

# **Consolidated Financial Statements**

of

**Forest Stewardship Council, A.C. and Subsidiaries**

for the years ended

31 December 2019 and 31 December 2018

with

Report of Independent Auditor



ABTROSS & WOLTERS

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## **Independent Auditor's Report**

To the Associates of Forest Stewardship Council, A.C. and Subsidiaries

### **Audit Opinions**

We have audited the accompanying consolidated financial statements of Forest Stewardship Council, A.C. and subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statement of comprehensive income for the year 2019, the consolidated statement of cash flows for the year 2019, and the consolidated statement of changes in equity for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements, in all material respects, give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and its consolidated financial performance, its consolidated cash flows for the year 2019 and its consolidated changes in equity in accordance with International Financial Reporting Standards (IFRSs).

We declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements.

### **Basis for the Audit Opinions**

We conducted our audit in accordance with International Standards on Auditing (ISAs) and German Generally Accepted Standards for the Audit of Financial Statements promulgated by the Institut der Wirtschaftsprüfer e.V. (IDW) [Institute of Public Auditors in Germany, Incorporated Association]. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and German generally accepted standards for the audit of financial statements will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatements of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Mönchengladbach, Germany, 7 October 2020

**Abstoß & Wolters GmbH & Co. KG**

Wirtschaftsprüfungsgesellschaft  
 Steuerberatungsgesellschaft



Wilhelm Straaten  
 Wirtschaftsprüfer



ppa. Renate Witzel  
 Wirtschaftsprüferin



**Forest Stewardship Council, A.C. and Subsidiaries**

**Consolidated Statement of Financial Position**

	Note	31/12/2019 US\$'000	31/12/2018 US\$'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	1		
1. Tenant fixtures		43	45
2. Other equipment and office equipment		414	464
		<u>457</u>	<u>509</u>
Right-of-use assets	2		
1. Land and buildings		655	0
2. Other equipment and office equipment		48	0
		<u>703</u>	<u>0</u>
Intangible assets	3		
1. Patents and trademarks		0	68
2. OCP software		0	186
3. Other		10	61
		<u>10</u>	<u>315</u>
Deferred tax assets	4	31	31
<b>Total Non-current assets</b>		<b><u>1,201</u></b>	<b><u>855</u></b>
<b>Current assets</b>			
Trade and other receivables	5	3,960	1,802
Current tax assets		146	332
Other assets	6	740	287
Prepaid expenses	6	415	253
Cash and cash equivalents	7	20,096	16,856
<b>Total current assets</b>		<b><u>25,357</u></b>	<b><u>19,530</u></b>
<b>TOTAL ASSETS</b>		<b><u>26,558</u></b>	<b><u>20,385</u></b>
The accompanying notes are an integral part of these financial statements.			



Kim Carstensen  
Director General

**Forest Stewardship Council, A.C. and Subsidiaries**  
**Consolidated Statement of Financial Position (continued)**

	Note	31/12/2019 US\$'000	31/12/2018 US\$'000
<b>NET ASSETS and LIABILITIES</b>			
<b>Net assets</b>	8		
Currency translation reserve		-162	-143
Retained earnings		19,514	15,321
<b>Total net assets</b>	15	<b>19,352</b>	<b>15,178</b>
<b>Non-current Liabilities</b>			
Lease liabilities	2	492	0
<b>Current liabilities</b>			
Trade payables	9	2,207	1,876
Payables to FSC-Network		623	444
Accrued liabilities and provisions	10	1,051	1,315
Current tax liabilities		2,442	1,243
Lease liabilities	2	228	0
Other liabilities		73	65
Deferred revenue		90	264
<b>Total current liabilities</b>		<b>6,714</b>	<b>5,207</b>
<b>TOTAL NET ASSETS and LIABILITIES</b>		<b>26,558</b>	<b>20,385</b>
The accompanying notes are an integral part of these financial statements.			

Kim Carstensen  
Director General

**Forest Stewardship Council, A.C. and Subsidiaries**  
**Consolidated Statement of Comprehensive Income**

	Note	2019 US\$'000	2018 US\$'000
<b>Revenue</b>	11		
Annual Administration Fees		32,518	29,242
Donations		685	1,042
ASI generated income		5,352	5,553
Commercial services		217	721
Memberships and fees		297	284
Other		1,106	483
<b>Total revenue</b>		<b>40,175</b>	<b>37,325</b>
<b>Expenses</b>			
Staff salaries		8,081	7,746
Staff benefits		1,805	1,588
Staff recruitment and relocation		92	152
<b>Total staff costs</b>		<b>9,978</b>	<b>9,486</b>
Travel staff		337	416
Travel non-staff		2,039	2,262
<b>Total travel costs</b>		<b>2,376</b>	<b>2,678</b>
Fee Principle Cooperation and Licence Agreements		6,341	6,460
Licence Fee		134	38
Externals		2,509	2,115
Consultants		5,754	6,438
Fee Service Agreements NO		1,034	1,057
Legal and consulting costs		663	1,003
IT & communication		835	835
External office cost services		864	1,212
Costs meetings		831	699
<b>Total Third Party Costs</b>		<b>18,965</b>	<b>19,857</b>
Rent		87	310
Basic costs		637	796
Office costs NO		154	136
Financial costs		471	465
<b>Total Back Office Costs</b>		<b>1,349</b>	<b>1,707</b>
<b>Total Costs</b>		<b>32,667</b>	<b>33,728</b>
<b>Net Exchange rate expense/ gains</b>	12	<b>-35</b>	<b>168</b>
<b>EBITDA</b>		<b>7,473</b>	<b>3,765</b>

**Forest Stewardship Council, A.C. and Subsidiaries**  
**Consolidated Statement of Comprehensive Income (continued)**

	Note	2019 US\$'000	2018 US\$'000
<b>EBITDA</b>		<b>7,473</b>	<b>3,765</b>
Amortization and depreciation and loss from disposal of non-current assets	13	-479	-1,263
Amortization right-of-use assets	13	-240	0
<b>EBIT</b>		<b>6,754</b>	<b>2,502</b>
Tax expense	14	-2,548	-2,043
Interest income		15	7
Interest expense on lease liabilities	2	-28	0
<b>Financial result</b>		<b>-13</b>	<b>7</b>
<b>Profit for the period</b>		<b>4,193</b>	<b>466</b>
<b>Other comprehensive income</b>			
Exchange gains or losses arising on translation of foreign operations		-19	-47
<b>Total comprehensive income</b>	15	<b>4,174</b>	<b>419</b>

The accompanying notes are an integral part of these financial statements.



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Kim Carstensen  
Director General

**Forest Stewardship Council, A.C. and Subsidiaries**

**Consolidated Statement of Cash Flows**

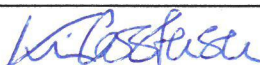
	Note	2019 US\$'000	2018 US\$'000
Total result for the year		4,174	+419
Items not affecting cashflows:			
+ Amortisation/depreciation on intangible and tangible fixed assets	1, 3	+477	+1,096
+ Amortisation of right-of-use assets	2	+240	0
<b>Gross Cashflow from operating activities</b>		<b>4,891</b>	<b>1,515</b>
-/+ Increase/decrease in deferred tax assets		0	-31
+/- Decrease/increase in trade receivables and other assets		-2,773	+581
+/- Decrease/increase in current tax assets		+186	+35
-/+ Decrease/increase in trade payables and in other liabilities		+114	-131
-/+ Decrease/increase in current tax liabilities		+1,199	-857
<b>Net Cashflow from operating activities</b>		<b>3,617</b>	<b>1,112</b>
- Acquisition of intangible assets and tangible fixed assets	1, 3	-120	-188
+ Net losses from disposal of intangible assets and tangible fixed assets		0	167
<b>Net Cashflow used in investing activities</b>		<b>-120</b>	<b>-21</b>
- Principal paid on lease liabilities	2	-229	0
- Interest paid on lease liabilities	2	-28	0
<b>Cashflow from financing activities</b>		<b>-257</b>	<b>0</b>
Net increase in cash and cash equivalents		3,240	1,091
Cash and cash equivalents at beginning of year		16,856	15,765
<b>Cash and cash equivalents at end of year</b>		<b>20,096</b>	<b>16,856</b>
The accompanying notes are an integral part of these financial statements.			



Kim Carstensen  
Director General

**Forest Stewardship Council, A.C. and Subsidiaries**  
**Consolidated Statement of Changes in Net assets**

	Profit/Loss brought forward US\$'000	Currency translation difference US\$'000	Total net assets US\$'000
IFRS Opening Balance 31 December 2014			14,338
Balance at 1 January 2015	14,448	-110	14,338
Profit for the period	1,660		1,660
Other comprehensive income for the period		-88	-88
Total comprehensive income for the period	1,660	-88	1,572
Balance at 31 December 2015	16,108	-198	15,910
Balance at 1 January 2016	16,108	-198	15,910
Loss for the period	-143		-143
Other comprehensive income for the period		-35	-35
Total comprehensive income for the period	-143	-35	-178
Balance at 31 December 2016	15,965	-233	15,732
Balance at 1 January 2017	15,965	-233	15,732
Loss for the period	-1,110		-1,110
Other comprehensive income for the period		137	137
Total comprehensive income for the period	-1,110	137	-973
Balance at 31 December 2017	14,855	-96	14,759
Balance at 1 January 2018	14,855	-96	14,759
Profit for the period	466		466
Other comprehensive income for the period		-47	-47
Total comprehensive income for the period	466	-47	419
Balance at 31 December 2018	15,321	-143	15,178
Balance at 1 January 2019	15,321	-143	15,178
Profit for the period	4,193		4,193
Other comprehensive income for the period		-19	-19
Total comprehensive income for the period	4,193	-19	4,174
Balance at 31 December 2019	19,514	-162	19,352
The accompanying notes are an integral part of these financial statements.			



Kim Carstensen  
Director General

**Forest Stewardship Council, A. C. and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

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## **I. General Information**

Forest Stewardship Council, A.C. (the „Company“ or „FSC“) is a company with registered office in Oaxaca, Mexico. The address of the Company's registered office is Calle Margarita Maza de Juárez 422, Colonia Centro, Oaxaca CP 6800, Mexico. The consolidated financial statements include the Company and its subsidiaries, FSC International Center gemeinnützige Gesellschaft mbH, Bonn/Germany („FSC IC“), FSC Global Development GmbH, Bonn/Germany („FSC GD“) and ASI Assurance Services International GmbH, Bonn/Germany („ASI“), as well as its sub-subsidiaries FSC (Beijing) Global Forestry Management Consulting Co., Ltd., Beijing/China („FSC China“), a 100 % subsidiary of FSC GD, and ASI Asia Pacific Sdn. Bhd., Kuala Lumpur/Malaysia („ASI Malaysia“), a 100 % subsidiary of ASI, (collectively, „the Group“). The Group primarily promotes responsible forest management by providing the assistance required to achieve an environmentally appropriate, socially beneficial and economically viable use of natural resources and provision of ecosystem services.

The auditor Abstoß & Wolters GmbH & Co. KG, Mönchengladbach, Germany, has audited the financial statements of the German companies included in the consolidation and issued unqualified audit opinions. The annual financial statements of Forest Stewardship Council, A.C., audited by UHY Glassman Esquivel y Cía., S.C. Mexico, and the Group Reporting Package of FSC China, audited by SBA Stone Forest CPA Co., Ltd., Shanghai, were both issued with unqualified audit opinions. The Balance Sheet and Income Statement of ASI Malaysia, which is immaterial to FSC Group's financial position and results of operations, has been prepared by WYC BIZPRO Management Services Sdn. Bhd., Kuala Lumpur, Malaysia.

On 6 October 2020 the Director General of Forest Stewardship Council, A.C. has compiled the consolidated financial statements for their issuance and subsequent approval by the Board of Directors.

## **II. Significant accounting principles and methods applied in preparation of the consolidated financial statements**

### **1. Basis of preparation**

The voluntary consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the relevant interpretations of the International Financial Reporting Interpretations Committee (IFRIC). They have been prepared under the assumption that the Group operates on a going concern basis.

The consolidated financial statements have been prepared on an accrual basis and under the historical cost convention. The Group's consolidated financial statements are presented in thousands of USD. Unless otherwise indicated, all amounts are rounded to the next thousand.

In order to improve the clarity and informative value of the consolidated financial statements, certain items are combined in the Consolidated Statement of Financial Position and the Consolidated Statement of Comprehensive Income, and then shown separately in the notes.

## **2. Basis of consolidation**

### **2.1 Scope of consolidation**

In addition to Forest Stewardship Council, A.C. as the ultimate parent company, the consolidated financial statements as at 31 December 2019 include five subsidiaries and sub-subsidiaries. Subsidiaries are all entities in which Forest Stewardship Council, A.C. has a dominating influence over financial and operating policies, based on the concept of control. The Group has a dominating influence on an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Forest Stewardship Council, A.C. prepares the consolidated financial statements for the largest and the smallest groups of companies to which Forest Stewardship Council, A.C. and its subsidiaries belong.

The individual financial statements of the companies included in the consolidation have been prepared on the same reporting date as that of the Forest Stewardship Council, A.C., 31 December 2019.

### **2.2 Consolidation methods**

The Group's consolidated financial statements present the results of the parent company FSC A.C. and its subsidiaries as if they formed a single entity. All intra-group receivables and liabilities, sales, income and expenses relating to transactions between group companies, as well as intra-group profits on transfers of non-current assets or inventories, are eliminated in full on consolidation.

The acquisition method is used for capital consolidation. With business combinations, therefore, all hidden reserves and hidden charges in the entity acquired are revalued at the time of the acquisition, and all identifiable intangible assets are separately disclosed if they are clearly separable or if their

recognition arises from a contractual or other legal right. Any difference arising between the acquisition cost and the (share of) net assets after purchase price allocation is recognized as goodwill. The goodwill of subsidiaries is measured in the functional currency of the subsidiary.

Entities acquired are included in the consolidation for the first time as subsidiaries by offsetting the carrying amount of the respective parent company's investment in them against their assets and liabilities. Contingent consideration is recognized at fair value as of the date of first-time consolidation. Subsequent changes in value do not result in an adjustment to the valuation at the time of acquisition. Acquisition-related costs are not included in the purchase price. Instead, they are recognized through profit or loss in the period in which they occur.

In subsequent years, the carrying amount of the Forest Stewardship Council, A.C investment is eliminated against the current (share of) equity in the subsidiary entities concerned.

### **3. Foreign currency translation**

#### **3.1 Functional, presentation and local currencies**

Functional currency is the currency in which a company predominately generates its funds and makes payments. The Group's consolidated financial statements are presented in USD, which is also the functional currency of the parent company FSC A.C. as well as of its subsidiaries FSC GD, FSC IC and sub-subsidiary FSC China. The functional currency of ASI is the Euro.

The separate annual financial statements of the Group companies are prepared in the local currency of the country in which they operate.

#### **3.2 Foreign currency translation of the group companies' separate annual financial statements**

The annual financial statements of the consolidated companies and the consolidated statement of cash flows are translated into USD using the functional currency method outlined in International Accounting Standard (IAS) 21 „The Effects of Changes in Foreign Exchange Rates.“

For Group companies whose functional currency is the USD, transactions accounted in local currencies are converted into the functional currency as follows. Monetary assets and liabilities are translated at closing rates at the date of the balance sheet, while income and expenses are translated at the average rate over the reporting period as an approximation of the actual rates at the date of the transaction. Net assets and non-monetary assets are translated at the exchange rate at the date of the transaction (historical exchange rate). The differences arising from using average or historical

rates rather than closing rates are shown in the position „Net exchange rate losses“ and are included in the profit for the year.

The annual financial statements of ASI, a group company that has a functional currency different from the presentation currency USD, are translated into the functional and presentation currency as follows. Assets and liabilities are translated at the closing rate at the date of the balance sheet, income and expenses shown in the statement of profit and loss are translated at average exchange rates. The resulting exchange rate differences are recognized in other comprehensive income.

For the main currencies in the Group, the following exchange rates have been used based on one USD:

Currencies	Average exchange rate		Exchange rate on 31 December	
	2019	2018	2019	2018
Euro (EUR)	0,893256	0,8467	0,891424	0,8734
Mexican Peso (MXN)	19,21611	19.9218	18,8835	19.7354
Chinese Yuan Renminbi (CNY)	6,8999	6,6000	6,9805	6,8785
Malaysian Ringgit (MYR)	4,1402	4,0302	4,1015	4,1320

#### 4. Recognition and measurement methods

Summary of selected measurement methods:

Financial statement figures	Measurement method	
<b>Assets</b>		
Other intangible assets with definite useful lives	(Amortized) cost less any impairment losses	
Property, plant and equipment	(Depreciated) cost less any impairment losses	
Right-of-use assets	(Amortized) present value of future lease payments	
Receivables and other assets	(Amortized) cost	

<b>Liabilities</b>	
Other liabilities (trade payables, accrued liabilities)	Settlement amount
Lease liabilities	Present value of the contractual payments with the discount rate determined by the Group's incremental borrowing rate
<b>Provisions</b>	Best estimate of the expenditure required to settle the present obligation at the balance sheet date

## 5. Accounting estimates, assumptions and discretionary judgments

Preparation of the consolidated financial statements is based on a number of accounting estimates and assumptions. These have an impact on the reported amounts of assets and liabilities at the reporting date and the disclosure of income and expenses for the reporting period. The actual amounts may differ from these estimates.

The accounting estimates and their underlying assumptions are based on past experience and are continually reviewed. Changes in accounting estimates are recognized prospectively.

The judgments of the Director General regarding the application of those IFRSs which have a significant impact on the consolidated financial statements are presented in particular in the following explanatory notes:

- Information regarding intangible assets (Note 3)
- Information regarding taxes on income (Note 14)
- Information regarding accrued liabilities and provisions (Note 10)

## 6. New international accounting regulations according to International Financial Reporting Standards (IFRS)

### 6.1 New standards, interpretations and amendments mandatory for the first time in the year under review

	Mandatory for fiscal years beginning on or after
IFRS 16 "Leases"	1 January 2019
Amendments to IFRS 9, "Financial instruments"	
- Prepayment features with negative compensation	1 January 2019
Amendment to IAS 28, "Investments in associates"	
- Long term interests in associates and joint ventures	1 January 2019
Amendments to IAS 19, "Employee benefits"	
- Plan amendment, curtailment or settlement	1 January 2019
Annual improvements to IFRS 2015 – 2017 Cycle	
IFRS 3, Business combinations	
IFRS 11, Joint ventures	
IAS 12, Income taxes	
IAS 23, Borrowing costs	
IFRIC 23, "Uncertainty over income tax treatments"	1 January 2019

Except for IFRS 16, these new standards and amendments to existing standards that are mandatory for fiscal years beginning on 1 January 2019 have no material impact on the consolidated financial statements of FSC Group.

IFRS 16 „Leases“ replaces IAS 17. The Group applied IFRS 16 to leases in existence on 1 January 2019, according to the retrospective approach. Therefore, comparative amounts for the year ended 31 December 2018 are not restated. IFRS 16 requires lessees to use a single method for recognizing leases, affecting the balance sheet in a similar way to finance leases as recognized until 31 December 2018 in accordance with IAS 17.

All leases are accounted for by recognizing a right-of-use asset and a lease liability except for:

- Leases of low value assets, and
- Leases with a duration of 12 months or less.

(see also notes 2 and 18)

## 6.2 New standards, interpretations and amendments not yet effective

The IASB issued the following standards and amendments to existing standards which may be of relevance to FSC:

	<b>Mandatory for fiscal years beginning on or after</b>
Amendments to References to the Conceptual Framework in IFRS Standards	1 January 2020
Amendment to IFRS 3 - Definition of a Business	1 January 2020
Amendments to IAS 1 and IAS 8 - Definition of Material	1 January 2020
IFRS 17, Insurance contracts	1 January 2021

These new standards and amendments to existing standards will be applied by FSC starting in fiscal 2020 or later. A conclusive assessment of the effects is not possible.

### III. **Notes to the consolidated statement of financial position and to the consolidated statement of comprehensive income**

#### **Non-current assets**

All non-current assets with definite useful lives are depreciated or amortized exclusively using the straight-line method on the basis of estimated useful lives. The useful life estimates are reviewed annually. If facts or circumstances indicate the need for impairment, the recoverable amount is determined. It is measured as the higher of the fair value less costs to sell (net realizable value) and the value in use. Impairment losses are recognized if the recoverable amounts of the assets are lower than their carrying amounts.

The following standardized useful lives are applied:

<b>Useful life in years</b>	
Intangible assets with definite useful lives	3 to 5
Tenant Fixtures	25
Office equipment	3 to 14

**Note 1: Property, plant and equipment**

	Balance as of 31/12/2018	Additons	Depreciation	Disposals	Balance as of 31/12/2019
	US'000	US'000	US'000	US'000	US'000
Tenant Fixtures	45	0	-2	0	43
Other equipment and office equipment	464	121	-171	0	414
	<u>509</u>	<u>121</u>	<u>-173</u>	<u>0</u>	<u>457</u>

	Balance as of 31/12/2017	Additons	Depreciation	Disposals	Balance as of 31/12/2018
	US'000	US'000	US'000	US'000	US'000
Tenant Fixtures	178	45	-36	-142	45
Other equipment and office equipment	513	130	-153	-26	464
	<u>691</u>	<u>175</u>	<u>-189</u>	<u>-168</u>	<u>509</u>

Tenant fixtures and other equipment are stated at purchase or manufacturing cost less accumulated depreciation and accumulated impairment losses.

Purchase or manufacturing costs include direct costs and appropriate proportions of necessary over-heads. Interest charges on borrowings are not included, as FSC currently does not hold any qualifying assets in accordance with International Accounting Standard (IAS) 23 „Borrowing Costs.“ Cost figures are shown net of investment grants and allowances. Acquisition-related costs incurred in order to make the asset ready for the intended use are capitalized.

The periods over which the assets are depreciated are based on their estimated useful lives as mentioned above.

## Note 2: Right-of-use assets and lease liabilities

The Group has entered into various lease agreements as a lessee for office space and office equipment. Some leases for office space contain an option to extend the lease for a further term.

Right-of-use assets are measured at the present value of the unavoidable future lease payments to be made over the lease term. Right-of-use assets are amortized on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if, rarely, this is judged to be shorter than the lease term.

The table below describes the nature of the Group's leasing activities by type of right-of-use asset recognized on the consolidated statement of financial position:

	First-time application IFRS 16	Additons	Amortisation	Disposals	Balance as of 31/12/2019
	US'000	US'000	US'000	US'000	US'000
Land and buildings	873	0	-218	0	655
Other equipment and office equipment	70	0	-22	0	48
	943	0	-240	0	703

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term with the discount rate determined by the Group's incremental borrowing rate on commencement of the lease. Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made.

The development of the lease liabilities presented in the consolidated statement of financial position is as follows:

	First-time application IFRS 16	Additons	Interest expense	Lease payments	Foreign exchange movement	Balance as of 31/12/2019
	US'000	US'000	US'000	US'000		US'000
Land and buildings	873	0	26	-209	-20	670
Other equipment and office equipment	70	0	2	-20	-2	50
	943	0	28	-229	-22	720

**Note 3: Intangible assets**

	Balance as of 31/12/2018	Additons	Amortization	Disposals	Balance as of 31/12/2019
	US'000	US'000	US'000	US'000	US'000
Patents and trademarks	68	0	-68	0	0
OCP Software	186	0	-186	0	0
Software programs	61	0	-51	0	10
	315	0	-305	0	10

	Balance as of 31/12/2017	Additons	Amortization	Disposals	Balance as of 31/12/2018
	US'000	US'000	US'000	US'000	US'000
Patents and trademarks	118	11	-61	0	68
OCP Software	993	0	-807	0	186
Software programs	97	2	-38	0	61
	1,208	13	-906	0	315

Intangible assets with finite useful lives are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives.

The „Online Claims Platform“ (OCP) was a digital platform where transactions of FSC-certified products by FSC certificate holders were recorded for the purpose of transaction verification. Because of a low level of uptake and a lack of flexibility with the software driving OCP, it was retired during the financial year 2019. At December 31, 2018, the Group recognized a loss from impairment in the value of its OCP software in the amount of USD 434k due to the planned retirement of the Online Claims Platform in 2019. In 2019, the software was subject to scheduled amortization.

An analysis of changes in trademarks and OCP software program shows the following development:

	Trademarks	OCP Software
	US\$'000	US\$'000
<b>Cost:</b>		
As at January 2019	845	1,862
Additions	0	0
Balance as at 31 December 2019	845	1,862
<b>Amortization and impairment:</b>		
As at January 2019	777	1,676
Amortizations	68	186
Balance as at 31 December 2019	845	1,862
<b>Net book value:</b>		
As at 31 December 2019	0	0
As at 31 December 2018	68	186

#### **Note 4: Deferred tax**

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences and for tax losses carried forward to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. This also applies for temporary differences in valuation arising through acquisitions.

The valuation and recognition of deferred taxes are disclosed under Note 14 („Tax expense“).

#### **Note 5: Trade and other receivables**

Trade and other receivables amounted to USD 3,960k (previous year: USD 1,802k). They are all due within one year. Valuation allowances have been recognized in respect of general and specific risks as appropriate. Overall, the management recognized total valuation allowances of USD 528k (previous year: USD 266k).

Analysis:

	2019	2018
	US\$'000	US\$'000
Trade receivables	4,488	2,068
Less: provision for impairment of trade receivables	-528	-266
Trade receivables - net	3,960	1,802

**Note 6: Other assets and prepaid expenses**

Other assets are measured at amortized cost.

Prepaid expenses are recognized as assets as of the date the payment is made, provided that it is probable that future economic benefits associated with the item will flow to the Group.

**Note 7: Cash and cash equivalents**

Recognized under cash and cash equivalents are liquid funds, sight deposits and other financial assets with an original term of no more than three months. In accordance with IAS 7 „Statement of Cash Flows“, shares in money market funds which, due to their first-class credit rating and investment in extremely short-term money market securities, undergo only minor value fluctuations and can be readily converted within one day in known amounts of cash are also recognized under cash and cash equivalents.

Compared to the previous year, the volume of cash and bank balances increased from USD 16,856k to USD 20,096k.

**Note 8: Net assets**

Total net assets comprise the amounts allocated in the financial statements of FSC in previous years, as well as the total comprehensive income of the current year and the currency translation reserve. (see also note 15)

**Note 9: Trade payables**

Trade payables increased from USD 1,876k to USD 2,207k. In addition to purchase invoices, they also relate to accruals for invoices outstanding in respect of goods and services received. They are due within one year.

**Note 10: Accrued liabilities and provisions**

Accruals are liabilities payable for goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the supplier, including amounts due to employees (for example, amounts relating to accrued vacation pay). Although it is sometimes necessary to estimate the amount or timing of accruals, the uncertainty is generally much less than for provisions (IAS 37.11(b)).

Provisions are allocated towards probable, but not certain, future obligations. Provisions for legal claims are recognized when the Group has a present legal obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at the management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

Analysis:

	2019	2018
	US\$'000	US\$'000
Credit Notes due to Certification Bodies	52	353
Accrual for annual leave	434	430
Accrual for bonuses due to employees	292	341
Other accruals	221	191
Provisions for compensation payments	52	0
Accrued liabilities and provisions	1,051	1,315

**Note 11: Total revenue and principles of income recognition**

The Group has recognized the following amounts relating to revenue in the consolidated statement of comprehensive Income:

	2019	2018
	US\$'000	US\$'000
Annual administration fee (AAF)	32,518	29,242
ASI generated revenue	5,352	5,553
Commercial services and other revenue	1,241	1,042
Revenue from contracts with customers	39,111	35,837
Revenue from other sources: donations, membership fees and other	1,064	1,488
	40,175	37,325

IFRS 15 defines comprehensive principles for revenue recognition as well as for the provision of information about the nature, amount, timing and uncertainty of revenue from contracts with customers. FSC applied the new IFRS 15 Revenue from contract with customers for the first time in the previous year. As a result of the first-time application of IFRS 15 “Revenue from contracts with customers” as at January 1<sup>st</sup>, 2018, there were no changes in the timing or amount of revenue recognition.

Annual administration Fee (AAF)

The FSC Group principally generates revenue from the annual administration fees (AAF) which are charged to accredited certification bodies (CBs). Revenue from AAF rose by USD 3,276k from USD 29,242k to USD 32,518k.

The purpose of the AAF is to support the core activities of the FSC system. FSC’s principal performance obligations on a global level include the management and further development of the FSC multi-stakeholder governance system, maintenance of its reputation and of the global system of FSC standards, trademark management and protection, support of existing network partners and investment in new countries. FSC maintains and develops the FSC accreditation and certification system, provides procedures for evaluation and accreditation of CBs, manages complaints about CBs, maintains a register of CBs as well as an internet based certificate holder database.

FSC's performance obligations are satisfied over time since the CB as customer simultaneously receives and consumes the benefits provided by FSC's performance as FSC performs the services. Revenue from AAFs is recognized from the satisfaction of the performance obligation pursuant to IFRS 15.B16 and in accordance with the currently valid FSC policy on Annual Administration Fee. AAF fees are charged by FSC on the basis of a CB's respective certificate holder portfolio. FSC calculates the AAF from the information provided by the CBs in the FSC database. CBs are responsible for providing the necessary information for calculating the AAF by filling the relevant fields in the FSC certificate database.

FSC invoices the AAF on a quarterly basis which allows AAF adjustments based on terminations, withdrawals and transfers of certificates as well as new certificates and AAF class changes.

„ASI generated income“ and commercial services

„ASI generated income“ predominantly relate to revenue generated from the provision of assurance services regarding voluntary sustainability standards. Revenue from „ASI generated income“ and revenue from commercial services is recognized once the service has been provided on either a fixed price or an hourly rate.

**Note 12: Net exchange rate gains/losses**

As the records of the parent company FSC A.C. and the Group companies FSC GD, FSC IC and FSC China are prepared in the local currency where the companies are located; these companies keep their books and records in currencies other than their functional currencies. Pursuant to IAS 21 (34), the financial statements of these companies are translated into the functional currency in accordance with IAS 21 paragraphs 20-26. Monetary items are translated into the functional currency using closing rates, while income and expenses are translated using the average rates for the year as an approximation of the actual rates at the date of the transaction. Non-monetary items such as non-current assets and net asset are translated on a historical exchange rate basis. The differences arising from using average or historical rates rather than closing rates are shown in the position „Net exchange rate losses“.

**Note 13: Amortization and depreciation and loss from disposal of non-current assets and amortization of right-of-use assets**

Compare notes 1, 2 and 3.

**Note 14: Tax expense**

Tax expense breaks down as follows:

	2019	2018
	US\$'000	US\$'000
<u>Current tax expense</u>		
Current tax expense on earnings and income	1,023	634
<u>Deferred tax expense</u>		
Deferred tax income/expense from increase/decrease in deferred tax assets	0	-31
Taxes on income and earnings	1,023	603
German withholding tax on royalties	1,463	1,440
Other taxes	62	0
Total tax expense	2,548	2,043

Taxes on income and earnings

FSC A.C. and the German subsidiary FSC IC are charitable, non-profit organisations and as such are generally not subject to taxes on income and earnings. The German subsidiaries FSC GD and ASI are subject to German corporate income tax (tax rate of 15 percent plus solidarity surcharge of 5.5 percent). Taking into account German trade tax, the overall tax rate in Germany is about 33 percent. In accordance with the tax law under the PRC (People's Republic of China), the Chinese sub-subsidiary is subject to a corporate income tax rate of 25 percent of its taxable income.

Due to the non-profit, tax-exempt status of FSC A.C. and FSC IC, a reconciliation of the Group's income before tax with the amount of taxes on income and earnings is not appropriate. Therefore, these notes do not include a tax reconciliation statement with regard to taxes on income and earnings.

German withholding tax on royalties

German income tax is withheld at source and paid to the German tax authority from royalty income generated by individuals and organisations which are not resident in Germany. Consequently, the licence fee payments by FSC GD to FSC A.C. as an organisation not resident in Germany are subject to

German withholding tax. The applicable rate for the tax deduction amounts to 15,825 %. The withholding tax expense can be reconciled with the royalty revenue generated by FSC A.C. as follows:

	2019	2018
	US\$'000	US\$'000
Royalty revenue generated by FSC A.C.	9,958	8,884
German withholding tax on royalties	1,463	1,440
tax rate in percent	14,69%	16,21%

### Deferred taxes

An excess of deferred tax assets is only recognized insofar as it is likely that the company concerned will achieve sufficiently positive taxable profits in the future against which the deductible temporary differences can be offset and tax loss carry forwards can be used. Tax losses carry forwards are non-expiring under German law.

The deferred tax assets and liabilities stated on the reporting date relate to the following items of the consolidated statement of financial position, unused tax losses and tax, losses carried forward and tax credit balance:

	2019	2018
	US\$'000	US\$'000
Deferred tax assets due to temporary differences between the carrying amount of assets in the consolidated financial statements and corresponding tax base	31	31

Deferred taxes are calculated on the basis of tax rates that apply in the individual countries at the year-end date or which have already been legally decided.

Deferred tax assets and liabilities are netted where they involve the same tax authority and the same tax creditor.

months. Therefore, securities are included in financial funds, provided that they are available at short term and are only exposed to an insignificant price change risk. In China, there are administrative hurdles to the transfer of money to the parent company. As of 31/12/2019, the balance sheet of the Chinese subsidiary shows cash and cash equivalents in the amount of USD 380k.

Cash flows from operating activities are determined by initially adjusting operating profit for non-cash items such as amortization/depreciation/impairment/write-ups on intangible assets and property, plant equipment – supplemented by changes in provisions, changes in other assets and liabilities, and also changes in net working capital. Payments made for income taxes are disclosed under operating cash flow.

Cash flows from investing activities occur essentially as a result of outflows of funds for investments in intangible assets, property, plant and equipment, and subsidiaries. We also recognize inflows of funds from the sale of intangible assets, property, plant and equipment, and subsidiaries. In the reporting period, cash flows from investing activities mainly involved outflows for acquisitions of intangible assets and tangible fixed assets in the amount of USD 120k (previous year USD 188k).

Due to first-time application of IFRS 16 Leases, interest paid on lease liabilities and the redemption of lease liabilities have been disclosed as outflows from financing activities in the financial year 2019. First-time application of IFRS 16 did not have any effect on the amount of free cash flow. It merely resulted in a shift between cash flow from operating activities and cash flow from financing activities.

#### **Note 17: Contingent Liabilities**

Federal and state taxes are open to review by the tax authorities for a period of four to five years. Consequently, the Group is contingently liable for payment of any omitted taxes plus penalties and surcharges that may be determined by the tax authorities.

#### **Note 18: Lease and other financial commitments not recognized as a liability**

##### Policies applicable from 1 January 2019

The group has elected not to recognize a lease liability for short-term leases (leases with an expected term of 12 months or less) or for leases of low-value assets. Payments made under such leases are expensed on a straight-line basis over the term of the lease agreement.

The expense relating to payments not included in the measurement of the lease liability is as follows:

	<u>31 December 2019</u>
Short-terms leases	USD 80k
Lease of low-value assets	USD 0k

As of 31 December 2019, the Group also has USD 254k of non-cancellable contractual commitments, primarily related to license agreements and other service contracts. These commitments are due within one to two years.

Policies applicable before 31 December 2018

Operating leases as defined in IAS 17 “Leases” comprised all forms of rights of use of assets, including rights of use arising from rent and leasehold agreements. Payment commitments under operating lease agreements were shown at the total amounts payable up to the earliest date of determination. The amounts shown are the nominal values. As at 31 December 2018, they were due for payment as follows:

Within the Group, we primarily rent office space and office equipment as well as IT equipment. Some of these contracts contain extension options and price adjustment clauses. As of 31 December 2018, USD 761k will become due for payment under operating leases within one to four years. The Group also has USD 341k of non-cancellable contractual commitments as of 31 December 2018, primarily related to license agreements and other service contracts. These commitments are due within one to three years.

**Note 19: Remuneration of committees and management**

The total remuneration of the members of the Board of Directors of FSC amounted to USD 20k. The total remuneration of the members of the Management FSC (Managing directors and Senior Management Team) amounted to USD 2,249k (previous year: USD 1,916k).

**Note 20: Subsidiaries and Shareholdings**

Name	Principal activity	Country of incorporation	Shareholders' Equity		% equity interest	
			2019 US\$	2018 US\$	2019	2018
Forest Stewardship Council A.C.	Promotion of responsible forest management to achieve environmentally appropriate, socially beneficial and economically viable use of natural resources and provision of ecosystem services	Mexico	n.a., Asociación Civil	n.a., Asociación Civil		
FSC International Center gemeinnützige Gesellschaft mbH	Standard development for the preservation of worldwide forest resources	Germany	34,500	34,500	100%	100%
FSC Global Development GmbH	Operation of the licence business with the FSC brand and FSC trademarks	Germany	34,500	34,500	100%	100%
ASI - Accreditation Services International GmbH	Audit and accreditation of certification bodies	Germany	34,500	34,500	100%	100%
FSC (Beijing) Global Forestry Management Consulting Co., Ltd.	Provision of consultancy relating to forest management	China	75,000	75,000	100%	100%
ASI Asia Pacific Sdn Bhd	Assessment of organisations issuing certificates for a range of standards	Malaysia	25	25	100%	100%

**V. Notes to the consolidated financial statements – subsequent events**

Since the beginning of the year 2020, the novel coronavirus (SARS-CoV-2) has been spreading worldwide and has evolved into a pandemic. This development has an economic impact on many companies, for example due to restrictions in production and trade or travel restrictions. The Group's main customers, the Certification Bodies (cp. Note 11), have also been affected which may result in bad debt losses for the Group. The Group has reacted to this development and taken appropriate measures such as the implementation of short-term work for its employees and other cost-cutting programs. In addition, the Group has developed payment schedules for ailing Certification Bodies.

The impact on the Group's performance in the year 2020 will depend on how the pandemic evolves. The concrete impact on the net assets, financial positions and result of operations for the Group in 2020 cannot be predicted at present.

After 31 December 2019, other events of particular significance for the FSC Group have not occurred.

Oaxaca, Mexico

6 October 2020



Kim Carstensen  
Director General

**Recommendation for the approval of the consolidated financial statements of Forest Stewardship Council, A.C and Subsidiaries**

It is proposed that the consolidated financial statements of Forest Stewardship Council, A.C. and Subsidiaries be approved as presented.