

RSPO TREASURER'S REPORT

The RSPO Treasurer's annual report is intended to summarise and comment on the financial position of the RSPO and related matters. It should be read together with the audited accounts for the year ended 30 June 2016. As well as a commentary on audited historic information, a summary of the RSPO budget for the year ended 30 June 2017 is included below, in order to provide members with information about the planned future direction of the RSPO and as a basis for approval of the audited accounts and budget at the General Assembly.

The audited accounts and budget are presented in a consolidated format, combining the reporting of the RSPO, registered in Switzerland, its subsidiary RSPO Secretariat Sdn. Bhd., registered in Malaysia, the RSPO representative office in Indonesia and the other offices around the world, now including Europe, South America and China. This format is appropriate to provide a complete view of the financial affairs of the organisation as it continues to grow, and is consistent with previous years. Separate audited accounts for RSPO Secretariat Sdn. Bhd. are available on request but will not be distributed with the consolidated accounts as it is expected that most members will be satisfied with group accounts only.

Organisational structure

The RSPO is a members' organisation registered in Switzerland. The financial affairs of the RSPO are the responsibility of the Board of Governors, which has established a Finance Standing Committee comprising the Treasurer, who chairs the Committee, the Chief Executive Officer ("CEO"), the Finance Director, and up to three other Board members. Day to day tasks are delegated to the CEO and the Finance Director.

Other than the Treasurer, currently the Board members of the Finance Standing Committee are Geraldine Lim of Rabobank and Ian Hay of HSBC. The Committee meets at least quarterly to discuss and address financial, compliance and administrative matters.

RSPO Secretariat Sdn. Bhd. is a service company incorporated in Malaysia and based in Kuala Lumpur which provides RSPO with a legal entity in Malaysia. It is the employer of all secretariat staff based in Malaysia.

The RSPO Indonesia office based in Jakarta has been registered with the Indonesian authorities as a Regional Representative Office. From a reporting perspective, costs incurred in Indonesia are included under RSPO Secretariat Sdn. Bhd., as explained in note 22 to the audited accounts.

Financial results for the year ended 30 June 2016

The RSPO group recorded a surplus of RM12.8 million for the year ended 30 June 2016 (2015: RM13.7 million). The budgeted surplus was RM4.4m.

The continuing weakness of the Ringgit has helped income growth since almost all RSPO income is denominated in US dollars and Euros. Income surged to RM4.1 million above budget, an increase of 32% compared with the previous year. Costs were RM4.4m less than budgeted, but still increased by 61% compared with the previous year, as explained in more detail below.

The additional surplus has resulted in an increase in funds available for other uses including the Special Projects Fund established last year, and the Smallholder Support Fund.

Income rose to RM41.6million (previous year RM31.6 million), comprising mainly subscription income and income from supply chain contributions. Subscription income for the year increased to RM11.6million from RM9.8 million the previous year as membership numbers rose to 2,941 at 30 June 2016 (2015: 2,282), including 1,492 associate members (2015: 1,032). Ordinary membership fees were unchanged at €2,000 annually.

Income from supply chain contributions, which is derived from sustainable palm oil trade at USD1 per tonne, rose to RM29.5 million from RM21.4 million the previous year. Half of this increase is attributable to higher volume traded, which rose to 7.1 million tonnes, and the other half attributable to the movement in the average Ringgit/USD exchange rate over each year.

Operating costs increased to RM14.6 million (2015: RM8.9 million). This was due to planned additional activity as noted above. The increase is partially also explained by a one off foreign exchange gain of RM1.5m in the previous year which was not repeated.

Staffing costs, including consultancy fees, have increased year on year by RM2.9 million to RM9.5 million as membership numbers and demands continue to grow, and as the Secretariat expands its geographic scope. At 30 June 2016 the RSPO employed 46 staff (2015: 35).

Other costs included a significant increase in professional fees, including the costs relating to a legal action against the RSPO in Switzerland (since withdrawn); and significantly higher recruitment expenses. The increase in other expenditure includes a donation of \$100,000 made to the United Nations Environment Programme's Great Apes Survival Project in the wake of the 2015 fires in and around Indonesia. It is also worth noting that the net deficit incurred on Roundtable events in the year amounted to RM707,000 (2015: RM628,000).

Project costs include third party costs incurred in the day to day running of the RSPO (such as communication agency costs) and discrete projects. These two areas will in future be separated for management accounting and budget purposes, as noted below. Project costs for the year net of sponsorship income amounted to RM14.0 million (2015: RM8.8 million). Project costs relate to a variety of areas, as shown in note 8 to the accounts, including technical, communications and supply chain matters. The increase in costs was planned.

Based on professional advice from PricewaterhouseCoopers, taxation provisions are predicated on RSPO being taxable in Malaysia on income not deriving from ordinary members. As most income derives from ordinary members, the tax charge is relatively low at 2.0% of the pre-tax surplus for the year (2015: 1.6%).

Financial position at 30 June 2016

RSPO net assets amounted to RM46.7 million at 30 June 2016 (2015: RM38.4 million), comprising the Members' Fund of RM15.2 million (2015: RM15.3 million); the Smallholders' Support Fund of RM13.8 million (2015: RM13.1 million) and the Special Projects Fund of RM17.8 million (2015: RM10.0 million). The RSPO has a strong balance sheet, and has sufficient cash and reserves to meet ongoing requirements and to provide significant certification support to smallholders and to special projects deemed to be of strategic importance.

Principal assets at 30 June 2016 included cash and fixed deposits of RM48.6 million (2015: RM36.6 million); receivables relating to supply chain fees derived from trade in sustainable palm oil of RM4.3 million (2015: RM5.6 million); and unpaid membership subscriptions (before bad debt provisions) of RM3.0 million (2015: RM3.3 million). Overdue membership subscriptions have reduced, despite increased membership numbers, and comprise around three months of membership fees. Supply chain fees receivable relate to the two months prior to the year end, and have been paid in full since 30 June.

Deferred income, comprising subscriptions relating to the period after 30 June 2016, amounted to RM5.8 million (2015: RM4.4 million).

Smallholders' Fund

As explained in note 20, the Smallholders' Fund is designed to provide a boost for smallholder certification initiatives by setting aside funds specifically for those purposes. The current policy is to provide 10% of income from sustainable palm oil trade, which amounted to RM3.0 million in the year. Disbursements from the Fund during the year amounted to RM2.3 million. The Fund amounted to RM13.7 million at the end of the year, with total commitments and approved projects of RM7.0 million.

Special Projects Fund

Additional surplus funds in excess of one year's future operating costs, amounting to RM10.0 million, have been transferred to the Special Projects Fund (which may also include smallholder issues). As shown in note 21, RM2.2 million was disbursed from the Fund in the year, mainly relating to the SEnSOR impacts project, resulting in a year end balance of RM17.8 million. Commitments amount to RM1.0 million. Other approved projects to be incurred in future years comprising SEnSOR and a major project of outreach to intermediary organisations amount to RM14.0 million.

Budget for 2016/17

The following is a summary of the budgeted income statement for the RSPO for the year ended 30 June 2017, proposed by the CEO and agreed by the Board of Governors.

	Budget FY 2017 RM '000	RSPO Audited 30 Jun 2016 RM '000
INCOME		
Subscription income	13,500	11,560
Contributions from sustainable palm oil trade	30,000	29,528
Interest & other income	450	546
	<u>43,950</u>	<u>41,634</u>
OPERATING EXPENDITURE		
KL Secretariat	(8,842)	(7,844)
Other Costs	(2,708)	(4,227)
Satellite Offices	(3,703)	(2,547)
	<u>(15,252)</u>	<u>(14,618)</u>
Departmental operating costs/Project costs	(19,009)	(13,959)
	<u>(34,261)</u>	<u>(28,5)</u>
SURPLUS BEFORE TAXATION	9,689	13,057
TAXATION	(200)	(259)
	<u>9,489</u>	<u>12,798</u>
SURPLUS AFTER TAXATION	9,489	12,798
Allocation to Smallholder Fund (10% of CSPO income)	(3,000)	(2,953)
	<u>6,489</u>	<u>9,845</u>
Surplus after SF allocation	<u>6,489</u>	<u>9,845</u>
Discrete Projects	(12,382)	-

The budget shows a surplus of RM6.5 million after taxation and allocation of funds to the Smallholder Fund but before discrete projects.

In previous years third party costs incurred on a day to day basis, referred to here as departmental operating costs (such as the communication agency costs), have been included as project costs. The new format provides a better distinction between these two cost categories. As noted above, actual project costs incurred of RM14 million for the year ended 30 June 2016 include both cost categories.

Discrete projects amounting to RM12.4 million have been included in the budget but separately shown to indicate that costs relating to these activities will only be incurred as funds permit.

The budget assumes continuing increases in subscription income and that supply chain fees remain flat. Supply chain fees have increased significantly in recent years. However, since supply of RSPO certified sustainable palm oil has been impacted by the suspension of one large grower member and the withdrawal from certification by another, the Board has taken a cautious view on expected income for the purpose of the budget process.

The budget is also predicated on the continuing expansion of Secretariat resources and activities, including the roll out of new satellite offices in China, South America and India.

The principal assumptions underlying the budget (prepared before the financial year end) are as follows:

- membership numbers will grow by 10% year on year;
- income from sustainable palm oil trade is based on forecast production of CSPO of with a 50% uptake; physical supply chains are forecast to increase at the expense of certificate trading;
- staff headcount (including full time consultants) will increase from 55 to 66;
- "other costs" show a budgeted reduction of RM1.5m, due to one off costs which are not expected to be repeated, including professional fees and donations, together with re-categorisation of some costs. Losses on RT events are not budgeted.
- there will be a significant increase in project costs, from RM14.0 million in 2015/16 to budgeted RM19.0 million of departmental operating costs plus up to RM12.4 million of discrete project costs, in particular in the Technical and Communications divisions.

Areas for budgeted departmental operating and discrete project spend include the following:

	Budget FY2017		30 Jun
	Operating	Discrete	2016
	RM '000	RM '000	RM '000
Technical Division			
- Biodiversity & HCV	465	1,010	1,237
- Certification and training	1,055	90	995
- GHG	52	501	270
- Smallholder	946	605	530
- Supply chain	433	120	292
- Other including regional offices	2,063	3,340	1,630
	5,013	5,666	4,955
Impact Division			
- Dispute settlement facility	395	173	227
- Impacts assessment	490	350	548
- Complaints	826	62	431
	1,711	584	1,206
Communications Division			
- Communication agency fees	4,404	205	2,801
- Outreach activities	3,287	1,273	1,131
- Campaigns	262	158	460
- Website	390	50	504
- Media/Other	2,056	796	1,837
	10,398	2,481	6,732
Strategic Projects	-	3,304	38
Secretariat	1,490	297	129
Overseas Offices	397	50	288
TOTALS	19,009	12,382	13,349

The budget comprises a further extension of the reach and capability of the Secretariat, with extended projects to enable the RSPO to move closer to its vision of certified sustainable palm oil being the norm. Project spend for 2015/16 was, as expected, lower than budgeted. For 2016/17 it will be important to continue to maintain tight control over expenditure in these areas

RSPO Secretariat Sdn. Bhd.

A surplus of RM138,000 after tax was recorded by RSPO Secretariat Sdn. Bhd. for the year ended 30 June 2016 (2015: net loss of RM33,000). The income of RSPO Secretariat Sdn. Bhd. comprised entirely staff secondment fees recharged to the RSPO. Costs comprised principally employee related expenses. Net assets of RSPO Secretariat Sdn. Bhd. amounted to RM669,000 at 30 June 2016 (2015: RM531,000).

Future prospects

The financial position of the RSPO is appropriate to its current needs. Increasing income is again planned to be matched by increasing costs, including further geographic expansion by the Secretariat. Excess cash reserves have been allocated to appropriate funds to ensure that they are used appropriately, including the Smallholder Fund and the Special Projects Fund.

Other matters

The policy of the Board of Governors is to maintain reserves at equivalent to one year's operating costs, intended to be a contingency fund in order to allow for an orderly wind down of the affairs of the RSPO should that become appropriate. Current reserves meet that requirement.

The consolidated accounts have been prepared in accordance with the Malaysian Accounting Standards Board Approved Accounting Standards in Malaysia for Private Entities. As ever, we have aimed for transparency and clarity in reporting to members, including extended budget information.

Overall the RSPO financial model continues to be sufficient to meet the needs of the organisation, with appropriate reserves, in particular as membership continues to grow.

In common with previous reports, it is comforting that the RSPO is able to plan for future expansion without significant income constraints, at the same time remaining conscious that costs incurred should be appropriate to the aims of the RSPO and the wishes of members.

Tim Stephenson
RSPO Treasurer
3 October 2016