill	Fiber Operations	Community
2000	Establishment of economic development program to assist small and medium local enterprises (SMEs).				•
2001	Completion of Pulp Line 2, bringing capacity to 2 million t/a		•		
2002	All fiber estates of APRIL's concessions receive ISO 14001 from SGS Yarsely International Certification Services			•	
2002	Pulp and paper mills receive ISO 14001 from SGS		•		
2002	Some 1,100 families from more than 71 villages are involved in the Integrated Farming System program				•
2002	Moratorium on further road building and Acacia plantation development in the Tesso Nilo area and collaboration with WWF to prevent illegal logging from the Tesso Nilo			•	
2003	Publication of first Sustainability Report	•	•	•	•
2003	2nd Timber Tracking Audit completed			•	
2003	Third Forest Management Audit completed			•	
2003	Land Dispute Resolution Procedures Audit completed			•	•
2004	Acacia Chain-of-Custody System audit completed		•	•	
2004	Pilot growing using Eucalypt species begins			•	
2004	Series of meetings held with NGOs to obtain their thoughts on APRIL's operations and the 2002 Report	•	•	•	•
2004	Graduate Trainee Programme commenced	•			
2005	APRIL Learning Institute established	•			
2005	Round-table discussions with Jikalahari (a network of NGOs in Riau, Indonesia)			•	•
2005	UNDP's Business of Development TV series features APRIL's sustainability initiatives	•		•	•
2005	Implementation of Environmental, Social, Health and Safety policy	•	•	•	•
2005	HCVF Policy adopted			•	
2005	HCVF assessment of Kampar Peninsula and Pulau Padang			•	

Year	Event	Corporate	Mill	Fiber Operations	Community
2005	Joined Co-management board for the Collaboration Management Program of Tesso Nilo National Park			•	•
2005	A. J. Devanesan addressed International Dialogue on Illegal Logging in Hong Kong	•		•	•
2005	New landfill approved by Ministry of Environment		•		
2005	Acacia Chain-of-Custody Audit completed by SGS		•	•	
2005	2nd APRIL-NGO Forum on Kampar Peninsula			•	•
2005	Achieved Indonesian and Asian CSR Awards for Community Development				•
2005	Received GREEN PROPER Rating from Indonesian Govt for mill environmental performance		•		
2005	Attained OHSAS 18001 certification for fiber plantations			•	
2005	Cultural Pillars Behaviour Programme starts	•			
2005	Participation in anti-illegal logging/forest encroachment task force with WWF, Jikalahari			•	•
2005	Forest Management Sustainability Audit successfully completed			•	
2005	Launched PaperOne Presentation, a new high-end office paper	•			
2006	Awarded certification under Lembaga Eko-label Indonesia (LEI) Sustainable Plantation Forest Management standards			•	
2006	APRIL becomes Corporate Partner with United Nations' Environment Programme for Champions of the Earth	•			•
2006	APRIL signs UN Global Compact	•	•	•	•
2006	Attained OHSAS 18001 certification for the mill operations		•		

Open Door Policy

We welcome feedback and enquiries from all stakeholders. We also welcome visitors to observe our operations. For details, please see Contact Us at the back of this Report.



Business Review

Asia, including China, India, Japan and Indonesia, represents 56% of the world's population and a market that exceeds that of the US or Europe.

It is estimated that Asia alone will require annually an additional 100 million cubic meters of fiber by 2020. In order to satisfy this demand 3.5 million hectares of fast growing plantation will be needed. This provides an opportunity for Indonesian fiber producers, applying internationally recognized and certified forest management practices, to command significant market share.



Pulp Business Review

Asia's continuing economic rise has led to a growth in paper consumption, which in turn has driven an increase in demand for kraft pulp in recent years. With our strategically located manufacturing bases, we are well positioned to take advantage of this high-growth segment. Coupled with an increasing industry appetite for sustainable supplies of BAKP (Bleached Acacia Kraft Pulp), as well as a favorable foreign exchange rate, our pulp sales grew by 15.6%, with market pulp volume increasing to 1.65 million tonnes in 2005 from 1.62 million tonnes in 2004.

More than 80% of sales volume was accounted for by customers in Asia. This marked an increase from the 75% share of Asian sales in 2004. More notably, we successfully grew the key markets of Korea and China, capturing significantly increased market shares in both countries: about 30% in Korea, and more than 20% in China.

Through our operations in Riau, pulp production volume exceeded 1.9 million tonnes. While 1.65 million tonnes were sold to our customers as market pulp, the remaining production was used for our own paper production.

Establishing the Acacia Fiber Market

During 2004/2005 we achieved significant headway in developing the market for Acacia pulp, with sales increasing by 35% in 2005 alone.

The expansion of our market is being helped by the growth of the digital print market with increased demand for higher resolution and quality color printing. With its unique fiber morphology, Acacia pulp exhibits superior surface qualities when compared to other hardwood pulp, making it an ideal raw material for printing paper. Acacia is now also recognized as one of the best choices for tissue as it is softer than other fibers.

Total Pulp Production – By Fiber

	2004	2005	June 2006
Acacia	495,664	671,592	468,453
MHW	1,329,806	1,258,678	541,607
TOTAL	1,825,470	1,930,270	1,010,060

Industry Changes and Market Opportunities

The market pulp industry continued to see major structural changes in 2004/2005 with older mills in the Northern Hemisphere increasingly failing to compete with the more cost-effective manufacturers in Asia and South America.

While cost competitiveness is a key deciding factor, we are increasingly conscious of customer awareness of, and concern about sustainability issues. A 2005 qualitative perception study, conducted by independent PR consultancy Edelman Melbourne among Australian stakeholders, highlighted the cynicism that still exists towards environmental initiatives promoted by the Indonesian pulp and paper industry. However, a considerable proportion of those interviewed conceded that external certification of environmental practices was having a positive impact.

“From time to time we’ll have a customer cancel an order of paper because it’s supplied from Indonesia”
– Australian paper company

“Finally the Indonesian industry realizes that to compete on a truly global scale it needs to be competitive in environmental standards as well as quality and pricing standards.” – Australian paper company

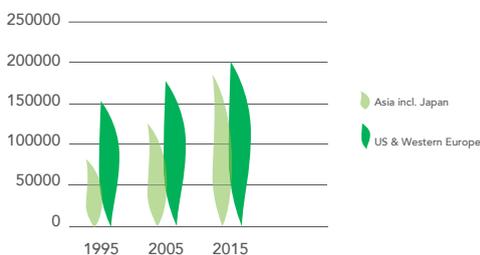
At APRIL we recognize that in markets where a commitment to environmental responsibility is fostered at government level, customers are particularly concerned to be assured of relevant external standards practiced by their suppliers. We believe that our commitment to sustainability, and the standards we adhere to, will continue to provide a point of differentiation which will in turn benefit the economy and people of Riau.

Paper Business Review

Propelled by sustained GDP growth across the region and increased consumption in China and India, Asia also played a significant role in advancing our paper business in the reporting period. It is predicted that within 10 years Asia, including Japan, will be as big a market as the US and Europe combined.

World Paper & Board Consumption

Asia, including Japan, will be as big as US and Europe combined



On a global scale, Asia represented a third of the worldwide demand for writing and printing paper in 2005. We therefore focused our efforts to grow our key markets in the region. As a result, sales volume of uncoated woodfree (UWF) paper grew 9% to reach 379,861 tonnes. The Asian market accounted for more than 64% of this volume in 2005 compared with 56% in 2004.

One of the driving factors behind the paper business' strong performance was the sales growth of our value-added products – folio and cut-size – which posted a volume of 293,397 tonnes or a 9% increase over 2004 volume. Most notably, PaperOne - the company's flagship brand - saw demand climb 17% last year to reach 107,579 tonnes. This premium brand of office paper, which is made from 100% plantation fiber, currently sells in more than 50 countries worldwide and continues to enjoy growing demand. Its strong market performance reflects the product's superior quality and the increasing market preference for responsibly produced paper.

In 2005, we continued to fulfill the demand for environmentally responsible, quality fine paper by delivering only products that are certified as made from plantation fiber to markets including Japan, Europe, Australia and the United States. We also

benefit from recognition that our production methods involve the most technologically advanced and environmentally efficient processes, especially when compared with older mill operations more generally in service in the Northern Hemisphere.

"The newer mills are also much more environmentally efficient in terms of energy and water use, so in that respect the South East Asian countries are leading the industry." – Australian paper company

Continued Growth

With predicted average growth rates of 4% in printing and writing paper demand in Asia over the next four years, we believe we are well placed to harness this opportunity with our reliable and environmentally sound production capability.

Production in 2005 rose by 10%, to reach 382,414 tonnes, surpassing the mill's designed capacity by 9%. More than half of this volume was for the cut-size market, about 16% for folio, and the remaining for rolls. Towards the last quarter of 2006, APRIL's mill capacity in Riau, Sumatra will be doubled with the completion of a new paper machine.

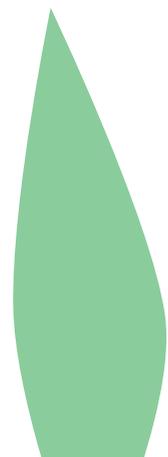
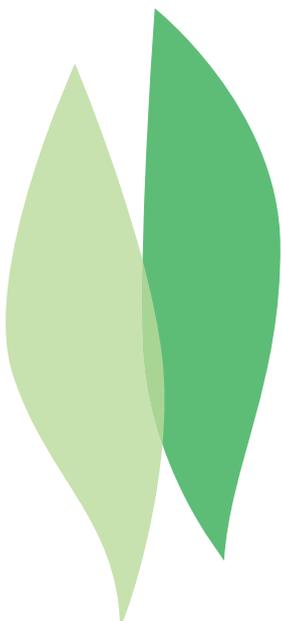
Last year, a new product was added to the PaperOne range – PaperOne Presentation – which targets the growing digital color print segment. At 100gsm, this new product is a premium grade paper, designed to maximize the colors and graphics in print documents. PaperOne Presentation was launched in several key markets in 2005 and will continue to be made available in more markets in 2006.

Achieving World Class Business Practices

In order to integrate all our systems and create highly streamlined business processes, we have introduced SAP as our enabling technology. With our systems for production, material management, financial control and plant maintenance working together, we have already seen improved utilization of machine and plant availability. Reduction in unplanned downtime plus transparency of material flow, improved inventory management, and more efficient order fulfillment have also resulted from its introduction.

Stakeholder Engagement

APRIL has long had a policy of engaging with its stakeholders at all levels, including our most severe critics. We have adopted an Open Door policy whereby interested parties are able to visit Kerinci and see our operations first hand. Visitors include NGOs, media, government officials, diplomats, customers, suppliers and bankers among others. We also send our own people around the world to meet and engage with stakeholders.



Dialogue with stakeholders has ranged from formal meetings to presentations at international conferences, media interviews, signing of Indonesian and international agreements, partnership with United Nation's initiatives and hosting of visits to our sites.

In 2004, Dr. Peter Prokosch, CEO of WWF Germany, visited our fiber operations and shared his thoughts on the implementation of the Mosaic Plantation Concept.

In 2005, we participated in the International Dialogue on Illegal Logging in Hong Kong and the Timber Theft Prevention Experts Meeting organized by the World Bank in the Philippines.

Early this year, with the endorsement of the Indonesian Government, we signed the Joint Declaration on Stopping Forest and Land Fires.

In 2006 we became a signatory to the UN Global Compact and a partner for UNEP's Champions of the Earth program. As part of this partnership, a team from UNEP visited our Kerinci operations.

Summary of Engagement Activities	
Date	Activity
27 January 2005	1st Round Table Discussion with Jikalahari
March 2005	Eyes of the Forest Investigative Report posted online
05 April 2005	Kampar Peninsula Field Visit by Jikalahari
06-07 April 2005	Preliminary Field Visit by Pelangi regarding carbon issues in Kampar Peninsula towards potential collaborative study
06 May 2005	2nd Round Table Discussions with Jikalahari following IPB presentation
June 2005	Collaboration in Management Program of Tesso Nilo National Park; continuing membership of Co-Management Board of Tesso Nilo National Park Foundation
June 2005	Accusations by Jikalahari regarding Kampar Peninsula
June 2005	Membership in FKD (Local Communications Forum) Executive Board
June 2005	Initial discussion with Sumatran Tiger Trust Program on conservation issues, tiger-human conflict mitigation, Peranap concession HCVF landscape assessment
June 2005	Community-mapping discussions with MFP-DFID and Jikalahari
Jul – September 2005	Exchange of letters with Jikalahari
27-28 Aug 2005	Field visit of Swedish Society for Nature Conservation (SSNC), Sawit Watch and Jikalahari
Oct 2005	Human-Elephant Conflict Mitigation Program (Flying Squad Continuing Program) – MoU with WWF, BKSDA, APRIL (13 Oct 2005)
Oct 2005	Round Table Discussions of Community Fiber Program with FKKM Riau; Riaufiber membership in FKKM Riau Board
Nov 2005	Anti Illegal Logging / Forest Encroachment Task Force (WWF, Jikalahari, BKSDA, Pemda, Kejaksaan, etc) as follow up of MoU signed in 2003
May 2006	Collaboration with FKKM Riau (Communications Forum on Community) on joint publications
May – June 2006	Eyes on the Forest Investigative Report accused APRIL of sourcing illegal wood
June 2006	Initial Discussions with Indonesian Institute of Sciences (Center for Plant Conservation – Bogor Botanical Garden) on possible collaboration

NGOs

We do not always agree with the viewpoints of certain stakeholders, but we do take them on board and give them due consideration. In this section we summarize the main claims made against us and our response.

CIFOR Study 2005: Economic Costs and Benefits of Allocating Forest Land for Industrial Tree Plantation Development.

In 2005 CIFOR's Julia Maturana produced the results of a study in which she examined the total economic costs and benefits of five large pulp plantation projects in Sumatra, Indonesia. The Study suggested that four of the five plantation projects generate economic costs above their economic benefits, with the estimated economic costs representing over 30 times the actual financial payments the Government receives from each company.

It is claimed that the allocation of over 1.4 million hectares of forest land for conversion into tree plantations generates net losses of over US\$3 billion for the country, demonstrating that the Government of Indonesia should not allocate any more forestland for conversion into industrial tree plantations.

Below we summarize the key points in the Study, as they relate to APRIL operations, and give our response. The full Study may be obtained from www.cifor.cgiar.org.

This Study fails to take into account, for example, our practice of immediately (within two months) reforesting areas cleared. Within up to two years of planting, the canopy is completely restored. We also believe the Study failed to provide a complete picture by not evaluating concession areas such as ours on both macro or landscape level and micro or FMU (forest management unit) level. Our Mosaic Plantation Concept and Acacia Ring Concept, and the fact that we retain greenbelts for conservation, community use, and fire protection all provide measurable benefits.

Finally, a major omission is the failure to evaluate the economics of laissez faire. If there were no intervention to prevent the rampant deforestation caused by illegal logging, encroachment and settlement, and other unsustainable forest exploitation practices, Indonesia would be measurably economically, socially and environmentally worse off. Proven and certified sustainable plantation forest management by responsible companies such as APRIL has to be the preferred option.

Study Claim/Premise	APRIL Response										
<p>Plantation companies match mill requirements with natural wood before their plantations are ready for harvest; they prefer to use logged wood even if plantations are ready. (p. 9)</p>	<p>We have increasingly used Acacia fiber and less MHW</p> <table border="1" data-bbox="762 461 1046 618"> <thead> <tr> <th></th> <th>% Acacia</th> </tr> </thead> <tbody> <tr> <td>2003</td> <td>28</td> </tr> <tr> <td>2004</td> <td>28</td> </tr> <tr> <td>2005</td> <td>40</td> </tr> <tr> <td>2006</td> <td>45</td> </tr> </tbody> </table> <p>We prefer Acacia for its superior pulp properties; we only use MHW as a bridging material.</p>		% Acacia	2003	28	2004	28	2005	40	2006	45
	% Acacia										
2003	28										
2004	28										
2005	40										
2006	45										
<p>At the time of the study, nearly 79,000 ha (24%) of APRIL concession comprises crops, settlements and conservation area. (p.12)</p>	<p>Only about half of the APRIL concession is actually plantable. HCVF reserves and Conservation Areas make up 20% to 25%. Enclaves (land claims, community farms, livelihood areas, other non-operable areas) constitute another 20% to 25%. Provision for infrastructures also account for about 5%.</p>										
<p>Economic benefits (and costs) are expressed in terms of cubic meters of pulpwood produced per year for the length of each concession period. (p.16)</p>	<p>The total value (benefit and cost) of pulpwood plantation must come from the sum of economic (not just financial) and social values, factoring into the estimate associated value-adding multipliers. While the analysis starts with a natural residual forest or grassland and ends with a developed plantation or retained grassland, the real economics spreads and extends way beyond these time frames.</p>										
<p>None of the 5 plantation companies acknowledged having taken any action to protect the conservation areas from illegal logging or other objective incursions. (p. 16)</p>	<p>Through our Integrated Conservation Strategy, we manage and protect HCVCs in the concession and work in collaboration with NGOs and local government agencies on e.g. joint anti-illegal logging task force and forest conservation initiatives.</p>										
<p>Grassland areas act as carbon sinks and are also important for soil conservation; both functions are lost and damaged during the process of plantation. (pp.16, 18)</p>	<p>While it is true that grasses, and for that matter any vegetation, serve to sequester carbon and keep the soil, it is non sequitur that plantations do not serve the same functions. In fact, they can do so much more.</p>										
<p>Forest values (e.g. timber, water supply, soil & water conservations, carbon sink, flood protection) were considered to be lost with the logging and conversion of such areas. (p. 17)</p>	<p>We reforest the area, hence, retain these functions and, to some degree, particularly in the light of relentless pressure from illegal logging and encroachment, may be enhanced.</p>										
<p>Plantation projects do not generate employment, only jobs that shift people from their former economic activities. (p.18)</p>	<p>With employment opportunities unable to cope with Indonesia's population growth, the move from illegal logger to legitimate plantation worker or harvester is always going to be beneficial as are the skills and training available through the presence of industrial plantation companies and the associated services they require. To date our fiber plantation operations have generated 20,000 jobs.</p>										

JIKALAHARI – Indonesian Environmental NGO

From 27 January 2005 onwards, frequent meetings took place and correspondence passed between APRIL and Jikalahari. Below and elsewhere in this section, we cover the main issues. However, all correspondence may be viewed at our offices. Alternatively, Jikalahari also include their views on their own or the website of Eyes on the Forest (www.jikalahari.org and www.eyesontheforest.or.id)

Issue: Acquisition of New Concessions - Regarding particularly Kampar Peninsula and Pulau Padang, if 300,000 ha are enough to meet APRIL's stated requirement for 2 million tonnes of pulp per year, why does APRIL need more land?

Response: Our gross concession area amounts to 326,340 ha; however, only about 50% of that gross area is actually plantable (as of end June 2006, 164,872 ha plantable area). Some 20%-25% is allotted for HCVF/conservation purposes, which is more than that dictated by national regulation. The balance represents enclaves (including disputed land and that available for community livelihood farms) and provision for infrastructure developments. We have previously stated that by 2009 we will be able to support our 2-million tonne mill capacity with plantation fiber. This will be provided through a combination of our own estates, JV/JOs and Community Fiber Farms.

Issue: Illegal Logging and Forest Protection - Jikalahari stressed that it would be preferable for APRIL to let the Government take care of forest protection in the Kampar Peninsula & Pulau Padang. APRIL could not even protect its own greenbelts

from illegal logging, so how could it expect to be successful in the Kampar Peninsula?

Response: We refute this suggestion and have committed to the development of only non-HCVF land in the Kampar Peninsula to sustainable plantation through careful forest management.

We recognize that illegal logging is a source of livelihood for the community of the Kampar Peninsula which is why we offer opportunities for local people to work as contractors in our operations. The proposed development in the Kampar Peninsula and Pulau Padang will generate more than 30,000 direct and indirect job opportunities. We are committed to conserving biodiversity in the Kampar Peninsula and are convinced that the benefits of our strategy far outweigh the perceived concerns.

Issue: Kampar Peninsula & Pulau Padang Development - Why the Kampar Peninsula? The Government has already issued 1.6 million hectares to APRIL and another pulp & paper company in Riau for plantation development. Why not develop the more than 1.7 million hectares of "waste lands" in Riau?

Response: WWF Indonesia reported in 2002 (to the Indonesian Ministry of Forestry) that the potential wasteland area (defined by WWF Indonesia as presently not or not efficiently used areas with low conservation value and by Indonesian Ministry of Forestry as shrubby grass, bare soil, swampy shrubby grass, and dry land agriculture mixed with grass) in Riau was 1,655,746 ha. Jikalahari, Walhi and WWF Indonesia have been critical of ongoing licensing and conversion of natural forests in Riau into plantations, and have instead argued for allocation of these wastelands for plantation development.

We welcome this proposal. As long as these lands are large enough and within reasonable distance from our mill, we would be interested in developing them to Acacia plantations. However, we would require the appropriate government authorization. These lands should also be plantable and free of potential or actual use, or other claims (by individuals, groups of farmers, communities, village cooperatives, companies, etc).

WWF – Issues and Our Responses

In June 2006 WWF issued two papers detailing their concerns about plantation developments in Riau.

“The Eleventh Hour for Riau Forests”

WWF called for the adoption of a policy to conduct HCVF assessment prior to any further development and confirmed that we already support this call with our commitment to delineate, protect and manage HCVFs in our new concessions.

Page 6: “APRIL has publicly committed to protect and exclude all high conservation value forests from its global wood supply and will thus look for non-HCVF alternatives”

“WWF Monitoring Brief, June 2006”

The Monitoring Brief confirms:

- APRIL and WWF reached in principle an agreement on responsible forestry whereby APRIL would commit to fully transparent, HCVF operations worldwide, and to support the expansion and protection of the Tesso Nilo National Park.
- APRIL committed to delineate, protect and manage High Conservation Value Forests (HCVF) as defined by the HCVF Toolkit for Indonesia in any concessions developed after January 2005.
- APRIL agreed to stop operating in seven new concessions while WWF conducts a review of APRIL’s HCVF reports on those areas, and in the case of the Libo concession “to give elephant experts a chance to review the situation”.
- There is no illegal wood that goes into APRIL’s fiber supply as verified by independent investigations done by WWF and Eyes on the Forest, and yearly audits conducted by SGS.

Issue: Accelerated destruction of Riau’s forests driven by (APP and) APRIL.

Response:

- The development of the forest resources of Indonesia is implemented in accordance with the national and provincial land use plan. We only

operate in areas allocated by the Indonesian government for plantation forest development.

- We believe that the best, if not the only solution to save Indonesia’s forest resources is through active management intervention following sustainability principles. This is exemplified by the Mosaic Plantation Concept which we believe is the best model for sustainable plantation forest management.
- Our operations ensure that non-HCVF areas are developed into productive plantations, while areas of high conservation values are actively managed, protected and enhanced.

Issue: (APP and) APRIL still rely on the clearing of natural forests for about 70% of their total wood supply.

Response:

- Our present fiber source distribution is about 55% mixed hardwood and 45% Acacia. The ratio of plantation fiber will continue to increase, heading up to our commitment of having sufficient plantation fiber to support 2-million tonne production capacity by 2009.

Issue: WWF's calls for 100% HCVF-free fiber supplies.

Response:

- We are striving to ensure that our fiber is sourced only from non-HCVF areas.
- Our commitment was signed as part of the Environmental, Social, Health and Safety Policy (June 2005), and publicly announced in various media events, press statements, and conference presentations.
- We are working closely with WWF on the conduct of HCVF assessments together with an independent peer reviewer.
- WWF itself acknowledges several times in the report that we have publicly committed to protect High Conservation Value Forests, which it cites as a "far-reaching" initiative.

Issue: Development in the Kampar Peninsula

Response:

- Our development strategy aims to protect the core forest areas through the development of an

Acacia "Plantation Ring". This will help prevent encroachment into the forest reserves by illegal loggers and settlers, as well as create economic opportunities for the local communities.

- We adopt best practice technology in managing the hydrological issues associated with peat land development.
- We are organizing a science-based consortium of experts on peatland development, hydrology, HCVFs, carbon issues, etc. to support us in our Kampar Peninsula Development Strategy.
- Our new access road is located between two separate protected forest areas and does not cut through conservation zones.

Issue: Land conflict issue in Gading Permai village.

Response:

- The incident was a case of illegal encroachment on a concession jointly operated with PT Siak Raya.
- We are committed to a peaceful resolution of social conflicts but are also responsible for the protection of our people and property when confronted with violent attacks.

UNEP Champions of the Earth

In 2006, APRIL joined the United Nations Environment Program as the Corporate Partner for the UNEP Champions of the Earth Awards. These Awards are presented by UNEP to outstanding environmental achievers and leaders who have made a significant contribution, regionally and globally, to the protection and sustainable management of the Earth's environment and natural resources.

Reprinted here are some pertinent quotes from the 2006 winners. Further details about the Champions of the Earth program can be obtained by logging on to www.unep.org/champions.

Mikhail Gorbachev (Russian Federation): "There is a need for decisive change and working closely with civil society to find solutions to water issues and to strengthen the right of every person to good quality drinking water."

Tewolde Berhan Gere Egziabher (Ethiopia): "Please, you, the wealthy, the mighty and the puppets, tread gently. Please do not kill off the decomposers that will take me through the cycle of things into new blades of grass in the future. Let life continue."

Massoumeh Ebtekar (Iran): "Violence and militarism fester in the hearts and minds that would deny peace. The destruction of nature and degradation of the environment reflect the same qualities of violence and greed against our natural environment."

Women's Environment and Development

Organisation (USA): "It is really important that the energy that women brought towards linking sustainable development and poverty and women's rights gets highlighted."

Rosa Ortiz Simeon on behalf of her mother, Rosa Elena Simeon Negrin (Cuba): "The activity undertaken by Cuba over these years shows there are key elements for sustainable development. They are:

- Eradication of poverty
- Propitiation of a dignifying and simple life to men
- Change of consumption and behavior patterns aimed at removing the consumption habits imposed by neoliberal policies.
- Absolute certainty that man's full happiness does not depend on the material things he is able to gather, but on his spiritual satisfaction in the environment entailing respect and mutual interaction with nature.

Tommy Koh (Singapore): "In this century Asia will be the most economically dynamic region in the world. This holds both great promise and great peril because if we do things the same old way, Asia could pollute the world. But, if Asia were to learn the lessons of the west and avoid the errors and if we embrace sustainable development, then the future is very bright."

Mohammed El-Ashry (Egypt): "While being at conferences and meetings is important, we need to go out and see how projects are being implemented, how they touch people's lives and how they improve the environment."





Environmental Performance

We believe it is a regrettable truth that in Indonesia leaving the forests alone is not an option as socio-economic pressures would over time inevitably lead to their destruction. Through our operations and wider influence, we work to protect the remaining high conservation value forest resources while developing renewable supplies of sustainable fiber to generate economic and social growth opportunities that the region needs and deserves.



Fiber Operations

Key Facts

- APRIL's fiber plantations are located in Riau Province, Sumatra, Indonesia.
- Government land concession areas, granted to APRIL between 1992 and 1998, run for a period of 35 years plus one rotation.
- Due to the new license, SK356/2004, which supersedes SK 137/1997 and SR1547/1996, gross concession hectareage is reduced to 326,340 (from 330,000) with a net plantable area (HTI) of 168,871 hectares as of end June 2006.
- Additional plantation areas are obtained through joint ventures and joint operations (JV/JO) and community fiber farms (HTR).
- JV/JO represent 328,392 ha with a net plantable area of 160,211 ha; HTR represent 51,695 ha giving a net plantable area of 34,974 ha.
- Total areas planted are HTI – 152,005 ha; JV/JO – 90,198 ha; HTR – 23,204 ha giving a total of 265,407 ha.
- Target 2006 plantation development area is 55,000 ha.
- Seedling and rooted cutting 2006 production target is around 84,000,000.
- Of the total mill production, the proportion of Acacia fiber increased from 27% in 2004, to 34.8% in 2005, and 46.7% in January-June 2006.
- We have become a net exporter of Acacia mangium seeds with customers in Australia and Malaysia. Our production of Acacia crassiparpa seeds increased in 2005 and 2006 resulting in decreased seed imports.
- Average plantation establishment equates to 1,333 plants per hectare.
- With a reduction to a minimum six-year rotation, the estimated plantation yield for Acacia mangium is around 210 m³/ha.
- The labor supply needed for the preparation and planting of Acacia generated employment for 668 direct workers and for more than 5,000 laborers via contractors.
- Our plantation development strategy sets aside at least 20% of our concession areas for various conservation purposes, following the conduct of a High Conservation Value assessment.

Recent Developments

The Mosaic Plantation Concept

Indonesia's highly bio-diverse natural forests are shrinking at an extremely fast rate from agricultural development, establishment of all kinds of industrial plantations and rural settlement. We believe that leaving the forests alone is not an option where threats from illegal logging, forest fires, shifting agriculture, and poor forestry practices are constant. Sustainably managed plantation forestry increases forest productivity and eases pressure on the natural forests. It is our view that the application of the Mosaic Plantation Concept (MPC), and our commitment to High Conservation Value Forest (HCVF) protection in plantation landscape, is the best, if not the only hope to stop forest degradation and loss in Indonesia.

The Mosaic Plantation Concept is designed to integrate sustainable fiber production and environmental conservation while affording local communities with adequate natural forest (as source of timber and non-timber forest products and services) and land for livelihood. High Conservation Value Forests are set aside to protect biodiversity and ecological and social values in the plantation landscape. Under the Mosaic Plantation Concept, the plantations are designed as integrated composites of fiber plantations, conservation areas, and community settlements.

Closely related to the MPC is our Acacia Ring Concept in which a ring of Acacia is planted around the area of forest to be preserved which serves to prevent encroachment by illegal loggers and the establishment of illegal plantations. It also provides ongoing employment to the local community. This innovative approach was first proposed to be applied in the Tesso Nilo forest complex to discourage elephants from invading nearby villages where crops may be damaged, villagers harmed and elephants slaughtered. We are gravely concerned, however, that the massive destruction in Tesso Nilo due to illegal logging and 'slash-and-burn' land-clearing poses increasing threat on the viability of the proposed Ring solution.

We have also proposed a similar approach in the Kampar Peninsula, a lowland area that has been targeted by illegal loggers and oil palm developers over recent years.

Our strategy to manage forest resources into sustainable plantations balances commercial, environmental and social development needs. It focuses on the planet by conserving biodiversity and preventing environmental degradation; people by providing opportunities for social development and poverty alleviation; and profit by ensuring a steady supply of renewable, high-quality and low-cost fiber. In developing well-managed mosaic plantations, we believe we can respond to the increasing fiber demand in Asia while enhancing and protecting the remaining HCV forests in Indonesia.

High Conservation Value Forest (HCVF) Protection

Within every fiber estate in our concessions, we have delineated conservation areas and have committed to ensure that no fiber is sourced from these areas nor are they converted to plantation. Following a period of training with ProForest UK to develop our capability for conducting HCVF assessments using the Indonesian HCVF Toolkit, we formalized our commitment to identify, protect and manage High Conservation Value Forests (HCVFs) in our new concession areas within our Environment, Social, Health and Safety Policy. By taking this step we have become, to our knowledge, one of only two companies in the global industry to make a public commitment to protect HCVFs.

Sustainable Forest Management

In 2006 we became the first plantation forest company to attain certification under the Lembaga Ekolabel Indonesia (LEI) standards. This achievement affirms our leadership position in sustainable plantation forest management in the region and brings us closer to our goal of international forest management certification. We are continuing with our Certification Support Program (CSP) on applicable Forest Stewardship Council (FSC) Principles, Criteria and Indicators with SGS. Our target completion date for the CSP is 2007. We hope through our efforts to encourage the FSC to review

its principle that makes us unable to fully pursue FSC certification.

Fiber Plantation Management

With our long-term commitment to Indonesia as the principal focus of our plantation operations, from the outset we worked with the objective of developing a sustainable forestry system that will meet society's needs for conservation and socio-economic development while allowing future generations to do the same. While our customers have been reassured by our public commitments, we recognize that external assurance would be the most convincing form of endorsement of our sustainability practices.

Plantation Forest Certification

Following an extensive evaluation process, we attained national certification from LEI for our plantations in concessions under SK 137/1997 covering 159,500 hectares. SK refers to Surat Keputusan or the Decision Letter of the Indonesian Ministry of Forestry officially granting the definitive plantation forest concession license.

The LEI is a multi-stakeholder body that comprises communities, NGOs, industry and eminent persons in Indonesia. Its certification standards are supported by the ITTO and other international organizations. This certification brings concrete assurance to our customers that the fiber used in the manufacture of our pulp and paper products come from plantations that are nationally certified as sustainably managed.

Certification Process

The certification process comprised four stages and looked closely at our management and production methods, the impact on local ecology, and social aspects.

1. Pre-assessment and scoping visit by Expert Panel I (PT Mutu Agung Lestari as LEI assessors) in October 2004.
2. Field assessment and public consultation where stakeholders were able to raise issues and challenges with the Mutu Agung Lestari assessors.
3. Evaluation of the results and recommendation by

the Expert Panel I for a Full Assessment to be undertaken by the Expert Panel II. A public notice of the completion of the full assessment was posted in both local and national newspapers in June 2005.

- Assessors of the process submitted their findings and recommendations to Expert Panel II in September 2005. Based on the standard value, actual value and weight of each indicator (a total of 67 indicators based on FSC, ITTO, & FAO principles, criteria, and/or indicators), Expert Panel II finally recommended that we be awarded the Bronze level of LEI Certification.

With the Bronze Rating, our plantation operations will be monitored/audited every year to check on progress made to address the identified gaps or weaknesses, and to improve further on our strengths.

Plantation Operations

As a result of the new license, the net hectareage of APRIL's own concessions has decreased by 3,660 hectares to 326,340 ha.

Using GIS (Geographic Information System) survey and mapping, we are also able to update the hectareage in each area that borders our concessions. With the additional use of an aerial photography device, we can map our concessions with an accuracy of up to 0.5 meter. This is a continuing process, as we identify new conservation requirements, as enclaves are established or infrastructure demands change.

APRIL Concession Areas

Category	Area (ha)	
	As at end June 2004	As at end June 2006
Net Effective Plantable Area	167,610	168,871
HCVFs/ Conservation Areas	60,884	65,303
Settlements & Infrastructures	101,506	92,166
Total Area	330,000	326,340

Conservation Areas in APRIL Concessions

	Area in hectares		
	2004	2005	As at end June 2006
Cultural Areas	116	129	129
Wildlife Buffer Areas	16,526	12,879	17,592
Biodiversity/ Germplasm Area	5,229	5,238	5,239
Riparian Zone & Special Interest Area	40,222	45,106	42,342
Total	62,093	63,352	65,303

Our JV/JO and HTR partners help us to meet our fiber requirements. The accumulated total net plantable area encompassing APRIL'S concessions, JV/JO and HTR is 360,057 ha, of which about 74% has already been planted.

Land Resources (end June 2006)

	Gross (ha)	Plantable (ha)	Planted (ha)
APRIL	326,340	164,872	152,005
Community Fiber Farms	51,695	34,974	23,204
Joint Ventures	328,392	160,211	90,198
Total	706,427	360,057	265,407

Fiber Estates

For administrative and operational purposes we divide our plantation areas into estates. As a result of the addition of new partners we have established new estates, re-delineated a number, while others remain unchanged. The changes are:

- Nagodang– near Tesso Estate covering JV/JO and HTR
- Langgam– covering HTR in Rantau Baru
- Peranap – covering JV/JO in Peranap
- Merbau – covering JV/JO in Merbau and Kerumutan
- Kampar – covering new concession in Kampar and JV/JO in Kerumutan
- Tesso – combining Tesso East and Tesso West
- Pelalawan – split into Pelalawan North and Pelalawan South

Joint Ventures / Joint Operations

Joint Venture	Gross Area (ha)	Plantable Area (ha)	Planted Area (ha)
Baserah	27,844	20,577	15,224
Cerenti	37,217	12,538	10,959
Kampar	13,046	7,021	2,581
Merbau	27,340	17,900	8,837
Nagodang	45,990	5,493	0
Pelalawan North	63,080	35,617	15,337
Peranap	29,950	15,716	4,063
Pelalawan South	29,355	17,289	11,023
Tesso	54,570	28,060	22,174
Total	328,392	160,211	90,198

Fiber Sources

We continue to use MHW and Acacia as sources for pulpwood. MHW is obtained from land zoned by the Indonesian Government for development into pulpwood plantation, and used as a bridging measure while Acacia plantation development is in progress.

Using PCS (Production Control System), we are able to identify the source, volume, field stock, TPK (log depot) of every wood delivery brought to our mills. Independent audit confirms no evidence of wood from unknown or undocumented sources being used in the mill.

Community Fiber Farms (HTR or Hutan Tanaman Rakyat)

We have well-established contractual arrangements with community partners in each of our fiber estates. In addition to providing us with a guaranteed supply of fiber, through these partnerships we can see the communities become self-reliant through the management of their own fiber farms. Our plantation staff provide advice and support and, with our partners, help to persuade a wider community of the value in conserving and protecting the natural and planted forests.

As of June 2006, we have a total of 61 HTR partners, including those that are located within our concessions (PHBM).

Estate	No. of Partners	Gross Area (ha)	Plantable Area (ha)	Planted Area (ha)
Pelalawan North	9	3,978	3,085	1,679
Mandau	10	6,844	4,313	3,182
Langgam Baru	13	31,038	19,574	12,945
Tesso	2	967	964	721
Baserah	16	2,563	2,060	1,892
Ukui	1	1,585	1,427	122
Cerenti	7	2,475	1,987	1,657
Peranap	3	2,822	2,033	1,006
Total	61	51,695	34,974	23,204

Note: Includes land owned by communities/partners enclosed within our concession which are called PHBM (Perusahaan Hutan Bersama Masyarakat) or Joint Community Forest Enterprise.

As of end June 2006, 23,204 hectares of the 34,974 hectares plantable area, or roughly 66% had been planted to Acacia.

Research & Development (Planting Stock and Fiber Production)

Achievements in Genetic Improvement and Deployment

Annually, we measure the rate of growth of our Acacia trees in plantations, called the MAI (Mean Annual Increment). Computed at an average age of 8 years at harvest, Acacia mangium MAI is 28m³/ha/yr in 2006. At a 6- to 7-year rotation, however, potential MAI for Acacia mangium is estimated at 35m³/ha/yr. MAI for Acacia crassiparva is 25m³/ha/yr in 2006.

The deployment of High Potential Yield Index (PYI) genetic material for Acacia mangium increased from 78% in 2004 to 100% beginning in 2005. For Acacia crassiparva, High PYI deployment was 45.7% in 2004 and 50.2% in 2006.

Key Developments in Pest & Disease Management

We have been working to improve our knowledge of the most common fungi likely to attack plantation trees, particularly in relation to *Cercospora* (*Passalora*) disease on Acacia crassiparva. With the formation of a Ganoderma Working Group involving national and international scientists, universities and research organizations, such as Tasmania University, ACIAR – Australia, and UGM and IPB of Indonesia, we are conducting an impact assessment of the Ganoderma fungus that causes root disease.

Our staff are now receiving structured training on pests and diseases, supported by a recently produced Acacia Pest and Disease Field Diagnostic Guide.

Nursery and Seedling Production

We have two large production nurseries – Pelalawan Nursery (producing mainly Acacia crassiparva for lowland/peatland plantations) and Baserah Nursery (producing mostly Acacia mangium for dryland/mineral soil plantations). Combined with the capacity of our satellite nurseries, total annual production capacity is over 100 million seedlings and rooted cuttings.

The Pelalawan Nursery is already fully operational but undergoing improvements. By the end of 2006, the satellite nursery in Baserah will be combined with Baserah's central nursery to generate 50 million seedlings yearly. Our other satellite nurseries – in Tesso, Mandau, Cerenti, Ukui, Peranap – will continue operating but only to complement the Pelalawan and Baserah main nurseries, and for seedling 'trans-shipment' and planting stock inventory buffer purposes.

The main nurseries are run by the Research & Development Department to optimize planting stock production using the most effective technology and management regimes. Their primary aims are to identify the best genetic material, achieve ever-improving planting stock recovery times (from seed/cutting germinated to actual delivery to plantation), and to produce the highest possible planting stock quality.

In 2005, we produced more than 80 million seedlings, and in 2006, up to the end of June, around 33 million seedlings had already been delivered to the plantation site.

Acacia mangium, Acacia crassiparva, and Eucalyptus sp. are the chosen species owing to their site suitability, fast growth, high yield, and superior pulping properties. However, we have also increased production of Melaleuca sp. from 116,277 seedlings and cuttings in 2005 to a total of over a million for the first six months in 2006. This has been undertaken as part of our R&D efforts looking at alternatives species.

Planted Area and Seeding Production					
		APRIL	JV/JO	HTR	TOTAL
2004	Planned Area Planted (ha)	17,927	35,320	10,751	63,998
	Actual Area Planted (ha)	25,374	17,221	10,124	52,719
	Planned Seedling Production	26,286,360	51,789,716	15,764,191	93,840,267
	Actual Seedling Production	40,471,530	27,364,169	15,651,704	83,487,403
2005	Planned Area Planted (ha)	27,172	27,096	5,480	59,748
	Actual Area Planted (ha)	22,099	25,177	5,460	52,736
	Planned Seedling Production	41,410,128	41,267,208	8,159,720	90,837,056
	Actual Seedling Production	33,767,272	38,470,456	8,342,880	80,580,608
2006	Planned Area Planted (ha) January – December	19,656	34,498	846	55,000
	Actual Area Planted (ha) January – June	8,245	11,930	1,383	21,558
	Planned Seedling Production January – December	29,825,063	53,062,403	1,323,518	84,211,484
	Actual Seedling Production January – June	12,597,596	18,228,582	2,113,835	32,940,013

New Seed Center to Improve Seed Quality, Fiber Yield

To improve consistency in seed quality and fiber yield, APRIL has established a Seed Center that is tasked with the production and deployment of high quality seeds in its fiber estates.

The Seed Center manages the production, processing, testing, storage and distribution of quality *Acacia crassicarpa* and *Acacia mangium* seeds to the nursery at a capacity of about 3,000 kg a year. With the Center's post-harvest seed handling facilities, the company also aims to improve efficiency in drying, threshing, and storage of seeds.

This Seed Centre adds to our Riaufiber Research and Development (R&D) facilities which include a Tissue Culture Laboratory, opened in February 2006, and a Soil Laboratory, which has been in operation since October 2004. The objective of the Tissue Culture Laboratory is to propagate the best genotype for forestry species, including *Acacia mangium*, *Acacia crassicarpa* and *Eucalyptus*. The Soil Laboratory seeks to identify the optimal soil conditions for the highest possible yields. All the research facilities are located at the company's mill site in Pangkalan Kerinci, Riau, Sumatra, Indonesia.

Achieving Self-sufficiency in Seeds – From Importer to Exporter

The efficiency of our production has, for the first time, resulted in our becoming an exporter of *Acacia mangium* seed. As of June 2006, we have exported 1,740 kg to Australia and Malaysia.

Harvesting Operations

We practice Reduced Impact Logging to minimize soil disturbance as recommended by the ITTO.

In deciding on the most appropriate harvesting method and system, we consider:

- Ground slopes & slope capacity of machines
- Soil conditions and ground strength
- Logging patterns and machine size
- Machine productivity and operating cost
- Operational modes
- Ground pressure of harvesting machine

We impose a Harvesting Quality Assessment (HQA) to ensure that the harvested wood conforms to standards required by our mill operations. The harvesting operation represents a crucial stage in the supply chain considering the requirement that fiber for the mill should be available in the right volume, at the right time and at the agreed cost. Equally, the harvested area must be ready and in the right condition for planting when expected by the plantation workers.

Our harvesting operations have been externally verified within the assessments that took place leading to LEI Certification. This confirms that we conform to the standards required by the PHTL (Pengelolaan Hutan Tanaman Lestari) or Sustainable Plantation Forest Management conditions. Mixed Hardwood (MHW) harvesting in preparation for Acacia planting is not included within the LEI certification. However, we apply the same methods and standards. Our harvesting practices and supply chain are also externally monitored within our Acacia Chain of Custody System and Timber Tracking System.

Reduced impact logging can be defined as 'the intensively planned and carefully controlled implementation of timber harvesting operations to minimize the environmental impact on forest stands and soils'. It involves a number of practical measures, such as:

- A pre-harvest inventory and the mapping of individual crop trees;
- Pre-harvest planning of roads, skid trails and landings to minimize soil disturbance and to protect streams and waterways with appropriate crossings;
- Pre-harvest vine-cutting in areas where heavy vines connect tree crowns;
- Construction of roads, landings and skid trails following environmentally friendly design guidelines;
- Use of appropriate felling and bucking techniques including directional felling, cutting stumps low to the ground to avoid waste, and the optimal crosscutting of tree stems into logs in a way that maximizes the recovery of useful wood;
- Winching of logs to planned skid trails and ensuring that skidding machines remain on the trails at all times;
- Where feasible, using yarding systems that protect soils and residual vegetation by suspending logs above the ground or by otherwise minimizing soil disturbance; and
- Conducting a post-harvest assessment to provide feedback to the resource manager and logging crews and to evaluate the degree to which the RIL guidelines were successfully applied.

Apart from the environmental benefits, RIL has been shown to reduce the percentage of 'lost' logs (those trees that are felled in the forest but not extracted because they aren't seen by tractor operators), thereby reducing timber wastage.

Source: ITTO www.itto.or.jp/live/PageDisplayHandler?pagelid=129

(As of June 2006)	Roads (km)						Canals (km)				TOTAL
	Access	Main	Branch	Spur	Others	Total	Main	Branch	Others	Total	
APRIL	465	2,706	18,902	3,134	66	25,273	876	4,760	51	5,687	30,960
Community Fiber Farms		41	415	21		477	63	373	30	466	943
Joint Venture/ Joint Operations	43	306	3,450	232	555	4,587	91	699	19	809	5,396
Total	508	3,053	22,767	3,387	621	30,337	1,030	5,832	100	6,962	37,299

Transport

We continue to transport pulpwood through PTSI (PT PEC-Tech Services Indonesia) as our benchmark contractor but have increased our use of smaller, local contractors in order to provide greater employment opportunities. Currently, nearly 70% of logs is hauled by community-based contractors.

As of 2006, rather than principally operating in Pelalawan, PTSI began transporting in other sectors, farther from the mill. With their use of 38 road train units, they are able to make fewer trips than would be the case with more conventional log haulers.

Fiber Log Transportation					
Operator	Method	2004	2005	YTD (2006) To June	
		%	%	%	Total Logs Hauled (approximate)
PEC-Tech	Road trains	42	29	21.18	959,144
Contractors	single trailer haulers	1	6	8.46	121,164
Contractors	conventional log haulers	57	65	70.36	2,562,743
Total		100	100	100.00	3,643,051

Existing Infrastructures (Road and Canals)

As of June 2006, a total of 30,337 km of roads had been constructed to access all our concessions, including JV/JO and HTR, and 6,962 km of canals.

Control of Fire and Haze

In 2005 in particular we saw a marked increase in the number of fires within our concessions in which more than 2,500 ha of planted areas were affected.

Description	2004	2005	June 2006
Number of Fires	128	178	57
Hectares Burned	352	3,627.9	109.11
Planted Hectares Burned	113.33	2,599.50	93.55
Unplanted Hectares Burned	239.41	1,021.63	15.56
Average Fire Size (ha)	2.9	20.4	1.91
Fire Management Performance Rating (%)	94	86	95

We believe these fires can be attributed to three main causes:

1. In the first quarter of 2005, the dry and windy season, rainfall was 22% below normal. Of the 178 fires that occurred in 2005, 87 took place during this period covering 3,150 ha. During the whole of 2005, rainfall was 17% below normal.
2. During this time, the communities of Dayun were actively conducting land-clearing using fire, most likely for conversion to oil palm. The proximity to our Pelalawan Estate caused our plantations to be affected.
3. Escaped cooking fires led to damage in Merbau and Petodak.

Action Taken

Despite already having a well-trained and equipped fire organization we decided that special measures were required to tackle future blazes.

1. In addition to our normal cover, we transferred Fire/Safety staff and firefighting equipment to JV/JO estates to improve fire prevention and fire response. We also have a dedicated Fire, Safety and Aviation Department with a team of 70 and some 350 staff and company workers forming Core Fire Teams in the Fiber Estates, and contractor workers who can be mobilized when the need arises.
2. We produced and distributed a fire prevention brochure to contract plantation workers to increase their awareness about fire prevention at their camps. We also upgraded capability for prevention and rapid response through continuing training programs, and the introduction of an incentive scheme.
3. We rented a MD500ER helicopter, a small, fast-moving helicopter that can carry three passengers and a complete kit of firefighting equipment and is used for fire detection as well as firefighting. Additional equipment used include the Air Tractor plane (which can be commissioned for fire fighting aside from its use for aerial fertilization), airboat, portable water pump systems, as well as more conventional equipment.

Additionally, we conduct daily calculations of the Fire Danger Rating in each fiber estate and monitor the NOAA (US National Oceanic Atmospheric Administration) satellite data on fire hotspots to determine daily the level of readiness and response required of our fire-fighting team.

Greenbelts Help Stop Forest Fires

The spate of forest and land fires in Riau demonstrated the importance of greenbelts in protecting fiber plantations – putting a break on raging fires.

In February 2005, a fire that started from adjacent community land, crossed over onto our Acacia plantation in Mandau Fiber Estate. The fire spread rapidly due to very dry and windy conditions brought on by a prolonged dry spell. The blaze was contained, helped by early detection and quick response by the Fire and Safety Teams and contractors. However, it was observed that the fire could have spread had there not been a 200-meter wide forested greenbelt to “cut-off” the rapidly spreading three-meter high flames.

The fire ran almost 1.5 km through an 8-month old Acacia plantation before being stopped at the greenbelt. The shade and moist vegetation of the natural forest trees stopped the fire from spreading.

In Mandau, the greenbelt acted as a fuel break, allowing fire-fighting teams to prioritize their fire suppression efforts on areas of the fire perimeter that were threatening the Acacia plantation.

Our Mosaic Plantation Concept incorporates fire prevention and control through the establishment of green buffer zones (e.g. riparian strips, greenbelts in the middle of the plantation and natural forest serving as wildlife corridors).

Fire Management Performance Standards – Rapid Response Capability

We have a clear set of standards to which all those engaged in plantation operations must adhere:

- Detection – all fires must be identified and reported before attaining 0.1 hectare in size.
- Initial Attack – fire suppression will begin within 2 hours of receiving the fire detection report.
- Containment – fire control action must be taken within 48 hours of detection report.
- Size – fire must be totally stopped before the burned area reaches 10 hectares.
- Fire management performance rating must be 90% or better. This means that 90% of all forest and land fires will be less than 10 hectares in area.

Monitoring Measures

In view of the destructive potential of any fire, we employ a series of monitoring devices:

- 1) Weather & Fire Danger Monitoring
- 2) Wind/Haze Monitoring
- 3) “Hotspot” Monitoring

“No-Burn” Policy and Haze Prevention

We have employed a ‘No Burn’ policy from the very outset of our operations; this form of land-clearing would be positively detrimental to our operations. In our fiber plantation development, we use only mechanical methods to prepare the land for planting because woody biomass provides a source of long-term soil nutrients and protects water quality. We also would not want the carbon from fire residues be mixed-in with the wood chips needed for pulp and paper production. With this policy we therefore play our part in eliminating smoke/haze in Indonesia for the protection of air quality.

However, along with 9 other private companies, we were the target of a class suit by Jikalahari, a local environmental NGO, and several private individuals in August 2005. It was their accusation that we and our co-defendants were responsible and liable for students in Pekanbaru being unable to attend school as a result of the fire and haze we were alleged to have caused.

In defending this charge we were able to rely upon our “No Burn” Policy, our fire prevention and rapid response programs, as well as our track record. We strongly believe we were not answerable to the accusation based on these. Three hearings were held and on November 15, 2005, the Council of Judges dismissed the case and no appeal has been filed since.

On 10 May 2006, with the endorsement of the Indonesian Government Ministries of Environment and Agriculture, we and our partners, as well as other private companies in Riau, signed the Joint Declaration on Stopping Forest and Land Fires. This event was in response to the call of Indonesian President Susilo Bambang Yudhoyono to stop the “export of haze” during World Earth Day on 22 April.

Combating Illegal Logging

Apart from our own unceasing efforts to stop illegal logging in our concessions and to secure the integrity of our fiber supply against illegitimate sources, we have been actively participating in multi-stakeholder initiatives to identify preventive initiatives. We know that we cannot halt illegal logging on our own and need support from law enforcement authorities. We also continue to develop relationships with other key stakeholders and further strengthen our collaboration with WWF.

In last year's International Dialogue on Illegal Logging led by The Forest Dialogue in Hong Kong, we called on all concerned stakeholders to support each other's initiatives to combat illegal logging. Speaking before 120 leaders from business, civil society and governments, Mr. A J Devanesan, APRIL President, spoke about our experience in fighting illegal logging in the context of Indonesia's developing economy.

In 2005 we also participated in the Timber Theft Prevention Experts Meeting in the Philippines organized by the World Bank to identify practical guidelines for policy decision-makers and forestry professionals on eliminating illegal logging. The discussions covered regulatory requirements for explicit security planning, security training and education for regulators and resource managers, and the establishment of hotlines and other complaint-reporting mechanisms.

Taking the matter beyond the discussion halls, in 2005 we carried out a series of security actions against illegal logging along the Ukui-Gondai Access Road, located on the eastern boundary of the Tesso Nilo Forest in Riau. Working together with the Task Force that includes WWF Indonesia and concerned Government authorities, strategic checkpoints and composite patrols were organized, reinforced by the blocking or cutting off of access roads used by illegal loggers.

Despite protests and even threats of force against our company, we remain firm in our resolve to help combat illegal logging in the areas over which we have responsibility. We understand that economic necessity generally underlies the proliferation of this illegal activity. However, through our operations, we generate 35 direct and indirect jobs for every 100 hectares managed. These provide a legitimate livelihood option to people who might otherwise engage in illegal logging.

Acacia Chain-of-Custody (CoC) and Pulpwood Tracking System

Acacia Chain-of-Custody

We implemented our Acacia Chain-of-Custody (CoC) System in 2003 to ensure that the flow of Acacia fiber into our mill operations could be monitored, traced, documented, and independently verified. The Acacia CoC System is consistent with our Wood Purchase Policy which is part of the overall Wood Tracking System, established to prevent illegal pulpwood from entering our supply chain.

The first Acacia CoC Audit carried out by SGS in April 2004 recommended that a CoC Manual be prepared to aid the consistent and efficient enforcement of the policy. In July 2005, following the introduction of the Manual, the first Surveillance Audit was conducted, again by SGS. The Audit established that the CoC required practices were being fully implemented, based on which a CoC Certificate/ Verification Statement was awarded. The certificate will be current until June 2007 when a further Surveillance Audit will be carried out.

As a further step in this direction, we commissioned Rainforest Alliance Smartwood Programme to carry out FSC Chain-of-Custody and Controlled Wood assessment. Started in late 2005, the assessment is now in progress for fiber and mill sectors.

Pulpwood Tracking System

To satisfy ourselves that all pulpwood coming from outside suppliers, JV/JO and HTR, has come from an approved source, we use a mechanism called Request for Contract (RFC). The RFC serves both as an application form from a private supplier (JV/JO or HTR) for a pulpwood supply contract with us and as a verification document to evaluate the application. Both documentary and field inspections are carried out to determine that suppliers have complied with both their legal requirements and our own policy.

In November 2005, we incorporated new requirements into our RFC system in line with our HCVF and the FSC standards relating to non-FSC certified controlled wood entering the supply chain. Under these new requirements, we will not accept any wood from identified and delineated HCVFs. In addition, we will not source any wood harvested from any of the following FSC source categories:

- Wood from forest areas that violate traditional or civil rights
- Wood from non-FSC certified forest areas that have High Conservation Value (HCV)
- Wood from genetically modified trees
- Wood illegally harvested
- Wood harvested from areas which have been converted from natural forest to plantations which are inconsistent with government-approved land use plans

The third Wood Tracking Audit was carried out by SGS in February 2006. In addition to the normal audit, SGS conducted diagnostic steps towards eventually assimilating FSC-STD-30-010 International Standard into our MHW Wood Tracking System.

We therefore wanted the February 2006 SGS Audit to verify our compliance with the FSC Controlled Wood standard, in addition to checking existing standards and procedures. While noting some Corrective Actions, SGS concluded that we are moving towards compliance with the FSC Controlled Wood standard but we will face a stumbling block in the FSC's exclusion of all plantations established in areas converted after November 1994.

Embedding Sustainability Practices

In order to ensure that our commitment to sustainability should become firmly established within both culture and practice, in February 2005 we took the step of reiterating our commitment through our Environmental, Social, Health and Safety Policy (ESHS Policy). We determined that this policy should become the living expression of our commitment and therefore should be reviewed as knowledge and experience grow. The first revision of the policy was prompted in June 2005 when we adopted our policy towards our HCVF commitment.

The ESHS Policy now commits us to the following:

- Creating national wealth and renewable raw material on land designated by the Government for fiber plantation development; supporting the government to reach and maintain favorable conservation status in the regions where we operate.
- Ensuring that only legal pulpwood enters our fiber flow and supporting the Government's fight against illegal logging.
- Managing the concessions in a sustainable manner by applying the Mosaic Plantation Concept to produce fiber, and to maintain or enhance representative natural ecosystem in the concession.
- Promoting and protecting the health, safety, and well-being of our employees, contractor personnel and the surrounding communities; continual improvement of Environmental, Social, Health and Safety performance; and achieving sustainable forest management certification.

Each aspect of the policy is supported by well established practices and procedures which reflect external standards where applicable.

Conservation

We readily accept our responsibility to conserve as well as to develop our operations in an environmentally sustainable way. During the reporting period, we have taken great steps in commanding external recognition for our conservation policies and practices. We hope that through our commitment we will show others that it is possible to combine commercial considerations with the preservation of unique environments for future generations.

Recent Developments

- Adoption of a policy to assess and protect HCVF (High Conservation Value Forest)
- Development of the Mosaic Plantation Concept to integrate fiber production and environmental conservation.
- Protection of HCVFs with Acacia belts
- Introduction of our Integrated Conservation Strategy (ICS)

High Conservation Value Forests (HCVF)

We have adopted a policy to assess and protect High Conservation Value Forests (HCVF) in our concessions. As a first step in the implementation of this policy, during the third quarter of 2004, ProForest UK conducted a program to develop our technical and operational capability to enable us to conduct a full HCV assessment.

The guidelines and standards drawn up by ProForest followed the Indonesian HCVF Toolkit which was developed in 2003 by the Rainforest Alliance and ProForest. This in turn reflects the principles established by the Forest Stewardship Council (FSC) in 1999.

We then formalized our commitment to protect HCVFs in our concessions and the further embedding of our sustainability principles, with the signing of our Environmental, Social, Health and Safety (ESHS) Policy in 2005. This was further integrated into our daily activities through our Code of Best Practices which was also completed in June 2005.

In the course of our HCVF assessment, a number of protected plants and animals were identified as requiring conservation management. ("Protected" means listed under the IUCN Red List of Threatened, Vulnerable, Rare or Endangered Species; under the CITES Appendix; or under Indonesian Government Legislation).

Protected Plants Found within APRIL Concession Areas	Protected Animals Found within APRIL Concession Areas
- Pulai (<i>Alstonia scholaris</i>)	- Harimau Sumatera (<i>Panthera tigris sumatrae</i>)
- Petai (<i>Archidendron clypearia</i>)	- Gajah Sumatera (<i>Elephas maximus sumatrensis</i>)
- Kempas (<i>Koompassia malaccensis</i>)	- Beruang Madu (<i>Helarctus malayanus</i>)
- Cempedak (<i>Artocarpus integer</i>)	- Siamang (<i>Hylobates syndactylus</i>)
- Ramin (<i>Gonystylus bancanus</i>)	- Tapir (<i>Tapirus indicus</i>)
- Jelutong (<i>Dyera costulata</i>)	- Burung Rangkong Badak (<i>Buceros rhinoceros</i>)

Internal and External HCV Assessments

In July 2005 we stated that we would conduct HCVF assessments in the seven concessions that were under development, using our own personnel. We further agreed that we would provide our reports to independent third parties for review and joint delineation of our HCVF boundaries.

Internal HCV Assessments

Following ProForest's training in 2004, our HCVF Team conducted a pilot assessment in the Siak Raya – Nusa Wana Raya area, followed by internal HCV assessments in the Sidomarga and Triomas areas.

Reports on these internal assessments were peer reviewed by ProForest UK.

Our ongoing capacity-building program on HCV assessment was discussed in a meeting with WWF Indonesia in December 2004. A copy of the report on the HCV assessment of Siak Raya-Nusa Wana Raya was given to WWF for their review and comments.

External HCV Assessment and Studies

We recognize that with our newly acquired skills in making HCVF assessments, we can benefit from the experience of the ecologists, botanists and other experts who can be our critics but also our supporters. We therefore decided to invite a number of these external bodies to review our HCVF assessments to better understand our HCVF responsibilities and to enhance our own skills.

Kampar Peninsula

The Kampar Peninsula is dominated by a large area of peat swamp forest. The peninsula is one of the few remaining examples of this type of ecosystem in Indonesia and has been identified by a number of independent bodies as important for its biodiversity. In recent years, degradation of the Kampar Peninsula has been rapid, largely following illegal logging, and active management intervention is urgently called for to ensure the protection of the HCVFs in the area.

Since 2004 we have commissioned a number of studies of the Kampar Peninsular and surrounding areas to assess their conservation values. The first of these was conducted by IPB (Institut Pertanian Bogor) and covered the Kampar Peninsula, Pelalawan and Siak, Riau. This study identified areas of particular biological diversity, the scale of the diversity, and the region of the water system requiring protection.

To build a more detailed picture, this work was followed in March 2005 by a study of the Kampar Peninsula and Pulau Padang by the Institute of Natural and Regional Resources (INRR), Bogor. Its main objective was to identify and analyze the species in the area. Results indicated approximately 100,813 ha as HCVF regions.

Most recently, in July 2005, ProForest conducted an assessment of the landscape-level of hydrological and ecological values in the Kampar Peninsula and evaluated the impacts of proposed developments on these values.

Using the Indonesian HCVF Toolkit as a reference for the assessment, the study showed the Kampar Peninsula to be a significant landscape level forest with sufficient habitat for the full range of naturally occurring species to form a stable and self-supporting ecosystem.

Species identified in the Kampar Peninsula	
11 species of mammals considered critically endangered, or listed in CITES Appendix 1 or IUCN Red List are either confirmed as present or highly likely to be present:	
*Agile Gibbon	Flat Headed Cat
*Siamang	Golden Cat
Clouded Leopard	*Malayan Sun Bear
*Sumatran Tiger	*Sumatran Elephant
*Leopard Cat	*Malayan Tapir
* Reported in both the Kampar Peninsula and nearby Pelalawan Estate in 2003 or 2004; elephant reported in Pelalawan only	
The critically endangered dipterocarp – meranti merah - (<i>Shorea platycarpa</i>) is known to be present.	

Under our plan, we sought to establish an Acacia plantation ring around the periphery of the Peninsula to serve as a buffer zone to conserve the greater core of the forest and prevent illegal logging. Additional areas within the plantation ring would also be set aside to protect high conservation values and biodiversity.

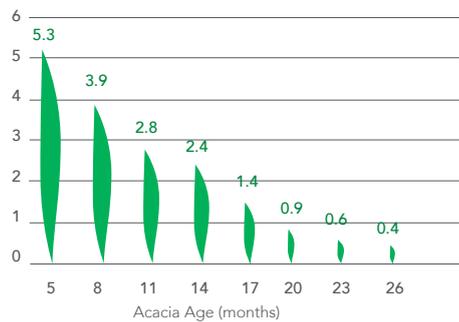
Allowing for our development requirements and taking into account the existing level of degradation, ProForest's study suggested that the development of the Kampar Ring with the application of improved water management and mitigation measures would be the most sustainable way forward. They stated that water levels would need to be maintained at 0.8m or above, with no peripheral drains, with buffer zones and by closing old logging canals. We are currently assembling a science-based consortium of experts on peatland development, hydrology, HCVFs and carbon issues to support us in this strategy.

Hydrological Management

We recognize that hydrological management is critical to fiber plantation development in the lowlands. To develop our lowland fiber concessions in balance with environmental considerations, we have implemented a network of water management canals which serve both as a water control channel and as a transport pathway (for workers, seedlings, plantation equipment and materials, as well as for harvested fiber). We maintain an optimum water table level that balances the requirements for tree root development and the natural eco-physiological condition of the site, by the operation of a series of water gates to control the water levels within the canal network.

As part of the water management design, we establish sedimentation ponds at selected points in the canal network to trap and hold sediments that may otherwise be carried into the streams, rivers and lakes and impact the quality of these water bodies. Observation stations and sampling apparatus have been sited at selected points in the canal network to monitor critical parameters, such as water levels, stream discharge properties, flooding, water quality, peat subsidence, soil properties, erosion and sedimentation, and fire incidence.

Peat Surface Subsidence (cm per month) Directly measured at 21 sites



Summary of IPB Study on Kampar Presented by IPB to NGOs at a Roundtable on 6 May 2005

- The biodiversity of vegetation, animals, mushrooms and insects, amphibians, reptiles and aquatic biota, are as follows:
 - In mangrove ecosystems, there are 10 species of lowland vegetation, 17 species of trees, and one endangered mangrove tree species (*Kandelia kandel*).
 - In Riparian ecosystems, there are 32 species of lowland vegetation, 151 tree species, and 3 endangered plant species.
 - In peatland ecosystems, there are 56 species of lowland vegetation, 151 tree species, and 6 species of endangered trees (*Pulai*, *Kempas*, *Cempedak*, *Ramin*, and *Petai*).
 - There are 10 genera of mushrooms and 35 species of insects, 6 species of amphibians and 23 species of fish (including 1 endangered species).
 - There are 64 species of birds (11 of them are endangered species and protected by Indonesian law, one is protected under IUCN, and 11 are listed in Appendix I of CITES).
 - There are 21 species of mammals (2 of them are protected under IUCN, 5 of them are endangered species and protected by Indonesian law, 3 of them are listed in Appendix I CITES and 3 of them are listed in Appendix II CITES).
 - There are 13 species of reptiles (one of them is endangered species).
- The existence of endangered mammals (Sumatran tiger, Owa) in the peatland area (including APRIL's fiber plantations) - it is forecast that wildlife will gradually migrate to higher level of peat forest and conservation forest (Suaka Margasatwa Danau Atas Danau Bawah = Danau Atas Danau Bawah Wildlife Conservation) passing through natural forest– river bank – buffer strip/wind break – buffer zone - Danau Atas Danau Bawah Wildlife Conservation.
- For the sake of biodiversity and ecosystem conservation, peatland ecosystem within the fiber plantation concession in Kampar Peninsula has been represented by the peatland ecosystem in the higher level of peat forest and Danau Atas Danau Bawah Wildlife Conservation peat land. However, we need to allocate a conservation area for the ecosystem and the biodiversity within the fiber plantation concession in Kampar Peninsula to optimize the function of the conservation forest.

Recommendations

- Kampar biodiversity conservation must be prioritized at the ecosystem level: riparian ecosystem, lake and river ecosystem, higher peatland ecosystem (>3 m) and mangrove ecosystem.
- The IPB Study recommended the following land use allocation in the Kampar Ring proposed by APRIL

	Hectares	
Conservation Area	14,340	10%
Community Livelihood Area	53,558	35%
Acacia plantation	83,022	55%
Total Area (Kampar Ring)	150,920	100%

- As the Kampar Peninsula is a peatland ecosystem, water management plays an important role in ensuring the success of the fiber plantation and biodiversity conservation.
- Biodiversity conservation should be institutionalized into Fiber Estate Management Planning.
- Maintain and protect existing community plantations (oil palm, coconut, and sago), and keep the fiber plantation away from the community plantation.
- A conservation area should be developed between Turib river and Serkab river, which is next to Belad river.
- Fiber plantation development in the Kampar Peninsula needs to be phased to allow vegetation to adapt to the new environment.
- Animals that need to be prioritized in conservation activities: some species of primates (*Hylobates agilis*, *Presbytis cristata*, *Presbytis melalophos*, *Nasalis larvatus*), including large carnivorous mammals (e. g. *Panthera tigris sumatrae*) even though there was no proof during the study of their existence in Kampar.
- Fishing/fish levels should be regulated by the government.
- The local community needs to be more involved, not least to increase their awareness of biodiversity conservation.

Source material: IPB. 2004

NGO Engagement Concerning the Kampar Peninsula

We believe our actions in the Kampar Peninsula will lead to the preservation of remaining HCVF rather than its destruction, as is contested by a number of NGOs. However, to allow leading NGOs to see our operations first hand, we invited representatives from Jikalauhari, Walhi, WWF Indonesia and FKMM (Riau Community Communications Forum) to visit Kampar. This took place on 5 April 2005 and covered land and aerial tours of the Futong access road, Kampar Peninsula and Pelalawan plantation.

On 6 May 2005 we gave a presentation to stakeholders on the Results of the IPB Biodiversity Study in the Kampar Peninsula. The same NGOs attended. IPB outlined their recommendations, namely, that around 14,000 ha of the area should be designated for conservation purposes, using the Acacia ring concept, 53,000 ha as land from which the local community should derive a livelihood, and 83,000 ha as plantation.

We greatly respect the views of all NGOs concerned with the protection of Indonesia's forest areas and recognize the experience and expertise they contribute. We have therefore continued to urge Jikalauhari and other NGOs to join in discussion with us to meet our common goal of adequately protecting Riau's biodiversity and endangered forests. Our door is always open.

Peranap

Following our internal assessment, in August 2005, WWF Indonesia conducted a field assessment to review and evaluate our data collection, interpretation, analysis and conclusions on the presence/absence of HCVFs in the Forest Management Units (FMUs) Citra Sumber Sejahtera (CSS) and Bukit Batabuh Sei Indah (BBSI) located in Peranap. While we are still in discussion on the analysis of the results, we have deferred any operations on the subject areas.

Previously logged concessions in the 1990s, these FMUs comprise one of our joint venture operations, located between Bukit Tigapuluh National Park and Bukit Batabuh Protected Forest, as well as part of the few remaining areas of dry lowland rainforest in Sumatra.

As a whole, WWF Indonesia found both endangered plant and animal species, as well as threatened ecosystems, and forest areas essential to cultural and economic survival of indigenous people. Following a review of their findings, we agreed to set aside 40% of concession area as HCV to expand Betabuh protected forest.

Kerumutan

WWF Indonesia was also invited to conduct a review of our HCVF assessment of Kerumutan peat swamp and primarily our four FMUs in Mitra Kembang Selaras (MKS), Merbau Pelalawan Lestari (MPL), Mitra Taninusa Sejati (MTS), and Rimba Mutiara Permai (RMP). Our study was guided by the Indonesia HCVF Toolkit and, where appropriate, the Global HCVF Toolkit.

Clean Development Mechanism

In cooperation with PT Pelangi Energi Abadi Citra Indonesia, an environmental agency focused on carbon trading, and an authority on issues of climate change, a workshop was organized to explore opportunities for clean development mechanism projects in our operations. The workshop covered an overview of the climate change issue and of relevant international and national political initiatives.

Other topics included sustainable development of plantations, the use of plantation wastes for energy, efficient energy consumption and alternative energy sources, use of wastewater, bio-digestion in energy production, conservation and community-based bio-diesel planting.

Protection of Tesso Nilo

The Tesso Nilo Forest Block is one of eight remaining large forest blocks in Riau Province. It is also one of the largest remaining blocks of dry and flat lowland forest left in Sumatra.

We support the human-elephant conflict mitigation protocol for Riau signed in October 2005 by the Indonesian Ministry of Forestry, WWF and other NGOs, and WWF's bid with the Indonesian government to expand the Tesso Nilo National Park from the present 38,000 hectares to 100,000 hectares.

Our collaboration with WWF dates from 2002 and covers many initiatives that support the conservation of Tesso Nilo. The present proposal to expand the national park includes a plan in which we would develop an Acacia belt to fence in the park and prevent the elephants from crossing over to feed in adjoining village farms leading to harm to both the elephants and people. It would also discourage encroachment and further illegal logging.

While work on the proposed expansion of the park continues, and in light of the ongoing massive destruction due to illegal logging and land-grabbing operations, we believe there is urgency to protect the present 38,000 ha-area and to put in place specific mechanisms for its management and conservation. We will continue to support WWF in the development and implementation of this program.

HCV Assessment of Partner Concessions

As part of HCV assessment of Tesso Nilo, we asked ProForest to review three other JV/JO concessions – Hutan Sola Lestari (HSL), Nanjak Makmur and Siak Raya Timber (SRT). They established that these concessions contain at least nine species of critically endangered canopy trees in the Dipterocarpaceae family, sufficient to have some portions designated as HCVF. They were also found to contain a large number of endangered and endemic tree species, including six species of threatened Dipterocarps. The HSL concession was thought also to hold

exceptional potential for long-term conservation of plant species diversity. ProForest recommended the setting aside of some portions of these concessions for conservation.

We have not undertaken any operations in the JV/JO areas in Tesso Nilo and, quite apart from the conservation concerns raised, we will not do so pending resolution of legal, political, technical and administrative issues such as the proposed expansion of the National Park.

Elephant Flying Squad

According to recent surveys, there are only about 60 to 80 wild Sumatran elephants in Tesso Nilo (out of 250 to 400 in the whole of Riau Province, Sumatra, Indonesia), a declining number as their natural habitat and ranging grounds are threatened by illegal logging, encroachment, and forest clearing and burning for oil palm development. The legally constituted area of the National Park (by virtue of SK 255/Menhut-II/2004 dated 19 July 2004), at 38,576 hectares, is also inadequate to sustain a viable population of the Sumatran elephant.

As a result, there has been an increasing human-elephant conflict in the National Park area, manifested by more frequent incidents of elephants rampaging and wreaking havoc on community farms. In retaliation, probably through the actions of irate farmers, there have been reports of more elephants being poisoned or killed.

We have collaborated with BKSDA (Balai Konservasi Sumber Daya Alam or Natural Resource Conservation Agency) of the Indonesian Ministry of Forestry and WWF Indonesia on the establishment of the Elephant Flying Squad Project at Ukui Fiber Estate, next to the south-eastern section of the Tesso Nilo National Park. This Project is designed to help mitigate human-elephant conflict by the use of trained staff (mahout or pawang) and elephants (kumkies) to undertake patrols along the border of the National Park and enable them to drive back wild elephants into the Park. The Flying Squad also serves to educate local communities on how to handle problems with wild elephants, support elephant conservation, and prevent illegal logging in the National Park.

Strategies in Mitigating Human-Elephant Conflict:

- Short-term Approach: Conducting perimeter patrols and together with the local community, driving wild elephants back into the National Park by various means including use of trained elephants (Flying Squad), sound cannons, lamp fire with pepper.
- Medium-term Approach: Establishment of Isolation Zones (perimeter canals, electrified fence)
- Long-term Approach: Development of an appropriate land use system along Isolation Zones

In 1996 we adopted four elephants and are now cooperating with the Riau Ministry of Forestry (BKSDA) and WWF Indonesia in training them and 8 mahouts to become the second Flying Squad. A third Flying Squad is being prepared involving BKSDA Riau, WWF Indonesia, and one of our partner companies. It has been estimated that at least 6 Flying Squads are needed to cover the whole Tesso Nilo National Park.

Manufacturing Operations

Our integrated pulp and paper mills at Pangkalan Kerinci in Riau are benchmarked against the world's best. We constantly seek to enhance our performance to ensure the health and safety of our employees and the surrounding communities. Optimizing the mill's environmental performance is also integral to our commitment to sustainability.

Key Facts

- Our affiliate company, Riau Prima Energi, produces all the energy required by the mills and the neighboring town in the complex.
- Approximately 75% of total energy produced comes from black liquor, a bio-fuel bi-product of the production process, and the balance primarily from wood bark and rejected wood chips with some coal and oil.
- The pulp mill, with one of the single biggest production lines in the world, has a rated capacity of two million tonnes per year and began commercial production in early 1995.
- The paper mill, with one of the world's fastest paper machines, is designed with a maximum speed of 1,500 meters per minute producing around 350,000 tonnes of office paper a year.
- The pulp and paper mills use the most advanced technology and processes and both have been awarded ISO 9001:2000 certification for their quality management systems.
- The power plant, pulp and paper mills have ISO 14001:2004 certification for their environmental management systems.
- Effluents and emissions are tested regularly to ensure they are within the required limits.
- Throughout the production process we apply the 5 R policy – reduce, recover, reuse, recycle, replace.

Recent Developments

- The Indonesian Ministry of the Environment awarded a "Green Rating" for our mill operations under its pollution control rating systems (PROPER) indicating a performance that is 50 percent above legal standards.
- A third power boiler was commissioned in June 2005.

- A new pin chip digester was commissioned in August 2004.
- The recausticizing plant in the pulp mill was planned to be fully converted to natural gas using some 13,600 MMBtu per day. However, the state-owned gas company (Perusahaan Gas Negara) could supply only 3,000 to 6,000 MMBtu/day. Thus, the plant has to operate partly on 175 m³ of fuel oil per day.
- Robotics has been introduced for use in paper product testing.

Environmental Management Rating

Our mill operations were awarded the "Green Rating" for PROPER 2004-2005 by the Ministry of Environment in its Satisfactory Compliance checks. This is a significant improvement over the "Blue Rating" obtained in 2002 and 2003.

The rating system is given as part of the national Program for Pollution Control Evaluation and Rating (PROPER), a public reporting initiative implemented by the Indonesian government to promote compliance with environmental standards and strengthen transparency. Under PROPER, industrial firms are evaluated by the Ministry of Environment for their environmental performance on indicators like air emissions, waste water management, and solid wastes management.

The results are given in the form of a five-color rating scheme - gold, green, blue, red and black – and reflect performance ranging from excellent to poor. The Green Rating indicates that our mill performance is 50 percent above legal standards and that the mills use technology that is clean and green, minimizes wastes, prevents pollution, and conserves resources.

Water Use

The Kampar River is the primary source of water for both human and industrial use, as well as the primary drainage system for the local area.

Our water treatment facility consists of a water intake pumping station, fresh water treatment plant, and a water demineralization plant. The freshwater

treatment plant pumps raw water from the Kampar River, treats a portion of it, and distributes the treated water to the mill and Pangkalan Kerinci, the local town. Process water is treated at the demineralization plant to produce water with reduced ion content for the power boiler. The demineralized process water is then distributed to the mill.

Water Intake Facility

	2004	2005	Jan-Jun.06
Installed Capacity	432,000 m ³ /day		
Actual Water from River (m ³ /day)	318,225	324,213	340,774
No. of Pumps	8 motor-driven 1 diesel-driven		
Capacity per Pump	695 liters/sec Head 40 m RPM 1,490 Pump 400 kW		
Installed Chlorination Capacity	680 kg/day (max)		
Actual Chlorination Consumption (kg/day)*	238	123	0
Distance of Facility to Mill	4.5 km		
Water Intake Location	3 km upstream from mill effluent discharge canal		

* Due to chlorination system deficiencies, chlorine was temporarily replaced with sodium hypochlorite (NaOCl).

Water Consumption

	2004	2005	Jan.-June 2006
Water from Kampar River (m ³)	116,470,533	118,337,651	61,679,997
Process Water (m ³ /ADT) for Riaupulp, including demineralized water in chemical plant	47.5	45.0	46.2
Townsite Domestic Consumption (m ³ /day)	16,198	15,974	16,863

Water Use in Pulp Production

	2004	2005	Jan.-June 2006
Process Water (m ³ /ADT)	47.5	45.0	46.2
Water from Kampar River (m ³ /ADT)	63.8	61.3	61.1

Water Quality

Waste water from the mill is discharged after treatment back into the Kampar River via an effluent discharge channel.

All key indicators – level of BOD, COD, TSS, pH, total phosphorous and total nitrogen – are regularly monitored by ourselves and independent third parties, such as the University of Riau (UNRI), SUCOFINDO, and a local environmental interest group, Yayasan Riau Mandiri (Riau Mandiri Foundation). UNRI monitors waste water going into the Kampar River and effluent canal every six months, while YRM undertakes waste water monitoring quarterly.

Our last community health survey, conducted in 2003, proved satisfactory. We have now commissioned Econusa, an independent consultancy, to undertake another community health survey which is still in a preliminary phase.

Utilizing the Ahlstrom USF Aquaflow system with activated sludge process, all effluent treatment processes comply with the specifications of Indonesian regulations, the US Cluster Rule, the World Bank Pollution Prevention Guidelines, and the European Commission's Best Available Techniques for the Pulp and Paper Industry.

Air Emissions

Our mills are equipped with extensive air emission control systems that capture and prevent suspended particulates from entering the atmosphere. Malodorous gases are also collected and incinerated in the recovery boiler. Continuous Emission Monitoring (CEM) Systems are installed at various critical points, including the power boiler, recovery boiler, dissolving tank, lime kiln, and digester.

Third party verifiers – PT SUCOFINDO, Indonesian Institute of Sciences (LIPI) –regularly examine our emission levels with their own equipment and testing systems to provide an independent assurance that we meet and exceed national and international standards.

The mill environment team regularly conducts internal audit and in the inspection conducted in March 2005, two major CARs (Corrective Action Requests) were issued to mill operations:

- The effluent flow to the two aerations was too high (150,000 m³/day) while the third aeration basin was under repair. This resulted in secondary clarifier carry over with high COD and TSS. Following remedial action, the CAR was closed out on 27 April 2005.
- Acid was found to be leaking from the bottom drain of the lime cleaner and directly contaminating the storm sewer. The sewer was immediately blocked off and waste water was reclaimed into the system. The bottom drain leak was fixed on the same day. This CAR was closed out on 31 March 2005.

Power Generation

Fuel Usage (%)			
Fuel Type	2004	2005	Jan-Jun.06
Black Liquor	73.4	76.3	75.4
Bark, Wood Chip Rejects	22.6	18.9	15.6
Coal	3.1	4.0	7.9
Oil	0.9	0.8	1.1
	100	100	100

Average CO ₂ Generated from Fossil Fuels*		
	Tonnes/annum	Tonnes/month
2004	214,167	17,847
2005	256,791	21,399
End June 2006	284,839	47,473

*Figures are for the power generation facilities only

The Power Plant generates power from black liquor, bark and woodchip reject, coal, and oil.

The power boilers used more coal as fuel in 2005 and in the first half of 2006. As a result, CO₂ generation during the same period was slightly higher. This change follows the commissioning of a new pin chip digester in the pulp mill in August 2004. The pin chip

digester, with a capacity of 427 tonnes/day, is able to use small wood chips (measuring up to 7mm) in pulp production that would formerly have gone as fuel. The boilers also used less bark due to the ramping up in the use of Acacia fiber in the pulp mill, which is debarked at the plantation site. We are continuing to look for alternative sources of fuels, preferably bio-fuels, to fulfill our consumption needs.

Pulp and Paper Production

- Harvested logs are cut into small wood chips which are fed into digesters where chemicals are added and the mixture cooked to release lignin, the natural glue that binds wood fiber. The resulting pulp is washed to remove the chemical and lignin, collectively known as black liquor, which is processed to recover pulping chemicals.
- The residue black liquor becomes a bio-fuel, while the pulp undergoes further processing, culminating with bleaching to remove the dark color and residual lignin.
- After bleaching, the pulp is dried, finished, baled and shipped to customers where it is used to make a variety of paper products.

Alternatively the pulp (in slurry form) is transferred to our paper mill which uses an alkaline process:

- One paper mill is currently in operation with a second due to start production in early 2007.
- Pulp is spread onto moving wires where water is drained to produce an even sided paper. The semi-dry sheet is run through heated drying cylinders to evaporate the remaining water.
- Once dried, the sheet of paper passes between heated rolls to ensure uniform thickness and surface smoothness, with regular quality checks. Each jumbo roll can hold a maximum of 60 tonnes of paper which can be cut into smaller rolls, wrapped and either supplied to customer or converted into folio sheets of office paper.

Recovered and Converted Cooking Chemicals	
2004	96.6
2005	95.9
Jan - June 2006	96.6

Steam Generation (tonnes)				
	Capacity (tonnes/hour)	Actual		
		2004	2005	Jan.-June 2006
Power Boiler 1	241.9	1,536,914	1,319,086	623,709
Power Boiler 2	468.0	2,822,128	2,786,599	1,282,376
Recovery Boiler 1	624.6	3,913,756	4,608,658	2,394,753
Recovery Boiler 2	624.6	4,339,159	4,449,217	2,383,293
Recovery Boiler 3	624.6	4,321,885	4,650,312	2,211,647
Total	2,583.7	16,933,842	17,813,873	8,895,779

Average Consumption of Bleaching Chemicals (kg/ADT pulp)

Chemical	2004	2005	Jan.-June 2006
O ₂	18.1	18.4	18.9
ClO ₂	41.7	48.4	43.9
H ₂ O ₂	1.7	5.8	5.5
NaOH	19.1	19.6	20.8

Management of Mill Residues

The 5R approach – reduce, recover, reuse, recycle, replace – remains our guiding principle in solid waste management. We explore ways to implement this and in 2005, we conducted trial programs on the burning of sludge in the power boiler which contributes to energy generation, boiler ash application in road construction and concrete brick manufacture, and the use of screen rejects as material for second grade paper production.

Boiler Ash

We have also tested the use of boiler ash as organic compost material to improve the fertility of lowland soils. First application was done in the Pelalawan Estate starting in November 2004. While proven

effective as soil input, the impracticality of hauling massive volumes of composted ash prompted a shift to the more feasible option of aerial fertilization using an Air Tractor plane. Additionally, it would take one kilogram of boiler ash application per tree, compared with 20 grams of micro-nutrients, to produce the same growth enhancement. The project was discontinued in December 2005.

Sludge

The mill produces up to 1,500 tonnes of sludge and lime mud daily. This and other solid waste materials from the mill are used as landfill. The original landfill had been remediated as authorized by a Government Permit (Kep No. 04/Bapedal/1995).

On 8 June 2005, we secured a new Landfill License – Category III (SK 114/2005) from the Indonesian Ministry of Environment for our permanent waste landfill beside the mill complex. Phase 1, covering 4.83 ha, was completed in September 2004. The three remaining phases will be completed on a progressive basis later.

Our original landfill has been subjected to a phased remediation program. This program involved the installation of measures to ensure there can be no leaching of harmful substances into the soil or watercourses, namely:

- Installation of geotextile at leachate drainage
- Layering leachate drainage with gravel
- Laying of PVC pipe in the leachate drainage

The ensuing Landfill Remediation Project – Phase I (10 ha) was completed in June 2005. Phase II (10 ha) was 88.9% complete as of June 2006. Phase III (10 ha) is planned for 2007.

Mill Environmental Monitoring Results

Ambient Air Quality

Parameter	Unit	Mill Site Area			Town Site I Area			Indonesian Standard
		2004	2005	Jan. - June 06	2004	2005	Jan. - June 06	
Particle	Mg/Nm ³	117.0	181.79	121.53	98	111.84	77.10	230
PM 10	Mg/Nm ³	98.3	148.04	99.19	64	99.46	88.06	150

Noise

Parameter	Unit	Mill Site Area			Town Site I Area			Indonesian Standard
		2004	2005	Jan. - June 06	2004	2005	Jan. - June 06	
Noise	dB(A)	74.5	66.62*	64.69	65.67	55.74**	50.34	70

* Based on the Letter of the Department of Manpower of Indonesia No. SE.01/Men/1978 for Noise at working area – 85 dB

** Based on the Decree of the Ministry of Environment No. 48/MENLH/11/1996 for Noise Level Standard – 70 dB for industrial areas

Air Emission – Power Boilers

Parameter	Unit	Power Boiler I			Power Boiler II			Indonesian Standard
		2004	2005	Jan. - June 06	2004	2005	Jan. - June 06	
Particle	Mg/Nm ³	79.73	82.17	48.7	25.60	82.69	102	230
NO _x	Mg/Nm ³	152.73	6.92	7.0	89.90	2.46	1.8	1,000
SO ₂	Mg/Nm ³	60.33	17.34	0.74	48.25	24.66	0.92	800

Air Emission - Recovery Boilers

Parameter	Unit	Recovery Boiler I			Recovery Boiler II			Recovery Boiler III			Indonesian Standard
		2004	2005	Jan. - June 06	2004	2005	Jan. - June 06	2004	2005	Jan. - June 06	
Particle	Mg/Nm ³	78.85	84.28	13.6	40.88	74.75	34.7	5.20	79.23	93.1	230
TRS (H ₂ S)	Mg/Nm ³	6.30	6.98	7.5	5.69	8.92	8.0	6.04	6.74	7.8	10

Air Emission - Bleaching Plants

Parameter	Unit	Bleaching Plant I			Bleaching Plant II			Indonesian Standard
		2004	2005	Jan. - June 06	2004	2005	Jan. - June 06	
CL ₂	Mg/Nm ³	3.99	4.16	7.2	3.59	4.26	8.7	10
CLO ₂	Mg/Nm ³	15.71	37.27	99.3	13.66	38.85	110	125

Air Emission - Dissolving Tank

Parameter	Unit	Dissolving Tank I			Dissolving Tank II			Dissolving Tank III			Indonesian Standard
		2004	2005	Jan. - June 06	2004	2005	Jan. - June 06	2004	2005	Jan. - June 06	
Particle	Mg/Nm ³	61.04	119.25	91.4	73.81	166.65	103	84.29	180.21	56.9	260
TRS (H ₂ S)	Mg/Nm ³	12.82	16.3	7.0	18.26	14.66	19	16.78	17.46	20	28

Air Emission - Lime Kiln

Parameter	Unit	Lime Kiln I			Lime Kiln II			Indonesian Standard
		2004	2005	Jan. - June 06	2004	2005	Jan. - June 06	
Particle	Mg/Nm ³	181.38	148.81	227	126.23	167.02	131	350
TRS (H ₂ S)	Mg/Nm ³	16.01	17.97	3	18.41	18.72	4	28

Air Emission - Digester

Parameter	Unit	Digester			Indonesian Standard
		2004	2005	Jan. - June 06	
TRS (H ₂ S)	Mg/Nm ³	6.23	8.99	8.1	10

Effluent Comparison

Parameter	Unit	APRIL			International Standards		
		2004	2005	Jan.-June 2006	Indonesia	Sweden (Ave)	US-New Mills
BOD ₅	kg/Adt	1.01	1.29	1.4	25.5	7.000	5.50
COD	kg/Adt	7.27	8.69	8.77	59.5	2.900	-
TSS	kg/Adt	0.87	1.40	0.63	25.5	2.900	9.50
AoX	kg/Adt	0.02	0.02	0.04	-	0.210	0.27
pH Values – Min	-	7.80	7.90	8.0	6.0	5.000	5.00
pH Values – Max	-	8.10	8.20	8.20	9.0	9.000	9.00
Total N (Nitrogen)	kg/Adt	0.10	0.10	0.10	-		
Total P (Phosphorus)	kg/Adt	0.021	0.014	0.004	-	0.045	•

Open Door Policy

We welcome feedback and enquiries from all stakeholders. We also welcome visitors to observe our operations. For details, please see Contact Us at the back of this report.





Involvement with The Community

The natural partner to the development of sustainable forestry is the creation of a commercial environment in which the local community can also prosper. This continues to be the principal objective of our community development program. We want to encourage self-empowerment by creating skills and livelihood base that is self-sustaining.



Our aim, therefore, is to develop self-sufficient communities through partnerships between our company and the local government, universities and non-governmental organizations by:

- Transferring skills to local people to enable them to be self-sufficient and develop at a pace they can handle;
- Contributing to social infrastructure development;
- Participating in fostering good governance in newly formed local district government units

Our presence in Riau continues to be one of the reasons that attract people to the area in search of a better life. Riau Province now has an estimated population of 6,108,400 people residing in a total of 94,561 sq.km and Pangkalan Kerinci, the base for our operations, 56,869 residents in a 208.88 sq.km area.

Recent Developments

CSR Awards

Recognitions for our community programs were received in 2005 in the Indonesian CSR Awards, Asian CSR Awards in Environment in Thailand, and for our community fiber farm program in the Asian Forum on CSR Awards. Our program was also cited as Best Practice in Social Program for all industries in the 2005 Asian CSR conference in Indonesia.

Creation of CECOM

With a desire to create a positive impact in our broader community for future generations, in July 2005 we established CECOM (Care and

Empowerment for Community), an independent local foundation and non-profit organization, created to enable our programs to grow beyond their own capabilities by allowing partnerships and involvement with other parties. We are phasing the handover of responsibility for relevant programs to CECOM and currently supplying the funding, management and manpower necessary to enable CECOM to become self-functioning. This move was also made to recognize the distinction between forestry and non-forestry related support by being open to those partnerships that, while generating value for the community, are also integral to our business.

We hope that over time CECOM will foster an understanding of the benefit to the community of properly managing local resources and developing locally based, vibrant economies. We want CECOM to encourage greater partnership and participation between employers and the community to facilitate the development of the potential in the local workforce by providing training and cultivating skills.

CECOM Programs

Integrated Farming System

The Integrated Farming System (IFS) offers training in horticulture and livestock rearing, freshwater fish farming, composting and waste recycling, and food processing in four training centers in Riau. The farmers are also given cattle and/or fish, fertilizer, seeds and pesticides.

Integrated Farming System Program

Beneficiaries of APRIL CD Program

	2004	2005	Jan.-July 2006
Participants in the Integrated Farming System (IFS) Program*	2,094	2,259	3,655
Beneficiaries of the Social Infrastructure Program	12,506	19,776	12,070
Entrepreneurs in the ongoing Small and Medium Enterprise (SME) Program*	126	126	113

* Cumulative figures

	2004	2005	Jan.-July 2006
No. of Trainees*	311	224	154
No. of Participants~	2,094	2,259	3,655
No. of Participating Villages~	73	90	96
No. of Cattle Distributed	370	346	182
Cultivated Land (hectares)+	663	536	1,419

* Trainees in turn assisted other people to participate in the IFS program
~ Cumulative figures

+ Refers to horticulture and plantation land

Participants in the Integrated Farming System (IFS) Program

District/Capital	2004		2005		Jan. – July 2006	
	Villages	Farmers	Villages	Farmers	Villages	Farmers
Pelalawan	23	634	32	709	29	1,502
Siak	16	657	15	432	19	665
Kampar	6	139	7	166	8	320
Kuantan Singingi	17	434	26	703	27	771
Rokan Hulu	7	174	6	193	6	224
Pekanbaru	4	56	4	56	7	173
Total	73	2,094	90	2,259	96	3,655

With our strategy of training farmers who will in turn conduct the training in their respective villages, we saw a significant increase in the number of IFS farmers from 2004 to 2006. Those participating in the program agree to pass on their first-born cattle to new trainees and, in this way, expand the network of experience and support available to new farmers.

Small and Medium-sized Enterprises (SME) – Support for Entrepreneurship

The SMEs that we have helped to establish but which operate in areas not related to our business range from tailoring, beauty salons and bakeries to a motorcycle workshop, dynamo rewinding, and bee honey production. The individuals starting these new businesses begin by joining our Vocational Training Program (currently jointly run by APRIL Community Development and CECOM). Recent examples include:

- Food and beverage processing (e. g. Indra Traditional Biscuit in Pasar Baru Village, Taluk Kuantan; Aji Jaya Makmur Tomato Sauce in Tri Mulya Jaya Village, Ukui)
- Recycled products
- Handicrafts (e.g. Em Er Meubiler in Gunung Toar, Taluk Kuantan)
- Retail shop (e.g. Mini Market Dewi Musi in Pangkalan Kerinci)
- Weaving, dress making and tailoring (e.g. Siak Hand-woven Cloth in Bentang Hilir Village, Siak District)
- Furniture making & carving

- Brick making, ceramics & pottery
- Silk screening
- Embroidery (e.g. Primadona Embroidery in Benai)
- Bee honey (sialang) production (e.g. Kelompok Usaha Madu Sialang in Dundangan Village, Pangkalan Kuras, Pelalawan District)
- Beauty care (e.g. Putri Salon, Petai Village, Kuantan Singingi)
- Automotive repair (e.g. Bengkel Jaya Abadi in Pangkalan Kerinci)
- Electronics

Capacity Building

Under CECOM, SME projects are supported via three key initiatives, which are enhanced versions of former Community Development programs, namely:

1) Training Development and Capacity-building Program (Program Pelatihan dan Peningkatan Kapasitas)

This program supports the Integrated Farming System by providing the farmer-participants a two-week training course (free of charge) in one of the four BPPUT (Balai Pelatihan dan Pengembangan Usaha Terpadu) or IFS Training Centers built by APRIL in the districts of Pelalawan, Siak, Kuantan Singingi, and Rokan Hulu. In this program, the farmers are taught the fundamentals of integrated organic farming and its benefits.

2) *Community-Based Business Development*
(Program Pengembangan Usaha Berbasis Komunitas)

This is a support program to our partner-farmers, communities and villages in which alternative or additional business opportunities are proposed that use bi-products from their agricultural crops such as honey, seeds, fertilizer and wood. These bi-products are sold in the local market to provide additional income for the community.

3) *Micro Financial Institution (Lembaga Keuangan Mikro or LKM)*

We support our Small and Medium-sized Enterprise entrepreneurs through agreements negotiated with local banks allowing them to receive funding and advice while their businesses become established.

Community Involvement - CSR Support

Working in Partnership

In addition to those businesses we now support through CECOM, we also continue to encourage the establishment of SMEs in lines of work directly applicable to our needs. These include, for example, pallet production, plantation development and transportation. These business start-ups have the same access to advice and funding through the co-operative schemes we have agreed with local banks.

Business Activity	2004		2006	
	Partner(s)*	Partnership Amount (billion Rp)^	Partner(s)*	Partnership Amount (billion Rp)^
Pallet Making	8	9,275	16	4,497
Chipwood Hauling	6	750	16	3,993
Cleaning Service	5	2,123	3	672
Chipwood Harvesting	-	10,562	6	3,212
Manpower Supply	13	4,583	31	4,963
Pulpwood Transport	-	2,324	-	-
Nursery (Acacia Seedlings)	-	2,653	2	1,241
Container Cleaning	2	133	1	85
Acacia Plantation & Maintenance	3	575	3	474
Landscaping	-	380	2	260
General Supplier	-	63	4	528
Employee Shuttle Bus	1	5,180	6	6,314
Construction	4	5,676	1	778
Wood Cutting at Line 1-6	-	52	1	40
Coarse Black Sand Supply	-	1,183	1	1,234
Coal Supply	-	548	-	-
Manual Logging	17	-	-	-
Loading	-	-	4	352
Road Watering	-	-	4	159
Total	59	46,060	101	28,802

*One company can have more than one business specialization.
^Annual contract

Case Study Plantation Contractor, Romanus Telaumbanua “Tony”



Site preparation, holing, fertilizing, planting, spraying, blanking, weeding, and singling. These are the routines that 28-year-old Romanus Telaumbanua, more fondly called Tony, knows like the back of his hand. At such a young age, he already holds 100% ownership of one of APRIL's reliable companies in the South Pelalawan Fiber Estate, mustering 245 workers for his Acacia plantation contract projects.

Circumstances forced him into adult responsibility at the age of 18, following his father's death and an unwillingness to be a burden to his widowed mother. His lack of education never hindered him from aiming high and achieving even more.

Born and raised in Nias Regency in North Sumatra, Tony decided to move to Riau to be close to friends and to what he believed were greater opportunities. He tried his luck in 2001 with CV Sibulasi at Iwa Perkasa, then called H2S (Hampan Hijau Sejahtera), another APRIL plantation contractor in South Pelalawan Estate, where he became a Team Leader. Three years of hard work for the company didn't bring much reward and so he left, along with 150 other workers.

He thought of his wife and their growing family of 5 children, the oldest being 7 years and youngest only 10 months old. After some contemplation, Tony decided to start his own business as a plantation contractor. He first called his company SRL (Silva Riau Lestari) but six months later changed it to its current name SUB (Sumber Usaha Baru). Tony employed those who left the other company with him and more of his Nias friends and natives.

For two years, SUB has had good working relationship with APRIL. Contractor workers were provided with tents to shelter them and their families, and clean water for their daily domestic use.

However, he expresses disappointment at the rather low and unadjusted contract rate being paid by APRIL. He claims, for instance, that since 2003, he has been spending more on prescribed use of herbicides during planting, with inadequate compensation. Nonetheless, he sees a good future with APRIL. On the whole he feels the company takes good care of its contractors and workers.

Running his own business has been a childhood dream come true for Tony. He still considers himself a beginner but with a company that has a great future, and a future with APRIL.

Community Fiber Farms (HTR)

Our Community Fiber Farm Program develops unmanaged lands into Acacia plantations through

Case Study Desa Rambahan Community Fiber Farm (HTR)



Zaini Kis



Sayuti

A distance of 140 km southwest of APRIL's mill complex is Desa Rambahan, a village in Baserah. In 1998, the village was approached by APRIL field staff who introduced the company's HTR (Hutan Tanaman Rakyat) partnership project.

The village head or Kepala Desa, Zaini Kis, reacted positively believing the project could bring new job opportunities to the village farmers. It was his fifth year of service in the village. Later in the year, the village entered into a partnership agreement with APRIL to plant Acacia on community land.

Unfortunately, the villagers did not share their village head's enthusiasm. A series of difficulties were encountered during the first four years of planting Acacia in the 187-hectare area allotted by the village for HTR development. Many villagers were opposed to planting in some areas because it was bordering their land. Some farmers from the village also preferred to plant other agricultural crops.

Due to the delayed and staggered planting, the first Acacia harvest in May 2006 produced below the expected yield. The normal Acacia harvest after 7 years is around 200 cubic meters per hectare, but Desa Rambahan's HTR only produced 106.5 cubic meters. Understandably, the low yield caused a degree of disillusionment with the project among many of the villagers. Nevertheless, after lengthy consultation and negotiations, Desa Rambahan decided in June 2006 again to partner with APRIL in a 2nd rotation Acacia planting.

Over the years, as part of its Community Empowerment Program, APRIL has also constructed a road connecting isolated parts of the village. Zaini Kis is very grateful but at the same time, he awaits the construction of a new office that he requests for himself as Village Head, the renovation of his existing office, and the agreed maintenance of these village infrastructures.

Although as many as 175 farmers have been given jobs, Sayuti, the traditional functionary Datuk Menteri, feels that the work provision is inadequate given the village's rapidly growing population. Sayuti, 46 years old with two kids, has been farming in the village for about 20 years. In the past, he and other villagers have practiced slash-and-burn, cultivating rubber, chilli, eggplant, sweet potatoes, and rice. He says that clearing and burning are the cheapest and easiest way to harvest plantations like rubber. But since 1998, when the Indonesian Government imposed a No-Burn Policy throughout the country, anybody who is caught violating the regulation risks imprisonment and the payment of a heavy fine.

It was very hard for Sayuti to change a practice he began more than 20 years earlier. But gradually he has grown used to harvesting manually and is currently abiding by the no-burn law. He would just like APRIL to do a little to make their lives easier.

Estate	No. of Partners	Gross Area (ha)	Plantable Area (ha)	Planted Area (ha)
Pelalawan North	9	3,978	3,085	1,679
Mandau	10	6,844	4,313	3,182
Langgam Baru	13	31,038	19,574	12,945
Tesso	2	967	964	721
Baserah	16	2,563	2,060	1,892
Ukui	1	1,585	1,427	122
Cerenti	7	2,475	1,987	1,657
Peranap	3	2,245	1,564	1,006
Total	61	51,695	34,974	23,204

Note: Includes land owned by communities/partners and those located within our concession.

joint ventures with the villagers. We provide start-up and technical support and offer villagers a 40% share in production on dry lands and a 30% share on lowlands. The scheme runs for up to six rotations, approximately 40 years. By integrating Community Fiber Farms into our operations, we offer these farmers an alternative means of livelihood than the illegal logging to which they would probably otherwise resort.

The Asian Institute of Management (AIM) Center for Corporate Social Responsibility adjudged our Community Fiber Farm Program as runner-up in the Environmental Excellence category of its Asian CSR Awards 2005. The Awards recognize the best CSR practices among companies operating in the region and in 2005 attracted hundreds of entries from 91 companies across 12 countries.

As of June 2006, we have a total of 61 HTR partners and some 23,000 hectares planted to Acacia.

Social and Infrastructure Program

As a major presence in the town of Pangkalan Kerinci, the communities understandably look to us for the supplementary provision of utilities and services. We increased in 2005 the supply of electricity from 2MW to 3MW to PLN, the state electric company, at a subsidized rate for the growing requirements of the town. These are in addition to contributions to the construction or renovation of village halls, places of worship, village clinics and the construction of traditional or cultural sites.

Educational & Sports Support Program

Education remains a core advocacy of our company, believing that this is key to sustained socio-economic development. In 2005, we awarded scholarships to 2,865 students, more than 400 honoraria grants to teachers in rural schools, and helped in the construction or renovation of 10 school buildings.

Since we started, through our commitment to support educational achievement, we have:

- Built or renovated a total of 67 school buildings in various villages in Riau.
- Provided furniture and equipment for a total of 27 schools in Riau.
- Extended operational assistance to 71 schools, mainly in the form of cash (but also materials) donation to cover various school needs such as stationery, observation tours (studi banding) and minor repairs to facilities.
- Established and operated 100 "Let's Read Parks" (Taman Bacaan Kita or TBK) around Riau. These are permanent 'mini-libraries' built in the villages by us and equipped with at least 5 copies of 200 titles of books, magazines, and other printed materials. The primary aim of this initiative is to encourage children to develop an interest in reading, to unlock their creativity and to introduce them to basic education. The TBKs are operated by village volunteers (Relawan TBK), including teachers who are also recipients of the Honorarium Grants provided through our educational support program.

- Donated a total of 96 sets of sports equipment (e.g. balls for football, sepak takraw, volleyball and other ball games, and badminton sets) and team uniforms.

Social Infrastructure Program

	2004	2005	2006
Construction/Renovation of Village Head Office	9	2	0
Construction/Renovation of Village Meeting Hall	2	1	1
Provision of Electricity Generator	7	0	0

Note: Decrease is due to increase in costs of construction/renovation in 2005-2006. Projects in 2006 were started in September.

Religious and Cultural Affairs Support

	2004	2005	2006
Construction/Renovation of Places of Worship or Theological Schools	32	14	0
Tools and Equipment Supplied for Religious Services	4	3	0
Construction/Renovation of Historical Sites	2	5	1
Sports Equipment Distributed	53	10	33

Note: Decrease is due to increase in costs of construction/renovation in 2005-2006. Projects in 2006 were started in August.

Religious & Cultural Support Program

We have an important role in supporting the cultural and religious life of the community. We have:

- Built or renovated mosques and mushollas in various villages in Riau.
- Provided equipment and materials for these mosques and mushollas as well as existing places of worship in Riau. These include copies of the Muslim Holy Book (Al Qur'an), prayer carpets, ceiling and wall fans, and other furnishings.
- Supported more than 46 religious pilgrims going on Haj to Mecca since 2004.
- Built or renovated a total of 14 historical and cultural sites that include a royal palace, traditional buildings, cultural locations in Riau from 2000 to June 2006.

Medical Care Beneficiaries

	2004	2005	2006
Villages*	64	68	71
Patients~	10,143	16,435	11,278

Note: * Cumulative figures
~ Non-cumulative figures

Community Access

Our operations require access throughout our Fiber Estates, with our Joint Venture partners (JV/JO) and Community Fiber Farms (HTR). We, therefore, have a comprehensive program of construction and maintenance of roads and canals (in the case of lowlands or peatlands). These roads and canals are used mainly for operational and transportation purposes. The estimated total distance of all kinds of roads (main roads, branch or feeder roads, spur roads, etc.) in our concession areas, HTR and JV/JO partner concession areas is 30,336 km.

These road networks are complemented by bridges, culverts, and other forms of crossovers as well as drainage ditches and soil erosion controls.

Use of Company Roads by Communities

We build and maintain our own road network mainly because of government regulations prohibiting the use of asphalt roads by long and heavy pulpwood haulers. For this purpose we have been granted a license specifying special road rights-of-way as well as obligations. While the access roads are mainly for company use, we are also obliged to allow communities to use them, particularly those that pass through or near villages. Local people can use our roads for domestic and legal commercial purposes.

Roads Available for Community Use as of June 2006	
Type	Length (km)
HTI roads	25,273
JV/JO	4,587
HTR	477

Community Roads

We have also built and maintain village roads primarily for the benefit of the inhabitants. There are now 75 km village roads.

Participation in ComForLink

Although we like to think we are already playing an effective role, we know we still can benefit by learning from other companies operating in Sumatra. Therefore, we were pleased to participate, together with CIFOR and 25 other representatives from the Social Forestry Working Group and the Indonesian Ministry of Forestry, in forming ComForLink (Company Community Forest Link), an informal communication forum among forestry companies. Through ComForLink we hope to learn of community partnering techniques that work for others and, equally, to share our knowledge and experience with our peers.

Socio-economic Impact Studies

The gross household incomes of the local communities within our sphere of influence are more than twice that of families living outside. This was one of the findings of an independent study on the economic and socio-cultural impact of our presence on the surrounding communities. The study was conducted by the Institute Pertanian Bogor (IPB) and LPEM of University of Indonesia (UI).

Districts surveyed include Pelalawan, Kampar, Siak, Kuantan Singingi, Rokan Hulu, Indragiri Hulu, and Kota Pekanbaru, which are considered within the areas of our impact and Bengkalis and Indragiri Hilir, which are considered outside.

In the study undertaken by UI, our operations were found to have generated a total income of 184.1 billion rupiah (US\$17 million) in 2004 for the local community through direct and indirect employment. This marked a 39.2% increase over 2002 estimates. The study also showed that by contracting local suppliers in our nursery, plantation and harvesting operations, the company increased the number of people employed by 50.1% compared with 2002 employment figures. It further noted that communities who live in areas within our sphere of

influence rate higher on independence, social welfare and empowerment indices.

IPB recommended that we expand the coverage of our Community Development programs by developing more incentives for participation. It also suggested that we increase the level of involvement of the village institutions in the planning and implementation of these programs. One of our reasons for creating CECOM is to expand our programs and involvement in this way.

In 2005, with the Pelalawan District Government, we organized a Community Empowerment Week to bring together our many program partners and participants to assess our own performance and discuss local CSR issues. To complete this picture, we have once again commissioned Taylor Nelson & Sofres (TNS) to undertake a Community Perception Survey. This will be directly comparable with the study we reported in 2004. The stakeholder groups being surveyed are local communities, opinion leaders, employees, media and NGOs. The report should be completed by October 2006.

Land Disputes

We are continuing in our efforts to resolve a number of land disputes. These are often complex, with the most involved concerning two or more competing parties, often based upon disputed traditional land rights claims and speculative interest. As of June 2006, a total of 16,928 ha of land was subject to claims involving local inhabitants, overlapping land-use rights issued by local government, and land claims by speculators.

Under our standard operating procedures, we have a clearly defined process for the resolution of land disputes:

- 1) Negotiate the formation of joint ventures with local communities for fiber plantation development under a profit-sharing scheme.
- 2) Delineate the areas under claim as "enclaves" for local communities and subsequently to apply to the Government for approval for the exclusion of the area from the production forest estate.
- 3) Settle compensation claims regarding, for example, improvements made to the land, or crops planted and, in return, requiring the claimant to agree to relinquish any further claim on the land.
- 4) Resort to litigation against land speculators.

Case Study

Gading Permai

The most high profile case with which we have been involved in recent years concerns Gading Permai village. At first glance, it was a typical land dispute between a community that claimed traditional land rights, and a company granted by the Government the license to develop the same land into tree plantation.

The land involved in this social conflict, covering a total of 3,270 hectares, was located 6km away from Gading Permai on the opposite side of the Kampar Kiri River. Despite this distance, the village of Gading Permai claimed traditional rights over the land and, with the support of a third party, decided to establish it as oil palm plantation. Meanwhile, the Indonesian Ministry of Forestry had granted a concession on the land to PT Siak Raya Timber, one of our JV partners. Starting in 2004 we sought, unsuccessfully, to negotiate a settlement.

Following a period of growing tension, on 1 May 2006, a group of workers employed by the oil palm developer attacked our plantation workers and demanded that Acacia planting be stopped in the area. This was followed by threats of violence and weapons were produced.

Our plantation workers called for security support. On their way to the site, however, our security contingent was blocked by the oil palm workers. Refusing to leave the area, the oil palm workers then launched an attack against the responding security team which led to a confrontation. This resulted in minor injuries to both parties with six oil palm workers detained by the local police.

The incident was the culmination of a series of threats and attacks from this group of workers based on a legally unfounded claim. When we and PT Siak Raya Timber sought to commence Acacia plantation

development, we found that some 750 hectares of the area had already been planted with oil palm by the group, despite their having no legal license for this operation.

Post-incident Developments

Following the incident, a flurry of reports was filed by NGOs in both the Indonesian and international media condemning our action. However, we received a formal apology from the Head of Gading Permai village for the action taken by the palm plantation workers. In our official statement of 19 May 2006, we expressed regret over the incident and while defending our actions, acknowledged that we should have taken more proactive measures to settle the issues much earlier. We subsequently went into discussions with the Gading Permai community. Under a draft MOU, it was proposed that Gading Permai would fully waive its claim to the land in favor of PT Siak Raya Timber. SRT and APRIL would develop 200 hectares of oil palm plantation for community livelihood, and provide other means of support.

This incident highlighted, among other things, a flaw in our SOP for land disputes, in not clearly identifying its applicability to JV/JOs or HTR.

The incident and the resulting complaints sent by the NGOs Jikalahari and Yayasan Riau Mandiri to the LEI Sustainable Plantation Forest Management Certification panel, contributed to our being subjected to formal verification by LEI.

We have since reviewed and improved our standard operating procedures for the handling of land disputes.





Our People

Our commitment to sustainability embraces our aspiration to generate opportunities for our direct employees and our many contractors and business partners. This brings with it the need to instill in every one of our people an instinctive belief in 'the APRIL way' of doing things. During this reporting period, we have taken a number of steps to further embed this understanding through business practices and processes, and through our consistent communication.

An intrinsic element to the creation of a sustainable business is a commitment to continual improvement. As we have grown and developed, we have recognized the need to formalize our approach to improving every way in which we do business.



APRIL Improvement Management System

With a view to institutionalizing continual improvement in APRIL, we created a new Business Continuous Improvement Department (BCID) in mid-2005 with a remit to effect sustainable continual improvement mindset through a standardized and formalized AIMS (APRIL Improvement Management System).

Under the AIMS philosophy, there is an expectation of a shift in staff thinking and practice towards measurable and sustainable improvements. With support from the BCID team, the AIMS approach is being introduced company-wide. Following training, improvement ideas and projects have been proposed by individual and groups of employees. Approved ideas and projects are carried out and Management grants appropriate recognition to successful proponents. To support the embedding process, we will undertake benchmarking among and within departments and provide additional tools.

APRIL Learning Institute (ALI)

The APRIL Learning Institute (ALI) was established in 2005 and is responsible for company-wide human resource development. Its mission is to ensure that we attract, train and retain world-class employees, and that the culture and competence of the organization support the sustainability, improvement and growth of APRIL. The ALI has adopted a Faculty Organization Model to reinforce its belief in self-empowerment and in quality rather than hierarchy.

ALI development programs are designed to address one or more of the essential competencies required to enhance individual as well as organizational performance. These are, in essence, captured in the three APRIL Cultural Pillars (Customer Focus, Performance-driven and Proactive Teamwork), as well as in the 4C (Competence, Commitment, Character, Complementarity) and 4E (Energy, Energize, Edge, Execution) models.

In 2005, APRIL Learning Institute focused on the following programs:

1. APRIL Citizen Training Program (including new employee orientation and safety training)
 - a. APRIL Cultural Pillars Training
 - b. AIMS Training (APRIL Improvement Management System)
2. Office and Functional Training
3. APRIL Management/Graduate Trainee (GT) Program (APRIL Academy)
4. Professional Excellence Certification - Driving License Process (DLP)
5. Management, Leadership, and Soft Skill Training
6. Internship Program
7. Library Service

Developing Our People

In 2005 and 2006 we again asked Taylor Nelson & Sofres (TNS) to conduct an Employee Satisfaction Survey. This showed overall satisfaction levels to be roughly the same as those reported in 2004.

Employee Satisfaction Index 2004-2006

Dimension	Satisfaction Index (%)		
	2004	2005	2006
Working Climate	70.93	71.23	72.97
Leadership/Management	66.95	67.15	68.96
Working Appreciation	64.99	66.14	67.49
Training/Development	65.11	64.09	68.79
HR Procedures	61.78	60.96	63.16
Internal Community	61.03	61.09	61.06
Reward and Recognition	54.41	56.97	62.48
Career development/ Promotion	55.89	55.47	59.07
Overall Satisfaction Index	62.64	62.89	65.93

* Results were as at September 2006

APRIL (Indonesia) Employee Grade Distribution*

Grade	Title	June 2006
No Grade	Management Trainee	133
A1 - C2	Non-Staff	2,876
C3 - D1	Officer/ Supervisor	556
D2	Superintendent	133
D3	Manager	12
E1 and above	General Manager and above	3
Total		3,713

* Excludes expatriate employees

Age Distribution

	No. of Employees	%
<20	10	0.27
20 - 29	1,250	33.67
30 - 39	1,890	50.9
40 - 49	509	13.71
50 - 54	48	1.29
>= 55	6	0.16
Total	3,713	100

Gender

	No. of Employees	%
Female	298	8.03
Male	3,415	91.97
Total	3,713	100

Length of Stay

Years	No. of Employees	%
< 2	553	14.89
2 - 5	596	16.05
6 - 10	1,429	38.49
11 - 15	1,060	28.55
> 15	75	2.02
Total	3,713	100

Religion

	No. of Employees	%
Islam	2,728	73.47
Christianity	831	22.38
Buddhism	85	2.29
Catholic	64	1.72
Hinduism	5	0.14
Total	3,713	100

One of the greatest rewards for an employer is to see high retention rates among its employees. We are delighted that 69 per cent of our employees have been with us for six or more years. We hope that with our focus on training and development we can continue to enhance the prospects of all our employees and provide greater opportunities for ever-increasing numbers.



Case Study – Harmen Yunan, Wood Supply General Manager

“The two people in APRIL that I look up to the most are Pak Sukanto (Sukanto Tanoto, APRIL Chairman) and Pak Dev (AJ Devanesan, APRIL President). They are true achievers, epitomize success, and provide a target for my aspirations,” Harmen Yunan, APRIL Riaufiber Wood Supply General Manager, shows spirited conviction as he says these words.

But at 45, he feels he does not yet have enough to show for his 18-year career with the company – despite starting in 1988 as an Operator in the Chemical Plant of the then Indorayon, transferring to APRIL’s pulp mill Chemical Plant as its Team Leader, being promoted to Shift Coordinator, and some time later becoming Woodyard Manager in 1999. And then, in 2005 he was included in the Optimization Team, and within a few months was promoted again to his current role as Wood Supply Manager to APRIL’s mill. However, Harmen believes he can give much more. By anyone else’s standards, he’s an achiever but not for someone who strives for excellence in everything he does.

Years in APRIL have proven to be the right path for someone who actually started his career in product promotion. But Harmen’s no-nonsense drive for higher occupational goals brought him to the forest industry. He was fascinated not only by those running

the business, but even more by the culture instilled by APRIL in its employees that encourages individual advancement and rewards achievement. Harmen believes Management recognizes individuals who may lack a conventional educational background but can deliver results by demonstrating their outstanding skills and ability.

However, he’s not happy with every company ethos. “True, the company may attract people from other companies but unfortunately some bad come with the good, and these bad ones are no good for the company,” he complains. To Harmen’s way of thinking, the company should not always recruit externally to fill its executive posts. Instead, Management should focus on existing employees; not only do they know the system and how it works, but they also have the trust and confidence of superiors, colleagues and subordinates.

Harmen attributes his achievements so far to teamwork, honesty and humility. “We need to help each other, especially our subordinates. We must always tell the truth, and that means admitting our mistakes,” he concludes.

Use of Plantation Contractors

As well as directly employing several thousand local people, through our contractors we also provide employment for many more. We directly employ 668 laborers for the preparation and planting of Acacia and outsource the balance of our requirements to 184 plantation development and harvesting contractors who themselves provide employment for more than 5,000 laborers.

Estate	APRIL Labor Supply	Contractors	
		No. of Contractors	Labor Supply
Pelalawan North	-	21	686
Pelalawan South	-	23	1,178
Mandau	16	4	204
Langgam	-	17	476
Merbau	4	14	386
Ukui	225	11	340
Tesso	423	36	803
Cerenti	-	12	309
Baserah	-	14	467
Logas	-	13	362
Peranap	-	19	278
Total	668	184	5,489

Employee Representation

We regard SPSI, Serikat Pekerja Seluruh Indonesia (Indonesia Labor Union) as a partner in our shared aim of promoting the interests of all employees and forming a vital link between labor and Management. We believe our management decision-making has become more transparent by being able to communicate important employee issues with the support of SPSI.

The Labor Union of Riau pulp, Riau paper, and Riau power Workers, represents employees in our mill operations and is affiliated with the Chemical, Energy, and Mining Labor Union Federation of

Indonesia. The Labor Union of Riau fiber, representing those working in our forestry operations, is affiliated with the Timber and Forestry Labor Union Federation of Indonesia. (Unit Kerja Federasi Serikat Pekerja PerKayuan dan Perhutanan Serikat Pekerja Seluruh Indonesia)

Security Providers

Our security provider, Security Group Indonesia or SGI, enhanced its capabilities through additional training of its security personnel and by upgrading its security technology through better radio communication. We are pleased that SGI has applied the standard and quality of procedures required by ISO 9001: 2000. Their certification was awarded in March 2004 and is valid until March 2007.



Case Study **Kabar Samosir,** Peranap Estate Manager

"The company has really been supportive in ways I could never have imagined, but support has to be material as well. We believe that others in the industry pay higher salaries and we'd like the company to recognize that this difference has developed," commented Kabar Samosir, his enthusiasm for APRIL tempered by a degree of disappointment.

Kabar has certainly had time to acquire an in-depth knowledge of this industry. Such was his wish to work for APRIL that he left his chosen career and his home, teaching in SMEA (Sekolah Menengah Ekonomi Atas) or Economics Senior High School in Surabaya, East Java, to become TUK (Tata Usaha Kayu) or Log Administration Staff in the company's plantations in Riau.

Since this move in 1995, Kabar has advanced from one position to another leading to his promotion to Mandau Estate Manager, itself a significant role. Then, in early 2006, he was appointed Peranap Estate and Harvesting Manager, another important appointment carrying considerable responsibility.

"I left teaching because I could see myself in management in a company with ambition," confirmed Kabar. "I felt that APRIL shared my belief in loyalty, honesty, and most of all, hard work."

His loyalty has been repaid and Kabar readily acknowledges that the company recognizes the efforts of its employees and rewards them justly. He would have never settled in one company for 11 years had it not been for APRIL's concern for its employees. However, he has a persistent feeling that work in the Estates could be better supported by Management and that the pay could be higher.

Health and Safety

We are pleased to report that the Total Recordable Incident Rate has decreased from 11.44 in 2002 to 3.14 in 2005 and 1.66 in June 2006 for Riaufiber, and from 2.14 to 0.81 and 0.28 for our mill operations over the same period. In fact, our TRIR in Riaufiber is now comparable to the international industry average.

Health and Safety Performance (TRIR)

	2005	Jan – June 2006
Riaufiber	3.14	1.66
Mill	0.81	0.28

Note: Total Recordable Injury Rate (TRIR) is also Total Case Incident Rate (TCIR) in OHSAS terms

Employee and Contractor Accident Record

	Fatality	Medical Aid	LTIR
Riaufiber			
2005	9	142	2.24
Jan – Jun 2006	7	82	1.12
Mill			
2005	6	39	0.28
Jan – Jun 2006	3	15	0.05

$$\text{TRIR} = \frac{(\text{annual no. of injuries occurred} \times \text{total no. of workers})}{\text{total annual no. of hours worked}}$$

$$\text{LWIR} = \frac{(\text{annual no. of lost workdays} \times \text{total no. of workers})}{\text{total annual no. of hours worked}}$$

$$\text{LTIR} = \frac{(\text{annual no. of lost time accident})}{\text{total annual no. of hours worked per million work hours}}$$

OHSAS 18001:1999

The safety of the employees is a key priority for APRIL and several initiatives have been implemented to maintain a culture of safety in its fiber plantations and within the mills.

In 2005, the fiber operations attained certification for its Occupational Health and Safety Management System against the OHSAS 18001:1999 Standard. The process started in late 2003 upon the commissioning of PT SGS International Certificate Services Indonesia (SGS-ICS Indonesia) to carry out a "Preliminary Assessment".

OHSAS 18001:1999 is a published Management Standard that provides a generic framework for the identification and management of Occupational Health and Safety risks, and the achievement of improved performance.

The audit was carried out in early October 2005 and concluded with five minor Corrective Actions and an overall recommendation for certification under OHSAS 18001:1999 Standard.

Minor CAR 1 – Various Estates

- Some deficiencies on contractor control through periodic OHS inspection were noted at Pelalawan Estate
- The system does not always ensure risk has been considered in determination of issues that should be inspected in the equipment & safety inspection checklist

Minor CAR 2 – HRD and Clinic (Kerinci Main Office)

- There was insufficient evidence that the result of medical check-ups during October 2004-2005 period were properly analyzed to facilitate subsequent corrective and preventive action.
- The method of analysis of medical check up results and follow up of the suspect illness among workers (e.g. rotation, rehabilitation) was not defined in the related procedure.

Minor CAR 3 – Baserah Estate

- It was concluded that some accidents during debarking activity are due to unsafe activity and unsafe conditions. However, follow-up on this matter was not fully appropriate given the magnitude of the problem nor commensurate with the OHS risk encountered.
- It was noted that some of the details required of "Laporan Investigasi Report" (Accident Investigation Report) were not established. Moreover, there was insufficient evidence to ensure that corrective and preventive actions following on from an accident investigation report had been verified.

Minor CAR 4 – Various Areas

- Some deficiencies were found such as:
 - The system does not always ensure a machine guard was provided.
 - It was noted that a lock out tag out system was not established and implemented.
 - It was noted that some of the safety equipment were not provided.
 - The system does not always ensure that traffic hazard signage is provided.

Minor CAR 5 – Training Department (Kerinci Main Office)

- It was noted that though the "Training Ladder" and training program have been established there was insufficient evidence that risk, ability, responsibility have been considered in the determination of training needed.
- It was noted that authority to declare that new equipment complied with safety requirements or that roads were in a safe condition were not documented.

In each of these cases, actions were undertaken to address the CAR.

Riaufiber received its OHSAS 18001 certificate [ID05/0679] from SGS International Certification Services Indonesia, issued 27 October 2005, and covering Baserah, Logas, Tesso, Ukui, Cerenti, Pelalawan, Mandau, and Langgam Fiber Estates.

In 2005, a PPE (Protective Personal Equipment) plan was introduced and is currently being implemented. Using phased approach, all our employees and contractor workers must abide by our regulations and make use of safety equipment such as earplug, helmet, and safety shoes.





Our Commitment

With our growing belief in and practice of corporate social responsibility and our general desire to continually improve in every aspect of our operations, we continue to identify specific areas of improvements that we will strive to achieve over the next two years. Ultimately, these commitments serve our goal of progressing towards embedding sustainability in the basic fabric of our organization.



- **Corporate Governance**

We recognize that only if our employees embrace sustainability principles as a personal compass for daily decisions and actions at work can we succeed at embedding them in the organization. We shall focus on internal culture development through a phased cascade program over the next two years.

- **China Operations**

The same sustainability commitment that guides the responsible management of our fiber and mill operations in Indonesia also underlies our China operations. We shall be reporting on our activities in China in the 2008 Report.

- **Responsible Fiber Plantation Management**

We remain hopeful of a review of the preclusive FSC principle that disqualifies plantations from conversions done beginning in 1994, and will continue with our Certification Support Program with SGS on applicable FSC principles. We aim to complete this towards end 2007. We also aim to have the rest of our concessions, focusing on our operations in Pelalawan, certified under the Lembaga Ekolabel Indonesia also in 2007.

As we also work towards certification under the FSC Controlled Wood Standard, we will ensure improved documentation and monitoring of our fiber sources specifically to corroborate the present practice of not sourcing fiber from genetically modified trees.

- **Fiber Operations in the Peatlands**

We have started to organize a science-based consortium of experts on peatland development, hydrology, High Conservation Value Forests, and carbon issues to support our operations in Pelalawan, and the proposed development strategy in the Kampar Peninsula. We will continue to report on the progress of this initiative, and how we progress on issues related to peatland development.

- **Climate Change**

We will improve our monitoring and reporting system on the impact of our fiber and mill operations on the climate, including initiatives to mitigate this.

- **Tesso Nilo**

We will continue to support WWF in the urgent need to protect and manage the presently declared Tesso Nilo National Park (38,000 ha), and its bid to expand the park to 100,000 ha.

- **Solid Waste Management**

We will continue to report on the progress and/or completion of our new landfill, the remediation of our existing landfill, and other initiatives related to the re-use and recycling of the mill's solid wastes.

- **Community Development**

Community empowerment through skills development and creation of a livelihood base remains one of our key objectives in Riau. With the establishment of CECOM, we hope to be able to further grow our programs through partnerships with other institutions. We remain committed to the improvement of the overall quality of life of the communities within our sphere of influence.

- **Land Disputes**

We are committed to improving our land dispute resolution system and will continue with our search for an independent third party that we can engage for advice and assistance to ensure a fair and peaceful resolution of these issues.

- **Global Compact**

We will seek membership and active participation in a Global Compact Network.

- **Organizational Development**

We recognize that sustainability is also about ensuring that a sufficient and competent human resource base will support our present operations and future growth. We have put in place programs to develop our own people, primarily from the local pool, and will continue with this training and management development initiative.

- **Sustainability Reporting**

We consider the Sustainability Report not just as a communication tool but also as a management tool which helps to identify issues and drive changes in our operations. Through our Balanced Scorecard and APRIL Improvement Management System (AIMS), we remain committed to ongoing improvement in our processes. Our next Sustainability Report will be published in 2008 .

Independent Assurance Statement



To: The Management of Asia Pacific Resources International Holdings Limited (APRIL)

a) Introduction

Bureau Veritas has been engaged by Asia Pacific Resources International Holdings Limited (APRIL) to provide assurance for its sustainability reporting. This Independent Assurance Statement applies to APRIL'S 2006 Sustainability Report ('the Report'), its third such report to date covering the reporting period of January 2004 to the end of June 2006. The preparation of the Report is the responsibility of the management of APRIL. Our responsibility is to provide assurance on the reliability of the information therein and to express our overall opinion on the Report as per the scope of assurance.

b) Scope of the Assurance

The scope of our work was determined through discussions with APRIL and can be summarised as follows:

- Review and assess the reliability of environmental, social and related information and associated performance and supporting data including key performance indicators, included in the Report for the period of January 2004 to the end of June 2006.
- Assess the efficacy of systems deployed in the collection and compilation of such information
- Where appropriate provide impartial commentary on progress and propose recommendations for further development

Excluded from the scope of our work is assurance against information relating to:

- Activities outside the defined assurance period
- Positional statements (expression of opinion, belief, expectation, aim or future intention) provided by APRIL

c) Assurance Methodology

Bureau Veritas assessed whether the information reported was supported by underlying evidence. To do this we conducted:

- Interviews with 45 APRIL employees and a review of relevant systems to understand information management within the company
- Discussions with external parties to corroborate information where appropriate
- Audit of performance data back to source data wherever possible; where this has not been possible we have ensured that the data has been accurately transposed into the report
- Review of the complete Report for consistency with the findings of our detailed work.

d) Basis of Opinion

APRIL's sustainability reporting covers its operations and activities in Riau, Sumatra, Indonesia. The reporting structure is based on the Global Reporting Initiative (GRI), Global Compact's 10 Principles and APRIL is reporting herein against a number of its core and additional performance indicators.

Our opinion is formed on the strength of available information, observation and discussions with APRIL's management and operational staff during a site visit on 6th – 10th November 2006. The work conducted as described in the 'scope of the assurance' above was planned and carried out to provide reasonable, rather than absolute assurance and we believe it provides a reasonable basis for our conclusions.

e) Assurance Conclusions

In our opinion, this APRIL's third Sustainability Report:

- Provides a fair representation of APRIL's sustainability status for the reporting period and its progress over the previous reporting period
- Provides information in a clear and understandable manner that is considered to be reliable and free from significant error or bias
- Responds informatively to commitments made in the previous Sustainability Report and to performance over the reporting period

- Acknowledges and addresses stakeholder engagement and associated concerns
- Has been corrected for mistakes and inaccuracies identified through the assurance process with a positive view to providing best available information

f) Commentary on Reporting and Assurance

Highlights and progress

- Policy level commitment to Environmental, Social, Health and Safety issues, including, among other elements: support to Indonesian government laws/policies and environmental groups' initiatives to address forest conservation and illegal logging concerns; sustainable management through the Mosaic Plantation Concept; commitment to delineate and protect High Conservation Value Forests; and health, safety and well-being of employees, contractors and communities.
- Further improved systems to document and competently manage environmental and social aspect of the business, including: certification to the internationally recognized OHSAS 18001 Health & Safety standard; an improved 'green' rating for the PROPER environmental scheme; a proactive approach to the prevention of and rapid response to fire and haze; and increasingly integrated solution to waste management.
- Progressive engagement with stakeholders, including critical NGOs, regarded as key to APRIL's corporate environmental and social responsibilities.
- Independent assignments conducted during the reporting period including, for example: LEI certification in support of its progressive approach to sustainable forest management; on-going third party chain-of-custody audits and progress towards meeting the requirements of full FSC; establishment of an independent Care and Empowerment for Community Foundation and of APRIL's Learning Institute; and on-going conservation efforts in the Tesso Nilo and Kampar Peninsula areas.
- Establishing company-wide human resource development to support the sustainability, improvement and growth of APRIL.
- Commitment to continual improvement through implementing APRIL Improvement Management System (AIMS).
- Commitment to existing and new community development projects, demonstrated through allotted budgets, physical evidence and personal interviews.

Key areas for ongoing improvement

APRIL should consider:

- Improving the control of sub-contractors on their safety performance
- Reporting performance of on-going landfill remediation and eventual landfill management, and CO₂ emissions from transportation activities
- Further improvements or standardization of monitoring and reporting of performance indicators that address occupational health and safety across the entire operations, including contractors
- Inclusion of case studies for environmental health and safety management that demonstrate response to incidents, lessons learned and improvement aspects
- Developing community initiatives that will continue to reach a greater populus, both local and geographical, as well as the existing approach to specific needs assistance
- Appropriate analysis of all relevant information, to be interpreted in the context of sustainability management and stakeholder responsiveness

Considerations and limitations

In relation to our assurance work and conclusions the following considerations and limitations should be noted:

- We have conducted limited external stakeholder interviews in relation to providing assurance against community-related case studies described in the report
- In relation to the performance data we have audited source data wherever possible; where this has not been possible we have ensured that the data has been accurately transposed into the report
- Therefore this independent assurance report should not be relied upon to detect all errors, omissions or misinterpretations in the Report, nor can it guarantee the quality of environmental and social management systems and processes.



November 2006

Statement by Bureau Veritas of independence, impartiality & competence

Bureau Veritas is an independent professional service company that specializes in quality, environmental, health, safety and social management with over 170 years history in providing independent assurance services and an annual turnover in 2005 of Euro 1.647 billion.

Bureau Veritas does not have any existing commercial contract with APRIL. Our assurance team does not have any involvement in any other projects with APRIL and we do not consider there to be a conflict with the services provided by Bureau Veritas assurance team.

Bureau Veritas has implemented a code of ethics across its business which is intended to ensure that all our staff maintain high ethical standards in their day-to-day business activity.

Glossary

Acacia Crassicarpa and Acacia Mangium – Two species of Acacia, characterised by fast-growing and good pulping qualities. APRIL plants Acacia Crassicarpa on low-lying land and Acacia Mangium on mineral soils.

Acacia Chain of Custody System – As part of APRIL's commitment to sustainable fiber plantation management, APRIL ensures that the flow of Acacia fiber from the plantation to the mill can be reliably monitored, traced and documented. Through APRIL's Acacia Chain of Custody (CoC) System, Acacia wood can be identified and segregated from mixed hardwood at any point from the plantation to the mill production chain.

ADt (Air Dried tonne) – Marketable pulp (air dried) contains 10 percent water.

Bio-fuel – In contrast to fuel based on products derived from the petrochemical industry (i.e. fossilized biomaterial) biofuel is based on raw material derived from living organisms and therefore can be classified as renewable resource.

BOD – Biological oxygen demand. A measure of the amount of oxygen that bacteria will consume while decomposing biologically available organic matter. BOD is a measure of the degree of organic pollution in water. See COD also.

CIFOR – Center for International Forestry Research, located in Jakarta, Indonesia.

COD – Chemical oxygen demand. COD does not differentiate between biologically available and inert organic matter and is therefore a measure of the total quantity of oxygen required to oxidize all organic matter into carbon dioxide and water. As with BOD, it is a measure of water quality. See BOD also.

Eucalyptus – A large family of trees, common in Australia. Certain species, like the Eucalyptus Pellita, are native to Indonesia. APRIL is evaluating the suitability of planting Eucalyptus hybrids on a large scale on mineral soils.

FAO – Food and Agriculture Organization of the United Nations, headquartered in Rome, Italy.

Geographic Information System (GIS) – GIS is a collection of computer hardware, software, and geographic data for capturing, managing, analyzing, and displaying all forms of geographically referenced information.

H₂S – Hydrogen sulfide, a pollutant.

Hectare – metric unit of area that is equal to 10,000 square metres (2.471 acres).

High Conservation Value Forests (HCVFs) – HCVFs are defined as forests of outstanding and critical importance due to their environmental, socio-economic, biodiversity or landscape values.

Illegal Logging / Illegal Wood – This refers to trees that are cut from natural forests, private concessions and village land without legitimate government authorisation or permits. It also includes wood obtained through bribery and wood acquired in violation of the conditions of the permit (e.g. cutting more than the authorised volume, or cutting outside the permit area). Illegal logging is a global multi-billion dollar industry affecting many countries. APRIL is actively combating illegal logging.

ISO – The International Organization for Standardization, also known as ISO, is a worldwide federation of national standards bodies representing more than 140 countries, one representative from each country. ISO is a non-governmental organization established in 1947. The mission of ISO is to promote the development of standardization and related activities in the world with a view to facilitating the international exchange of goods and services, and to developing cooperation in the spheres of intellectual, scientific, technological and economic activity. ISO's work results in international agreements which are published as International Standards. ISO is not an acronym for the International Organization for Standardization, as many people believe, ISO is actually derived from the Greek "isos", meaning "equal" which is the root of the prefix "iso" found in many terms to indicate "equal", such as: isometric; isobar; isogenous; isotope; etc. Therefore, the short name of the organisation "ISO" ensures that the name remains the same, regardless of the country or language.

ISO 9000:2000 – comprises a series of documents (standards, guidelines and technical reports) that set out more specific standards for areas such as auditing procedures, quality performance evaluation, quality improvement, quality in project management, training, techniques and statistical process control; however, they do not result in “certifications”. ISO 9001:2000 “Quality management systems - Requirements” is the standard used to assess an organization’s ability to meet customer and applicable regulatory requirements and thereby address customer satisfaction. Furthermore, ISO 9001:2000 is the only standard in the ISO 9000:2000 family against which third-party certification can be carried out.

ISO 14001 “Environmental Management Systems

– Specification with guidance for use” is the only standard within the ISO 14000 series against which an organization’s environmental management system (EMS) can be certified. ISO 14001 requires that an organization’s EMS provides a framework to identify and address the significant environmental aspects and related impacts of its activities, products and services. ISO 14001 requires compliance with all relevant legislation and a commitment to continual improvement of the organisation’s EMS. However, the ISO standard does not set specific environmental performance criteria nor does it establish absolute requirements for environmental performance; these are defined by the organisation seeking certification to this standard. Certification to ISO 14001 requires an organization to:

- Establish an appropriate environmental policy;
- Determine significant environmental impacts of its activities (past, present or planned) and of the products/services it produces (ensure that all issues identified as “significant” are being managed within the EMS);
- Identify the relevant environmental legislative and regulatory requirements (ensure regulatory compliance is being achieved);
- Identify priorities and set appropriate environmental objectives and targets;
- Establish a structure and programme(s) to enable it to implement the policy and achieve the established objectives and targets;

- facilitate planning, control, monitoring, corrective action, auditing and review activities to ensure both that the policy is complied with and that the environmental management system remains appropriate to the nature and scale of the organisation’s activities (the system is auditable, both internally and externally); and
- be capable of adapting to changing circumstances.

Kraft pulp – Pulp produced by the most widely used chemical pulping process, the kraft process (also known as sulphate pulping process). This process is versatile, allowing most types of wood to be used as raw material. Unbleached kraft pulp is brown in colour and its uses include brown sack paper and bags. For use as printing or writing papers it needs to be bleached. The name of the process comes from the German word “kraft” (power, strength), referring to the high strength of kraft pulp (as compared with sulphite pulp, a product of the less common sulphite pulping process).

Land Disputes – Land in Indonesia is predominantly state-owned. The right to use the land is given to certain companies and individuals under licensed concessions for which fees or royalties are payable. A major exemption to this is traditional village land, usually small plots on which villagers grow subsistence and cash crops. Disputes may arise through overlapping claims to the same land, or through lack of provable land titles and questionable recognition of traditional rights.

Melaleuca – Melaleuca is a genus of around 170 species in the Myrtle family (Myrtaceae). APRIL is testing Melaleuca intensively to determine the best planting material sources, to further develop our management techniques, and to understand their fiber properties in pulp production.

Mixed Hardwood pulp – A specific type of pulp which, in the case of APRIL, is produced from a mixture of various hardwood species harvested from concession areas which are being developed into Acacia plantations.

MBTU (Million British thermal units) – MBTU stands for one million BTUs, which can also be expressed as one decatherm (10 therms). MBTU is used as a standard unit of measurement for natural gas and provides a convenient basis for comparing the energy content of various grades of natural gas and other fuels. One cubic foot of natural gas produces approximately 1,000 BTUs, so 1,000 cu.ft. of gas is comparable to 1 MBTU. MBTU is occasionally expressed as MMBTU, which is intended to represent a thousand thousand BTUs.

OHSAS 18001 – An Occupation Health and Safety Assessment Series for health and safety management systems. It is intended to help organizations manage occupational health and safety risks.

Oil Palm – A special variety of palm widely planted in South East Asia that produces a vegetable oil (Palm Oil). Palm Oil can be used for cooking, food processing and lubrication.

pH – The pH scale commonly measures the acidity or alkalinity of water. pH is the negative logarithm of the molar concentration of hydrogen ions. It ranges from 0 to 14. A pH of 7 is neutral (pure water). A pH less than 7 is acidic, and a pH greater than 7 is basic.

Riau Province (Riau Propinsi) – The province on the island of Sumatra, Indonesia, where APRIL's pulp & paper mills are located. For administrative purposes, Indonesia is divided into a number of provinces, each administered by its own government.

Riparian – relating to the immediate surrounding area of a natural water course. This includes vegetation as well as the soil.

SK (Surat Keputusan) – Decision Letter/Definitive License

SME (Small & Medium-sized Enterprises) – APRIL helps establish local SMEs both through our industrial operation and via community development.

Sumatra (Sumatera) – The second largest island in Indonesia (after Borneo). Riau Province, where APRIL's pulp and paper mills are located, is in Sumatra.

Sumatran Elephant – The Sumatran elephant (*Elephas maximus sumatranus*) is the smallest (and perhaps oldest) of the Asian subspecies and is unique to the island of Sumatra. It has been protected in Indonesia since 1931. Now endangered, population surveys conducted in the 1980's estimated that only 2800 – 4500 wild elephants remain.

Tesso Nilo – Tesso Nilo is a lowland forest area in Riau Province. The area is a natural habitat for Sumatran elephants and other wildlife. It has also been found to have up to 218 species of plants in plots of only 200 sq. metres, giving it a greater biodiversity than any other area in the world.

TSS – Total Suspended Solids. A measure of the suspended solids in wastewater, effluent or water bodies.

TRS – Total Reduced Sulphur

UN Global Compact (UNGC) – The UNGC embraces 10 principles covering human rights, fair labor, the environment, and anti-corruption. The Compact, established in July 2000, seeks to promote responsible corporate citizenship by providing a framework for businesses to follow in response to the challenges of globalization. The UN Global Compact has been signed by more than 3,000 participants including 2,500 companies around the world, making it the world's largest voluntary corporate citizenship initiative.

US Cluster Rule – a comprehensive set of regulations issued by the US Environmental Protection Agency to reduce environmental pollution, water discharges, air emissions, and solid wastes relating to all industries, including pulp and paper mills.

World Bank Pollution Prevention Guidelines – These guidelines provide technical advice and guidance on how to reduce pollution emissions from the production process. The guidelines include numerical targets for reducing pollution as well as maximum emissions levels.

Singapore

APRIL Management Pte Ltd.
80 Raffles Place #50-01 UOB Plaza 1
Singapore 048624
Tel: (65) 6216 9318
Fax: (65) 6220 4726

Indonesia

Jalan Teluk Betung No. 31
Jakarta 10230, Indonesia
Tel: (62 21) 330 134 (10 lines)
Fax: (62 21) 314 4604

Desa Pangkalan Kerinci
Kecamatan Langgam
Kabupaten Pelalawan
P.O. Box 1080 Pekanbaru
Riau, Sumatra 28000, Indonesia
Tel: (62 761) 491 000
Fax: (62 761) 95278, 95274, 95681

China

Shandong Asia Pacific SSYMB Pulp and Paper Co., Ltd.
No. 369, Beijing Road, Rizhao
Shandong Province, China
Tel: (86633) 3361000
Fax: (86633) 3361280

www.aprilasia.com