

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 2013. As well as a commentary on audited historic information, a summary of the RSPO budget for the year ended 30 June 2014 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, and the RSPO representative office in Indonesia. 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 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. 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 the share capital of the company was increased to RM350,000 (all except one under the ownership of the RSPO) in order to meet regulatory requirements relating to the employment of foreign nationals.

The RSPO Indonesian office based in Jakarta has been registered with the Indonesian authorities as a Regional Representative Office. From a reporting perspective, from 1 January 2013 costs incurred in Indonesia have been included under RSPO Secretariat Sdn Bhd, as explained in note 21 to the audited accounts.

During the year RSPO Finance Director Wei Kwang Chong departed and was replaced by Eileen Ho, previously Finance and Administration Manager. I would like to thank Chong for his contribution to the work of the RSPO over several years, first as an alternate Executive Board member, and latterly as a director. Eileen is striving to further improve financial controls and management of the RSPO in order to match the increasing complexity of the organisation, including extended overseas presence as noted below.

Financial results for the year ended 30 June 2013

The RSPO group recorded a surplus of RM4.1 million for the year ended 30 June 2013 (2012: RM5.1 million). This surplus is higher than planned, as income rose in line with expectations, up 24% to RM19.3 million, and expenses were less than budgeted. In particular project costs were well below budget, though slightly ahead of the prior year; operating costs exceeded budget due to one-off expenses specifically authorised.

Income comprises mainly subscription income and income from supply chain contributions. Subscription income for the year increased to RM6.9 million from RM5.2 million the previous year as membership numbers rose to 1,242 at 30 June 2013 (2012: 900), including 315 associate members (2012: 236). 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 RM11.9 million from RM9.9 million the previous year.

Operating costs increased significantly, to RM11.6 million (2012: RM6.9 million). The increase of RM4.7m is partly explained by expected and planned capacity increases and partly by one off costs. Such one-off costs include RM1.5 million for a consultancy exercise on revenue streams and strategic objectives undertaken by McKinsey; and RM0.7 million relating to bad and doubtful debts for membership subscriptions. 30 members resigned without paying outstanding fees and a further current 38 members were significantly in arrears. The Executive Board approved the termination of membership of all 38 in August 2013.

Continuing costs which have increased significantly year on year as membership numbers and requirements continue to grow, include the following:

- staff costs up RM0.7 million. At 30 June 2013 the RSPO employed 23 staff;
- professional fees up RM0.2 million– mainly lawyers and accountants;
- office rental up RM0.2 million due to new office space;
- communication expenses up RM1.0 million, mainly relating to a retainer for consultants;
- trade mark registration costs, up RM0.2 million;
- Executive Board meeting expenses up RM0.2 million; and
- outreach events, such as those held in Europe and the United States, up RM0.2m million.

Project costs for the year net of sponsorship income amounted to RM3.5 million (2012: RM3.4 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 3.4% of the pre-tax surplus for the year (2012: 3.2%).

Financial position at 30 June 2013

RSPO net assets amounted to RM14.9 million at 30 June 2013 (2012: RM10.8 million). The RSPO has a strong balance sheet, and has sufficient cash and reserves to meet ongoing requirements.

Principal assets at 30 June 2013 included cash and fixed deposits of RM17.0 million (2012: RM10.4 million); receivables relating to supply chain fees derived from trade in sustainable palm oil of RM2.6 million (2012: RM2.6 million), and unpaid membership subscriptions of RM1.2 million (2012: RM2.4 million).

Unpaid membership subscriptions have reduced even as subscription income has increased significantly year on year, comprising two months of subscription income at 30 June 2013 (2012: five months). The Secretariat should be congratulated on efforts in this area. New members are no longer admitted before paying their subscription for the first year of membership. At

30 June 2013 the provision in the balance sheet for subscription income which might not be collected was RM777,000 (2012: RM272,000), representing a clean out of old outstanding balances, as noted above, and a recognition that old balances are unlikely to be collectible.

Deferred income, comprising subscriptions relating to the period after 30 June 2013, amounted to RM2.9 million (2012: RM2.8 million).

The Members' Fund amounted to RM9.3 million at 30 June 2013 (2012: RM7.8 million), after transferring RM2.6 million to the 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 balance of the fund at 30 June 2013 was RM5.6 million (2012: RM2.9 million). A procedure to oversee proposals to and payments from this fund has been established, though no payments have yet been made.

Budget for 2013/14

The following is a summary of the budgeted income statement for the RSPO for the year ended 30 June 2014, proposed by the Secretary General and agreed by the Executive Board.

The budget shows a surplus before taxation of RM0.6 million after allocation of funds to the Smallholder Fund. The budget assumes continuing substantial increases in subscription income and supply chain fees. It is also predicated on a further expansion of Secretariat resources and activities, including additional staff in Malaysia and Indonesia, and of particular note, the roll out of new satellite offices in Europe (already established), China, Africa, India and South America.

	2012/2013	2013/2014
	ACTUAL	Budget
	RM'000	RM'000
Subscription	6,892	8,500
Income from CSPO Trade	11,862	16,000
Interest from Fixed Deposit	233	150
RT Surplus	338	-
Total Income	19,326	24,650
KL Secretariat	4,303	5,517
Comms - retainer	2,518	2,549
Other costs	4,219	1,027
RRO Indonesia	538	710
New Satellite Offices	-	2,234
Operating costs	11,578	12,036
Projects - Technical	2,977	4,932
Projects - Impact Division	-	1,393
Projects - Comms	276	3,037
Projects - Secretariat/RSPO	104	370
Projects - New Satellite Offices	151	255
Total Projects	3,508	9,986
Surplus before tax	4,240	2,628
Smallholders fund allocation		
10% of CSPO Income	1,186	1,600
50% of surplus	1,446	450
Annual allocation	2,632	2,050
Net surplus to members pre-tax	1,608	578

The principal assumptions underlying the budget are as follows:

- membership numbers will grow by 25% year on year;
- income from sustainable palm oil trade is based on forecast production of CSPO of 10 million tonnes with a 50% uptake;
- staff headcount (including Indonesia but not satellite offices) will increase from 23 to 28;
- one off costs for consultancy and bad debt provisions in 2012/13 will not be repeated;

- event and communications costs (excluding retainer) which amounted to around RM0.8 million in 2012/13 have been transferred to project costs in the budget;
- satellite offices will be established in Europe from October 2013, China from January 2014, and India, South America and Africa from March 2014;
- there will be a significant increase in project costs, comprising
 - technical, including certification and smallholder activities; and
 - communication, including consumer campaigns and outreach.

Areas for budgeted project spend include the following:

	RM'000		RM'000
Technical Division	4,932	Communications	3,037
- Technical Director	624	- Consumer/trademark campaigns	1,550
- BHCV	526	- Debate website	363
- GHG	446	- Member events	155
- Smallholder (separate to fund)	1,110	- Trademark registration	200
- Supply Chain	688	- Website (incl content)	380
- Certification	1,008	- Other	389
- Regional offices	530		
Impact Division	1,393		
- Dispute Settlement Facility	695		
- Impacts/Grievance	698		

The budget comprises a further substantial extension of the reach and capability of the Secretariat, and projects to enable the RSPO to move closer to its vision of certified sustainable palm oil being the norm.

RSPO Secretariat Sdn Bhd

A surplus of RM18,000 after tax was recorded by RSPO Secretariat Sdn Bhd for the year ended 30 June 2013 (2012: RM148,000). 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 RM561,000 at 30 June 2013 (2012: RM194,000), following the issue during the year of a further 350,000 of share capital, required to allow compliance with regulatory requirements relating to the employment of overseas staff.

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 2013-14 indicates a small surplus.

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, including extended budget information.

The RSPO financial model has so far proved 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 continues to grow. We are 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. I would urge that care is taken in the future to maintain the strong financial position of the RSPO provided by the current robust structure.

Tim Stephenson
RSPO Treasurer
23 October 2013