

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 2014. As well as a commentary on audited historic information, a summary of the RSPO budget for the year ended 30 June 2015 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 newly established European representatives. 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 only Board of Governors 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.

The RSPO Indonesia 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 22 to the audited accounts. There is now also an establishment registered in the UK comprising the European representation of the RSPO.

Since the end of the financial year RSPO Finance Director Eileen Ho has departed from the position and has been replaced by Patrick Chia. I would like to thank Eileen

for her considerable and extensive contribution to the work of the RSPO over several years, first as Finance Manager, and latterly as Director. Patrick will seek to maintain development of the financial systems, resources and controls necessary for the smooth running of an organisation of increasing size and complexity.

Financial results for the year ended 30 June 2014

The RSPO group recorded a surplus of RM10.9 million for the year ended 30 June 2014 (2013: RM4.2 million). This surplus is significantly higher than planned, resulting in a considerable increase in contribution to the Smallholder Fund.

Income rose faster than planned, up 40% to RM27.1million 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 RM7.8 million from RM6.9 million the previous year as membership numbers rose to 1,631 at 30 June 2014 (2013: 1,242), including 540 associate members (2013: 315). 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 RM19.0 million from RM11.9 million the previous year.

Operating costs fell to RM10.4 million (2013: RM11.2 million). The reduction is entirely explained by one-off costs incurred in the prior year, including 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, also not repeated.

Staffing costs have increased year on year by RM1.2 million as membership numbers and requirements continue to grow. At 30 June 2014 the RSPO employed 28 staff.

Other costs were materially in line with expectations. However, it is worth noting that the deficit incurred on the two European Roundtable events in 2013/14 (in London and Berlin) amounting to RM591,000 have been netted off against a surplus achieved at RT11 of RM335,000 with a net loss of RM256,000.

Project costs for the year net of sponsorship income amounted to RM5.8 million (2013: RM3.5 million). Project costs relate to a variety of areas, as shown in note 9 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 1.5% of the pre-tax surplus for the year (2013: 3.4%).

Financial position at 30 June 2014

RSPO net assets amounted to RM25.2 million at 30 June 2014 (2013: RM14.9 million), comprising the Members' Fund of RM13.7 million (2013 RM9.3 million) and the Smallholders' Fund of RM11.5 million (2013 RM5.6 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.

Principal assets at 30 June 2014 included cash and fixed deposits of RM26.0 million (2013: RM17.0 million); receivables relating to supply chain fees derived from trade in sustainable palm oil of RM2.4 million (2013: RM2.6 million), and unpaid membership subscriptions (before bad debt provisions) of RM2.2 million (2013: RM1.9 million).

Unpaid membership subscriptions at 30 June 2014 comprised 3.4 months of subscription income, unchanged from 2013. At 30 June 2014 the provision in the balance sheet for subscription income which might not be collected was RM531,000 (2013: RM777,000). The charge in the year to the Income and Expenditure account for such matters was RM198,000 (2013 RM714,000).

Deferred income, comprising subscriptions relating to the period after 30 June 2014, amounted to RM3.8 million (2013: RM2.9 million).

As explained in note 21, 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 plus 50% of any year end surplus after tax. The balance of the fund at 30 June 2014 was RM11.5 million (2013: RM5.6 million). A procedure to oversee proposals to and payments from this fund has been established, with oversight from the Smallholders' Fund Panel, appointed by and reporting to the Smallholder Working Group. Perpetua George of Unilever chairs the Smallholder Fund Panel, with other members being Marieke Leegwater of Solidaridad, Petra Meekers of NBPOL, and representatives from the RSPO Secretariat including the Smallholder Manager, Technical Director, Finance & Admin Director and Smallholder Executive Indonesia. From the first Panel meeting in July 2013 some momentum is now being built. Expenditure during the year amounted to RM369,000, with a further RM392,000 committed, and RM1.9 million approved or conditionally approved since the year end. Several thousand smallholders are being helped towards RSPO certification.

Budget for 2014/15

The following is a summary of the budgeted income statement for the RSPO for the year ended 30 June 2015, proposed by the Secretary General and agreed by the Board of Governors.

The budget shows a nil surplus 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 and activities, including additional staff in Malaysia and Indonesia, extension of global communications and the continuing roll out of new satellite offices in China and South America.

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 million tonnes with a 50% uptake;
- staff headcount (including Indonesia but not satellite offices) will increase by four;
- the communications retainer will be increased to enhance scope in China and India;
- there will be a significant increase in project costs, in particular in the Technical and Impact areas.

	ACTUAL 2013/14 MYR'000	BUDGET 2014/15 MYR'000
Membership Fee income	7,784	8,500
Contribution from CSPO Trade	18,976	22,000
Deposit Interest & Other Income	337	250
Total Income	27,097	30,750
KL Secretariat	4,997	5,882
Communications - retainer	2,538	3,870
Other costs	1,465	1,023
Satelite Offices	1,386	2,916
Operating costs	10,386	13,691
Projects - Technical	2,584	8,593
Projects - Impact Division	970	3,099
Projects - Comms	1,889	2,439
Projects - Secretariat/RSPO	203	323
Projects - New Satelite Offices	142	355
Total Projects	5,788	14,809
Surplus before tax	10,923	2,250
Provisional Tax/Tax Expense	167	30
Surplus after tax	10,756	2,220

Areas for budgeted project spend include the following:

	RM'000		RM'000
Technical Division	8,593	Communications	2,439
- Biodiversity and HCV	2,300	- Campaigns	930
- Smallholder	1,400	- Trademark	400
- Certification and training	947	- Member events	370
- GHG	747	- Media/Web/Other	739
- Supply chain	772		
- Indonesia specific	655		
- Other	1,772		
Impact Division	3,099		
- Dispute Settlement Facility	979		
- Impact assessment	920		
- Complaints	1,200		

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 surplus of RM3,000 after tax was recorded by RSPO Secretariat Sdn Bhd for the year ended 30 June 2014 (2013: RM18,000). 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 RM564,000 at 30 June 2014 (2013: RM561,000).

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 for the Smallholder Fund. It will be important to ensure that the Smallholder Fund is sufficiently and appropriately utilised in this critical area 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.

One new area of compliance is the proposed imposition of a Goods & Services Tax ("GST") in Malaysia from 1 April 2015. Whilst complex to administer, the main impact of the introduction of this tax on members will likely be the requirement to charge GST at 6% on membership fees for Malaysian based members. This additional charge will be recoverable by such members who are registered for GST in Malaysia. Confirmation as to the treatment of supply chain income is being sought, but our current advice is that this income will not require a charge for GST.

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 continues to grow.

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
20 October 2014