

## **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 2015. As well as a commentary on audited historic information, a summary of the RSPO budget for the year ended 30 June 2016 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, India 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 Secretary General, the Finance Director, and up to three other Board of Governor members. Day to day tasks are delegated to the Secretary General and the Finance Director.

Other than the Treasurer, currently the Board of Governors members of the Finance Standing Committee are Geraldine Lim of Rabobank and Ian Hay of HSBC. Other executive members are the Secretary General and the CFO. 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.

## **RSPO Treasurer's Report (Continued)**

### **Financial results for the year ended 30 June 2015**

The RSPO group recorded a surplus before tax of RM13.9 million for the year ended 30 June 2015 (2014: RM10.9 million). This surplus is significantly higher than planned, resulting in a considerable increase in funds available for other uses including the newly established Special Projects Fund, as well as the Smallholder Fund. Once again income and operating costs increased as planned, while project costs were less than expected. The devaluation of the Ringgit also resulted in a foreign exchange gain of RM1.5 million.

Income increased by 17% to RM31.6 million (2014: RM27.1 million) as membership and trade both grew, and expenses were less than budgeted. In particular project costs were well below budget, though ahead of the prior year.

Income comprises mainly subscription income and income from supply chain contributions. Subscription income for the year increased to RM9.8 million from RM7.8 million the previous year as membership numbers rose to 2,282 at 30 June 2015 (2014: 1,631), including 1,032 associate members (2014: 540). 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 RM21.4 million from RM19.0 million the previous year, with a lower proportion at 58% (2014 : 69%) deriving from certificate trading. Income from subscriptions was enhanced in Ringgit terms by the devaluation of the Ringgit over the period.

Operating costs (re-stated to exclude communications agency costs, now included in projects) increased to RM8.9 million (2014: RM7.9 million).

Staffing costs have increased year on year by RM1.3 million to RM6.0 million as membership numbers and demands continue to grow, and as the Secretariat expands its geographic scope. At 30 June 2015 the RSPO employed 35 staff (2014: 28).

As shown in note 2(k), over the year the Ringgit devalued by 18% against the US dollar. In order to match against expected costs in those currencies, bank accounts are held in Euros and US dollars. Also amounts receivable are largely in Euros and US dollars. This combination has resulted in a foreign exchange gain in the year since the financial statements are reported in Ringgit. The gain amounted to RM1.5 million.

Since 30 June the Ringgit has devalued further against both the US dollar and the Euro. At 16 October 2015 the US dollar exchange rate was 4.18 (3.78 at 30 June 2015) a devaluation of 11%; and the Euro rate was 4.75 (4.23) a devaluation of 12%. The estimated impact is a further foreign exchange gain of approximately RM2.7 million.

Other costs were materially in line with expectations. However, it is worth noting that the deficit incurred on the two Roundtable events in 2014/15 amounted to RM0.8 million, including a loss on the European event of RM0.6 million (2014 RM0.6 million).

## **RSPO Treasurer's Report (Continued)**

Project costs for the year net of sponsorship income amounted to RM8.8 million (2014: RM8.3 million). Project costs relate to a variety of areas, as shown in note 8 to the accounts, including technical, communications and supply chain matters.

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 1.6% of the pre-tax surplus for the year (2014: 1.5%).

### **Financial position at 30 June 2015**

RSPO net assets amounted to RM38.4 million at 30 June 2015 (2014: RM25.3 million), comprising the Members' Fund of RM15.3 million (2014 RM13.7 million); the Smallholders' Fund of RM13.1 million (2014 RM11.5 million) and the new Special Projects Fund of 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 2015 included cash and fixed deposits of RM36.6 million (2014: RM25.9 million); receivables relating to supply chain fees derived from trade in sustainable palm oil of RM5.6 million (2014: RM2.4 million), and unpaid membership subscriptions (before bad debt provisions) of RM3.3 million (2014: RM2.2 million). Overdue membership subscriptions have increased, only partly due to increased membership numbers, which is a concern, and comprise around four months of membership fees. Supply chain fees receivable relate to the two months prior to the year end, mainly due to strong certificate sales in that period, and have been paid in full since 30 June.

Deferred income, comprising subscriptions relating to the period after 30 June 2015, amounted to RM4.4 million (2014: RM3.8 million).

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. Additional surplus funds in excess of one year's future operating costs, amounting to RM10.0 million, have been transferred from Members' Fund to the newly created Special Projects Fund (which may also include smallholder issues). The balance of the Smallholder Fund at 30 June 2015 was RM 13.1 million (2014: RM11.5 million). Expenditure during the year amounted to RM581,000, with a further RM1.4 million committed, and RM1.8 million approved or conditionally approved since the year end. Several thousand smallholders are being helped towards RSPO certification, however it is disappointing that there is not greater demand for such funds in order to increase smallholder participation.

## RSPO Treasurer's Report (Continued)

### Budget for 2015/16

The following is a summary of the budgeted income statement for the RSPO for the year ended 30 June 2016, proposed by the Secretary General and agreed by the Board of Governors.

	<u>Budget 2016</u> <u>RM '000</u>	<u>Budget 2015</u> <u>RM '000</u>	<u>30 Jun 2015</u> <u>RM '000</u>
<b>INCOME</b>			
Subscription income	10,900	8,500	9,777
Contributions from sustainable palm oil trade	26,000	22,000	21,374
Interest & other income	590	250	473
	<u>37,490</u>	<u>30,750</u>	<u>31,624</u>
<b>OPERATING COSTS</b>			
KL Secretariat	8,366	5,882	5,571
Other Costs	1,263	1,423	1,201
Satellite Offices	5,659	2,916	2,136
	<u>15,288</u>	<u>10,220</u>	<u>8,908</u>
<b>PROJECT COSTS</b>			
Technical Division	6,353	8,594	3,131
Impact Division	2,908	3,099	1,059
Communications Division	7,955	5,909	3,929
Secretariat/RSPO	270	323	464
Satellite Offices	288	355	229
	<u>17,773</u>	<u>18,279</u>	<u>8,812</u>
<b>SURPLUS BEFORE TAXATION</b>	4,429	2,251	13,904
<b>TAXATION</b>	(30)	(30)	(217)
<b>SURPLUS AFTER TAXATION</b>	<u>4,399</u>	<u>2,221</u>	<u>13,687</u>

The budget shows a surplus of RM4.4 million before taxation after allocation of funds to the Smallholder Fund. The budget assumes continuing increases in subscription income and supply chain fees. It is also predicated on a further expansion of Secretariat resources, overall reorganisation with additional executive roles. It has also included the continuing roll out of new satellite offices in China, India and South America.

## RSPO Treasurer's Report (Continued)

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 13.4 million tonnes with a 50% uptake;
- staff headcount, including Indonesia and satellite offices, will increase by 28;
- project costs for Technical and Impact areas though still substantial are lower compared to previous year to reflect a more realistic budget.
- the Communications budget will be increased to enhance scope in China and India, and with increased focus on communication campaigns and media;

Areas for budgeted project spend include the following:

	Budget FY2016	Budget FY2015	FY2015
<b>Technical Division</b>			
- Biodiversity & HCV	1,595	2,374	643
- Certification and training	698	947	707
- GHG	338	747	261
- Smallholder	530	1,487	560
- Supply chain	512	772	262
- Other including regional offices	2,680	2,267	545
	<b>6,353</b>	<b>8,594</b>	<b>2,978</b>
<b>Impact Division</b>			
- Dispute settlement facility	842	977	598
- Impacts assessment	1,109	922	306
- Complaints	957	1,200	153
	<b>2,908</b>	<b>3,099</b>	<b>1,057</b>
<b>Communications Division</b>			
- Agencies retainer fees	2,966	3,870	1,735
- Campaigns	2,559	930	962
- Member events	544	371	584
- Website	227	120	398
- Media/Web/Other	1,659	618	214
	<b>7,955</b>	<b>5,909</b>	<b>3,893</b>
<b>Secretariat</b>	270	323	433
<b>Overseas Offices</b>	288	355	187
<b>Totals</b>	<b>17,773</b>	<b>18,279</b>	<b>8,548</b>

## **RSPO Treasurer's Report (Continued)**

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. However, project spend once again seems somewhat ambitious. There is a record of significantly under spending project budgets. Any such under spend will boost the capability to enhance smallholder certification levels via the Smallholder Fund.

### **RSPO Secretariat Sdn Bhd**

A net loss of RM33,000 after tax was recorded by RSPO Secretariat Sdn Bhd for the year ended 30 June 2015 (2014: RM3,000). The income of RSPO Secretariat Sdn Bhd comprised entirely of staff secondment and administration fees charged to the RSPO. Costs comprised principally employee related expenses and occupancy expenses. Net assets of RSPO Secretariat Sdn Bhd amounted to RM531,000 at 30 June 2015 (2014: RM564,000).

### **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. Project costs are budgeted to increase significantly, addressing technical issues, complaints systems, driving demand, and many other areas. In reality an under spend on projects is again likely, with a resulting increase in financial resources allocated for Special Projects Fund and Smallholder Fund. It will be important to ensure that these 2 funds are sufficiently and appropriately utilised in critical areas for the RSPO.

### **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 and trade in sustainable palm oil and palm kernel oil and in certificates continue to grow.

## **RSPO Treasurer's Report (Continued)**

Without wishing to repeat 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  
26 October 2015