

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 2012. As well as a commentary on audited historic information, a summary of the RSPO budget for the year ended 30 June 2013 is included below, as requested and agreed at General Assembly 8, in order to provide members with information about the planned future direction of the RSPO.

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, and RILO, the RSPO Indonesian Liaison Office. 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 last year. 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 Executive Board, which has established a Finance Standing Committee comprising the Treasurer, who chairs the Committee, the Secretary General, the Finance Director, and up to three other Executive Board members. Day to day tasks are delegated to the Secretary General and the Finance Director.

Other than the Treasurer, currently the only Executive Board member of the Finance Standing Committee is Geraldine Lim of Rabobank, who joined the Committee recently. After stalwart service Paul Norton of HSBC, Jose den Toom of Rabobank and Edi Suhardi representing Indonesian producers are no longer members. Following a brief hiatus period to reconstitute membership, 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. During the year 99 of the 100 shares in RSPO Secretariat Sdn Bhd were transferred

to the RSPO, having been held previously on trust by Executive Board members.

I am pleased to confirm that following further professional advice the RSPO Indonesian Liaison Office (“RILO”), based in Jakarta has been registered with the Indonesian authorities as a Regional Representative Office. This official registration allows improved compliance and formalises the RSPO presence in Indonesia, the world’s biggest palm oil producer.

During the year, Wei Kwang Chong, who previously represented HSBC on the Executive Board as an alternate, was appointed RSPO Finance Director and more recently Eileen Ho, a qualified accountant, has joined as Finance Manager. Both Chong and Eileen are striving to further improve financial controls and management of the RSPO.

Financial results for the year ended 30 June 2012

The RSPO group recorded a surplus of RM5.1 million for the year ended 30 June 2012 (2011: RM1.0 million). This surplus is higher than planned, as income exceeded expectations, rising 67% to RM15.5 million, and expenses were less than budgeted.

Subscription income for the year increased to RM5.2 million from RM4.0 million the previous year as membership numbers rose to 900 at 30 June 2012 (2011: 689). 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 RM9.9 million from RM5.1 million the previous year. Such fees are increasingly the main source of RSPO income.

Operating costs again increased, but by less than was planned, to RM6.9 million (2011: RM6.1 million). The major cost increase related to staff costs, including a full year effect of previous year recruitment, as the Executive Board sought to increase the capacity, capability and professionalism of the Secretariat. Staff costs amounted to RM2.8 million (2011: RM1.3 million). Exceptional consultancy and recruitment costs incurred in the previous year were not repeated and bad debts from membership subscriptions, trademark and patent costs were also lower than the previous year (see page four of the audited accounts). Global communication costs increased, recognising the need to improve communication relating to sustainable palm oil around the world, but the increase was significantly less than was budgeted. Foreign exchange losses of RM261,000 arose from the strengthening of the Ringgit against the Euro (subscriptions are denominated in Euros) by 9% over the

year. RILCO costs for the year reduced to expected levels following exceptional costs in the previous year including some relating to RT8.

Project costs for the year amounted to RM3.4 million (2011: RM2.1 million). The two major project expenses related to the Greenhouse Gas Working Group (also supported by a grant from the UK Government), and the Palm Oil Producer Support Initiative, run by Solidaridad. A donation of RM100,000 was again made to the Borneo Child Aid Society.

Further progress has been made concerning confirmation of RSPO tax liabilities in Malaysia. Based on professional advice from PricewaterhouseCoopers, the estimated 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, though it remains subject to confirmation by the Malaysian IRB. The Secretariat continues to investigate the potential for the RSPO to become a body not liable for taxation in Malaysia, which would require the approval of the Malaysian authorities.

Financial position at 30 June 2012

RSPO net assets amounted to RM10.8 million at 30 June 2012 (2011: RM5.7 million). The RSPO has a strong balance sheet, and has sufficient cash and reserves to meet ongoing requirements.

Principal assets at 30 June 2012 included cash and fixed deposits of RM10.4 million (2011: RM7.9 million); receivables relating to supply chain fees derived from trade in sustainable palm oil of RM2.6 million (2011: RM0.6 million), and unpaid membership subscriptions of RM2.4 million (2011: RM1.3 million).

The significant increase in receivables relating to supply chain fees arises from a particularly large volume of trades in May and June 2012. All outstanding amounts relating to these items have since been received.

Unpaid membership subscriptions have risen proportionately more quickly than subscription income, comprising five months of subscription income at 30 June 2012 (2011: four months). The Secretariat has experienced further staff turnover in the area of membership administration. Another purge on long outstanding subscriptions will be initiated in the fourth quarter of 2012. At 30 June 2012 the provision in the balance sheet for subscription income which might not be collected was RM272,000 (2011: RM250,000).

Deferred income, comprising subscriptions relating to the period after 30 June 2012, amounted to RM2.9 million (2011: RM2.0 million).

During the year the Executive Board resolved to provide a boost for smallholder certification initiatives by setting aside funds specifically for those purposes. The balance of the fund at 30 June 2012 was RM2.9 million. A procedure for proposing and authorising use of those funds is being established by the Smallholder Working Group.

The Members' Fund amounted to RM7.6 million at 30 June 2012 (2011: RM5.7 million).

Budget for 2012/13

As promised at General Assembly 8, the following is a summary of the budgeted income statement for the RSPO for the year ended 30 June 2013, agreed by the Executive Board in June 2012.

The budget, proposed by the Secretary General, shows a surplus before taxation of RM763,000. It is predicated on a further expansion of Secretariat resources and activities, assuming an accelerated move to implement the desire of the Executive Board to adopt a supervisory, rather than executive function, and for the full time Secretariat to take up more of a direct leadership role.

The budget assumes continuing increases in subscription income and supply chain fees, which are substantial but are also consistent with increases over recent years.

	2011/12	2012/13
	Actual	Budget
	RM'000	RM'000
Subscription	5,212	5,826
Supply chain fees	9,886	13,020
Interest from Fixed Deposits	118	180
RT Surplus	332	-
Total Income	15,548	19,026
KL Secretariat	3,780	4,724
Comms - retainer	1,754	2,623
Other costs	974	896
RILO	394	735
New Satellite Offices	-	911
Operating costs	6,902	9,889
Projects - Technical	2,570	4,837
Projects - Comms	678	1,937
Projects - Secretariat/RSP	162	700
Projects - New Satellite Offices	-	600
Surplus before tax	5,236	763

Cost increases in Secretariat expenses and communications consultancy are supplemented by initial costs of establishing satellite offices around the world, including both end user and producer regions, and a strongly expanded projects budget, covering a wide range of initiatives. It is a real challenge for the Secretariat to deliver the qualitative results which these increased costs are designed to address.

RSPO Secretariat Sdn Bhd

A surplus of RM148,000 after tax was recorded by RSPO Secretariat Sdn Bhd for the year ended 30 June 2012 (2011: RM22,000). 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 RM193,000 at 30 June 2012 (2011: RM45,000).

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, in particular arising from the continuing reorganisation and upgrading of the RSPO Secretariat, higher communication and marketing costs as greater efforts are made to encourage uptake of RSPO certified sustainable palm oil in a wider market, and a range of technical projects. The budget for 2012-13 indicates a close to break-even outcome.

Other matters

The policy of the Executive Board 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. We have again aimed for transparency and clarity in reporting to members. The RSPO has a sound financial model which has so far proved to be sufficient to meet the needs of the organisation, with appropriate reserves, in particular as trade in sustainable palm oil and palm kernel oil and in certificates continues to grow. We are fortunate to be able to plan for future expansion without significant income constraints, at the same time conscious that costs incurred should be appropriate to the aims of the RSPO and the wishes of members - to promote the production and use of sustainable palm oil in a professional manner, maintaining and growing the RSPO brand to the benefit of the palm oil industry as a whole and to the ultimate benefit of the world's people and its environment.

Tim Stephenson
RSPO Treasurer
4 October 2012