



Jakarta, 12 October 2012

To the attention of Mr. Ahmad Zazali
Executive Director
Scale Up

Andiko
Executive Director
HuMa

Mr. Dedy Permana
Executive Director
Wahana Bumi Hijau

Mr. Marcus Colchester
Executive Director
Forest Peoples Programme

Ms. Rebecca Tarboton
Executive Director
Rainforest Action Network

Mr. Rivani Noor
Executive Director
CAPPA

Thank you for your letter dated 24 September 2012. We appreciate very much your organizations' interest in our Human Rights initiative and your many insights and advice to further enhance our results. Please allow me to explain the initiative further and provide responses to your requests and questions.

Background

APP had long realized the importance of enhancing its social responsibility practices as a part of running a sustainable business. In June, The United Nations Human Rights Council endorsed for the first time a set of guiding principles for business on human rights performance using the 'protect, respect and remedy' framework. APP has committed itself to adopting this framework, and as the first step in doing so, had appointed Mazars¹ to do a comprehensive human rights audit in our manufacturing facilities as described below.

¹ Mazars is among the few auditing organizations that promote audit of human rights performance for business and have achieved 'Audit Innovation of the Year' award for its 'Human Rights Audit' practice at the inaugural International Accounting Bulletin (IAB) Awards held on March 8th 2012.

If and how the APP human rights audit being undertaken will address these key issues or reflect APP's stated commitment to operate in line with best practice requirements for Free, Prior and Informed Consent

The core concept of the FPIC is the involvement of community in the planning stage of the company's activity that will impact their life and their surroundings. Aspects that are assessed in this audit is the Policy/procedure/mechanism of:

- stakeholder mapping
- stakeholder engagement including stakeholder consultation
- feedback/complaint handling mechanism
- CSR policies and practices
- Conflict resolution

Examinations of those procedures above will assess how APP is engaging its community, and whether the community engagement is effective enough or is aligned with the international best practices.

In addition to the Mazars Human Rights Audit, APP has also been working together with The Forest Trust since February 2012. The scope of the work includes:

- Social / tenure mapping across APP supply chain based on field visit mapping of existing conflict
- Reviewing the existing method for conflict resolution
- Addressing most serious conflicts in APP's supply chain; current selected areas of conflicts are Senyerang and Soreg in Jambi and Riau provinces respectively
- Developing and testing methodology for Conflict Resolution and stakeholder engagement
- Developing SOP to resolve social conflict and uphold FPIC
- Developing a methodology to train the trainers and capacity building to ensure full SOP implementation

The human rights audit standard that APP is using has not been released.

The Standard used during the Audit is The Mazars Indicators for Human Rights and Social Compliance (MIHRSC), which was developed based on:

- Prevailing Indonesian Labor
- Human rights and environmental law
- Universal Declaration on Human Rights (UDHR)
- Organization for Economic Co-operation and Development (OECD) guidelines for multi-national enterprises
- Around 80 Human Rights and International Labor Organization (ILO) convention and declarations

We have urged Mazars to release the standard. Mazars have informed us that they view the MIHRSC as their intellectual property. As such, they are concerned about publicly releasing the standard. We have encouraged them to speak to you to share more information. Despite this, we have listed below the indicators that the MIHRSC uses:

1. Forced labor

Verify that the company takes all necessary measures to ensure that it does not participate in, or benefit from any form of forced labor (this can include bonded labor, debt bondage, forced prison labor, slavery, servitude, or human trafficking)

2. Child labor and young workers

Ensure the company is in compliance with minimum age standards

3. Conditions of employment and work

Ensure that the company provides healthy, suitable and safe working conditions for its employees

4. Non-discrimination

Ensure that the company's compensation, benefit plans, and employment related decisions are based on relevant and objective criteria

5. Freedom of association

Ensure that the company recognizes the rights of its workers, including the freedom of association and the right to bargain collectively.

6. Workplace health and safety

Ensure that the company's workers are afforded safe, suitable and sanitary work facilities.

7. Community and environment impact

Ensure that the company's operations are not causing any negative impact to the local community and environment where it operates.

8. Supply chain management

To ensure that the Company screen and monitor all major suppliers, contractors, sub suppliers, joint-venture partners, and other major business associates for commitment on human rights/social issues.

Communities with outstanding human rights complaints linked to APP and prominent civil society organizations monitoring these issues have not been consulted. The scope, process, methodology, timeline and outcomes of the audit remain unknown.

The scope of the Mazars Human Rights Audit is assessment of implementation of human rights principles in APP mills and its surrounding areas, which in case of Indah Kiat Perawang Mill and Lontar Papyrus Mill including Arara Abadi and Wirakarya Sakti respectively. APP mills included in the Mazars Human Rights Audit are as follows:

- Indah Kiat Perawang Mill, Riau Province
- Lontar Papyrus Mill, Jambi Province
- Indah Kiat Serang Mill, Banten Province
- Indah Kiat Tangerang Mill, Banten Province
- Pindo Deli Mills, West Java Province
- Tjiwi Kimia Mill, East Java Province
- Ekamas Fortuna Mill, East Java Province

Mazars Audit Methodologies

The Mazars audit approach is based on the belief that the basic foundation of an audit process is the plan that is well prepared with the project management unit. This will direct effort toward areas with significant risk. During the planning phase, key risks and issues are identified with each process and strategy is set through the application of an intelligent risk-based approach for gaining audit assurance and improvement recommendations.

Since the audit methodology is risk-based, it directs attention towards the main areas of concern. Mazars recognizes materiality and take into account the overall environmental considerations as well as the risk related to specific management assertions. That way the audit remains business-like and independent.

The process of the audit can be outlined as follows:

1. Desktop study, in which Mazars examines all the company's Policies, SOP, Work Instructions and other documents that are relevant to those indicators above.
2. Site observation and inspection
3. Interview with internal and external stakeholders. This include interview with around 20% of the company's employees. Samples are carefully selected to represent areas that are prone to human rights violations in the work place. Among employees interviewed were staff from production, security, purchasing, chemical handling, employee in pregnancy or maternity and labor unions. For external stakeholders, Mazars will interview representatives from surrounding community, selecting people/organizations that are highly impacted by the company's operations, such as people who live nearby the company operations, local contractors, community leaders, local civil society and relevant government representatives.
4. Media research and other stakeholder input. Mazars will also take into account feedback from general stakeholders from various media and cross check the actual facts on the ground through above methodology

The Mazars Human Rights Audit consists of two stages:

- Preliminary Assessment ; September 2011 – March 2012
- Full Audit; March 2013 – August 2013

Transparency - Guiding Documents, Mazars auditing standard and other human rights assessment tools being used to conduct the assessment of APP need to be made public, as well as commitment to full rather than partial disclosure of the audit result.

As noted above, we have asked Mazars to publicly release their auditing standard and assessment tools but they have expressed concern about doing so. We will happily facilitate a meeting between you and Mazars to discuss this.

With respect to the full audit result, once the full audit is completed, APP will share and communicate the results to public and relevant stakeholders. The communication will include the result of the audit and APP's plan to address things that need to be improved. Due to confidentiality issues, the matters disclosed to public are the ones that are relevant for public consumption. Feedbacks and comments from relevant stakeholders will also be taken into consideration while finalizing the long term goal and work plan to enhance APP's practice on human rights principles in its operations and major supply chain.

Inclusiveness – We urge APP to ensure that the audit establish and communicate its procedures and partnerships for broad based, open, accessible and safe consultation procedures mediated by independent third parties.

Once the full assessment is done and the result is communicated, we will of course seek partners in implementing the recommendations of the audit to further enhance our human rights practices in the long term.

Comprehensiveness - We seek clarification about the scope of the APP audit. Will it assess the human rights impacts of all APP Indonesian wood supply chain including from its own licenses and third party sources?

The focus of the audit is the APP manufacturing facilities. We include two of our major suppliers with locations adjacent to our mills in Riau and Jambi Province; Arara Abadi and Wirakarya Sakti. The reason we've included these suppliers is because of the locations are nearby our two pulp mills therefore they share the same sphere of communities that have similar social, environmental and economic issues.

Relevant to the 8th sector of the audit which is the Supply Chain Management, the audit also involves the examination of APP policies and procedures in engagement with third party including contractors, suppliers and outsourcing. In addition to policies and procedures the audit also examines content of agreements with those third parties to ensure that the content is relevant with the human rights principles, and to ensure that through these documents (policy, procedures, agreement and contracts) the company also requires its supply chain to follow and practice human rights principles. The audit also examines whether the human rights dimensions are included in the selection process of any third party engagement.

Will the audit recognize and include assessments of the collective rights of peoples, their land and natural resource tenure rights and the many human rights linked to land including the minimum standards set out in the UN Declaration on the Rights of Indigenous Peoples? We request that APP advise whether it is prepared to engage and address land tenure rights issues including collective rights and violations thereof, and how it envisions this occurring. For example, will APP adopt SOP that prevent and resolve social conflict and uphold the right to Free, Prior and Informed Consent?

Not only are we prepared to engage and address land tenure rights issues, as mentioned above APP is currently working together with The Forest Trust on these issues (since February 2012). The scope of the work with TFT includes:

- Social / tenure mapping across APP supply chain based on field visit-mapping of existing conflict
- Reviewing the existing method for conflict resolution
- Addressing most serious conflicts in APP's supply chain; current selected areas of conflicts are Senyerang and Soreg in Jambi and Riau provinces respectively
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- Developing methodology to train the trainers and build capacity to ensure full SOP implementation

Accountability – We are seeking a commitment from APP that you will publicly release the final draft report to Mazars audit prior to making any final reports or claims and give adequate time for seeking feedback from all stakeholders, that you ensure that this feedback is taken into account and given due weight in the final audit report.

Aspects of the report will be made publicly. The final report of the full assessment of the Human Rights audit will contain human rights principles that APP has implemented in its operations as well as areas where we will need to improve, along with recommendations from Mazars on how to improve the human rights practices in APP for the long run. As we have realized when we committed ourselves to adopting the UN Guideline for Business and even before we implemented the audit, Human Rights practices are not something that can be changed or improved overnight. It is a long and continuous process, especially when you are aiming to meet the international best practices. The Human Rights audit with Mazars itself, is the first step that we take, as a corporation, in order to know where we are right now in terms of human rights implementation across our operations. Therefore, the report itself will be a working document that can be expanded and revised overtime based on stakeholder inputs and assessment of practices on the ground.

In addition, we seek commitment from APP that you will establish an independent dispute resolution mechanism and resolve and provide redress in response to social

conflicts and human rights violations associated with APP's operations, in accordance with international best practices.

Relevant with the UN Guideline for Business on Human Rights Performance, through the Human Rights Audit with Mazars and our work with TFT, we are examining our existing complaint management and conflict resolution procedures; their effectiveness and relevancy to international best practices. During development, the procedures are tested with existing conflict areas and released to relevant stakeholders for feedback.

Please find attached feedback from Mazars to your letter. Should you have more inquiries regarding the standard, methodology and tools of the audit we encourage you to contact Mr. James Kallman from Mazars.

I am looking forward to hearing from you and to the opportunity for direct discussions with your organization.

Please be advised that this letter is without prejudice to our organization's legal rights, claims and remedies, all of which are expressly reserved.

Sincerely,



Aida Greenbury

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Lafcadio Cortesi
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10 October 2012

Mr. Ahmad Zazali
Executive Director
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Mr. Andiko
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Mr. Deddy Permana
Executive Director
WBH

Mr. Marcus Colchester
Executive Director
Fores People's Program

Ms. Rebecca Tarboton
Executive Director
Rainforest Action Network

Mr. Rivani Noor
Executive Director
CAPPA

Dear Sirs,

Following your letter dated September 24, 2012, I write to you at the request of Asia Pulp and Paper. We are the independent auditors of a Human Rights Statement that will be prepared by subsidiaries under Asia Pulp and Paper.

Mazars is a Global Independent Accounting Organization with offices in over 60 countries around the world. We are the auditors of many large and global Public Interest Entities. For the past 2 years we have developed a proprietary auditing methodology focusing on Human Rights Compliance and Due Diligence. Our audit tool and indicators are based on the Universal Declaration of Human Rights, the OECD Guidelines for Multinational Enterprises and about 80 human rights and ILO conventions and declarations. We believe that this covers all applicable areas of Human Rights, Labor Rights, Community and Environment issues, and Anti Corruption. It also deals with the company's supply chain.

Our audit is intended to be in line with the definition of Due Diligence as set forth by the UN Guiding Principles on Business and Human Rights.

Our Engagement will be conducted in accordance with International Standards on Assurance Engagements ("ISAE") 3000, "Assurance Engagements other than Audits or Reviews of Historical Financial Information". The standard requires that we comply with applicable ethical requirements,

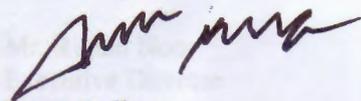
including independence requirements, and that we plan and perform the engagement to obtain limited assurance about whether the client is in compliance with the indicators audited by us.

We believe that our client takes its responsibilities seriously as a leading Global Company in the Pulp and Paper sector and that they intend to be transparent about their processes and the issues covered under our Human Rights audit. As a very large Group, and considering that this is a first time undertaking for them, we expect that the audit will not be completed until around May or June of next year.

I hope that this letter is useful to you to better understand our approach as independent Human Rights auditors and the process of the APP Group audit. I believe that once finalized, you will find our work to be quite thorough, assuming that APP decides to disclose the results. Again, we do believe in transparency, but this is really the Company's issue with its Stakeholders and I would suggest that you communicate with them about their intentions.

If we can be of any further information, within our professional responsibilities, please do not hesitate to contact me.

Yours very truly,



James Kallman
President Director

Dear Sirs,

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