CONSOLIDATED FINANCIAL STATEMENTS

of

Forest Stewardship Council, A.C. and Subsidiaries

for the years ended

31 December 2020 and 31 December 2019

with

Independent Auditor's Report

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Independent Auditor’s Report

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

Audit Opinion

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 2020, the consolidated statement of comprehensive income for the year 2020, the consolidated statement of cash flows for the year 2020, 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 2020 and its consolidated financial performance, its consolidated cash flows for the year 2020 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 Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 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.

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 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.

Mönchengladbach, Germany, 30 July 2021

Abstoß & Wolters GmbH & Co. KG
Wirtschaftsprüfungsgesellschaft
Steuerberatungsgesellschaft

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Forest Stewardship Council, A.C. and Subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	31/12/2020	31/12/2019
		US$'000	US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	1		
1. Tenant fixtures		41	43
2. Other equipment and office equipment		421	414
		462	457
Right-of-use assets	2		
1. Land and buildings		437	655
2. Other equipment and office equipment		26	48
		463	703
Intangible assets	3		
Other		0	10
		0	10
Deferred tax assets	4	31	31
Total Non-current assets		**956**	**1,201**
Current assets			
Trade and other receivables	5	2,536	3,960
Current tax assets		93	146
Other assets	6	384	740
Prepaid expenses	6	622	415
Cash and cash equivalents	7	36,253	20,096
Total current assets		**39,888**	**25,357**
TOTAL ASSETS		**40,844**	**26,558**

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	31/12/2020	31/12/2019
		US$'000	US$'000
NET ASSETS and LIABILITIES			
Net assets	8		
Currency translation reserve		-16	-162
Retained earnings		30,099	19,514
Total net assets	15	**30,083**	**19,352**
Non-current Liabilities			
Lease liabilities	2	269	492
Current liabilities			
Trade payables	9	2,070	2,207
Payables to FSC-Network		1,802	623
Accrued liabilities and provisions	10	877	1,051
Current tax liabilities		4,701	2,442
Lease liabilities	2	269	228
Other liabilities		668	73
Deferred revenue		105	90
Total current liabilities		**10,492**	**6,714**
TOTAL NET ASSETS and LIABILITIES		**40,844**	**26,558**

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	2020	2019
		US$'000	US$'000
Revenue	11		
Annual administration fees		36,240	32,518
Donations		488	685
ASI generated income		5,874	5,352
Commercial services		103	217
Memberships and fees		172	297
Other		1,364	1,106
Total revenue		**44,241**	**40,175**
Expenses			
Staff salaries		7,853	8,081
Staff benefits		1,666	1,805
Staff recruitment and relocation		198	92
Total staff costs		**9,717**	**9,978**
Travel staff		113	336
Travel non-staff		486	2,039
Total travel costs		**599**	**2,375**
Fee principle cooperation and licence agreements		6,251	6,341
Licence Fee		20	134
Externals		2,376	2,509
Consultants		5,209	5,754
Fee service agreements NO		577	1,034
Legal and consulting costs		670	663
IT & communication		857	835
External office cost services		1,073	864
Costs meetings		117	831
Total third party costs		**17,150**	**18,965**
Rent		93	87
Basic costs		714	637
Office costs NO		124	154
Financial costs		113	471
Total back office costs		**1,044**	**1,349**
Total costs		**28,510**	**32,667**
Net exchange rate gains / losses	12	**637**	**-35**
EBITDA		**15,094**	**7,473**

Forest Stewardship Council, A.C. and Subsidiaries

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

	Note	2020	2019
		US$'000	US$'000
EBITDA		**15,094**	**7,473**
Amortization and depreciation	13		
and loss from disposal of non-current assets		**-175**	**-479**
Amortization right-of-use assets	13	**-240**	**-240**
EBIT		**14,679**	**6,754**
Tax expense	14	**-4,091**	**-2,548**
Interest income		**19**	**15**
Interest expense on lease liabilities	2	**-22**	**-28**
Financial result		**-3**	**-13**
Profit for the period		**10,585**	**4,193**
Other comprehensive income			
Exchange gains or losses arising on translation			
of foreign operations		**146**	**-19**
Total comprehensive income	15	**10,731**	**4,174**

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 CASH FLOWS

		Note	2020	2019
			US$'000	US$'000
Total result for the year			10,731	4,174
Items not affecting cashflows:				
+	Amortization/depreciation on intangible and tangible fixed assets	1, 3	+149	+477
+	Amortization of right-of-use assets	2	+240	+240
-/+	Non-cash currency results		-514	+93
Gross Cashflow from operating activities			**10,606**	**4,984**
-/+	Increase/decrease in deferred tax assets		0	0
+/-	Decrease/increase in trade receivables and other assets		+1,573	-2,773
+/-	Decrease/increase in current tax assets		+53	+186
-/+	Decrease/increase in trade payables and in other liabilities		+1,572	+114
-/+	Decrease/increase in current tax liabilities		+2,259	+1,199
Net Cashflow from operating activities			**16,063**	**3,710**
-	Acquisition of intangible assets and tangible fixed assets	1, 3	-171	-120
+	Net losses from disposal of intangible assets and tangible fixed assets		27	0
Net Cashflow used in investing activities			**-144**	**-120**
-	Principal paid on lease liabilities	2	-254	-229
-	Interest paid on lease liabilities	2	-22	-28
Cashflow from financing activities			**-276**	**-257**
Net increase in cash and cash equivalents			15,643	3,333
Effects of exchange rate changes on cash and cash equivalents			514	-93
Change in cash and cash equivalents			16,157	3,240
Cash and cash equivalents at the beginning of the year			20,096	16,856
Cash and cash equivalents at the end of the year			**36,253**	**20,096**

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	Currency translation difference	Total net assets
	US$'000	US$'000	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

Forest Stewardship Council, A.C. and Subsidiaries
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS (CONTINUED)

Balance at 1 January 2020	19,514	-162	19,352
Profit for the period	10,585		10,585
Other comprehensive income for the period		146	146
Total comprehensive income for the period	10,585	146	10,731
Balance at 31 December 2020	30,099	-16	30,083

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

Kim Carstensen
(Director General)

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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, Wirtschaftsprüfungsgesellschaft, Steuerberatungsgesellschaft, 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 City, 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 29 July 2021 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 2020.

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**	
	2020	**2019**	**2019**	**2019**
Euro (EUR)	0,875500	0,893256	0,81435	0,891424
Mexican Peso (MXN)	21,51258	19,21611	19,94500	18,8835
Chinese Yuan Renminbi (CNY)	6,8991	6,8999	6,52490	6,9805
Malaysian Ringgit (MYR)	4,20067	4,1402	4,0300	4,1015

4. Recognition and measurement methods

Summary of selected measurement methods:

Financial statement figures	**Measurement method**
Assets	
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

Liabilities	
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
Provisions	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
Amendments to References to Conceptual Framework in IFRS Standards	1 January 2020
Amendment to IFRS 3 Business Combinations: - Definition of a Business	1 January 2020
Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: - Definition of Material	1 January 2020
Amendments to IFRS 9, IAS 39 and IFRS 7: - Interest Rate Benchmark Reform	1 January 2020
Amendments to IFRS 4: - Extension of the Temporary Exemption from Applying IFRS 9	1 January 2020
Amendment to IFRS 16: COVID-19-Related Rent Concessions	1 June 2020

These amendments to existing standards that are mandatory for fiscal years beginning on 1 January 2020 have no material impact on the consolidated financial statements of FSC Group.

6.2 New standards, interpretations and amendments not yet effective

The International Accounting Standards Board (IASB) issued the following standards and amendments to existing standards which may be of relevance to FSC:

	Mandatory for fiscal years beginning on or after
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: - Interest Rate Benchmark Reform Phase 2	1 January 2021
Amendment to IFRS 16: - COVID-19-Related Rent Concessions beyond 30 June 2021	1 April 2021
Amendments to IAS 37: - Onerous Contracts Cost of Fulfilling a Contract	1 January 2022
Annual Improvements to IFRS Standards 2018-2020	1 January 2022
Amendments to IAS 16: - Property, Plant and Equipment: Proceeds before Intended Use	1 January 2022
Amendments to IFRS 3: - Reference to the Conceptual Framework	1 January 2022
IFRS 17 Insurance contracts	1 January 2023
Amendments to IAS 1 - Classification of liabilities as current or non-current	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2: - Disclosure of Accounting Policy	1 January 2023
Amendments to IAS 8: - Definition of Accounting Estimate	1 January 2023

If applicable, these new standards and amendments to existing standards will be applied by FSC starting in fiscal 2021 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:

Useful life in years	
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 31/12/2019	Additions	Depreciation	Disposals	Balance as of 31/12/2020
	US'000	US'000	US'000	US'000	US'000
Tenant Fixtures	43	0	-2	0	41
Other equipment and office equipment	414	171	-138	-26	421
	457	171	-140	-26	462

	Balance as of 31/12/2018	Additions	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
	509	121	-173	0	457

Tenant fixtures, other equipment and office 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 overheads. 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

IFRS 16 “Leases” replaces IAS 17. The Group applied IFRS 16 for the first time in the year 2019 to leases in existence on 1 January 2019 according to the retrospective approach. 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.

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:

	Balance as of 31/12/2019	Additions	Amortization	Disposals	Balance as of 31/12/2020
	US'000	US'000	US'000	US'000	US'000
Land and buildings	655	0	-218	0	437
Other equipment and office equipment	48	0	-22	0	26
	703	0	-240	0	463

	First-time application IFRS 16	Additions	Amortization	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 rage 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:

	Balance as of 31/12/2019	Interest expense	Lease payments	Foreign exchange movement	Balance as of 31/12/2020
	US'000	US'000	US'000	US'000	US'000
Land and buildings	670	21	-231	49	509
Other equipment and office equipment	50	1	-23	1	29
	720	22	-254	50	538

	First-time application IFRS 16	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	26	-209	-20	670
Other equipment and office equipment	70	2	-20	-2	50
	943	28	-229	-22	720

Note 3: Intangible assets

	Balance as of 31/12/2019	Additions	Amortization	Disposals	Balance as of 31/12/2020
	US'000	US'000	US'000	US'000	US'000
Software programs	10	0	-9	-1	0
	10	0	-9	-1	0

	Balance as of 31/12/2018	Additions	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

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.

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 2,536k (previous year: USD 3,960k). 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 141k (previous year: USD 528k).

Analysis:

	2020	2019
	US$'000	US$'000
Trade receivables	2,677	4,488
Less: provision for impairment of trade receivables	-141	-528
Trade receivables - net	2,536	3,960

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 20,096k to USD 36,253k.

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 decreased from USD 2,207k to USD 2,070k. 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:

	2020	**2019**
	US$'000	**US$'000**
Credit Notes due to Certification Bodies	141	52
Accrual for annual leave	376	434
Accrual for bonuses due to employees	207	292
Other accruals	153	221
Provisions for compensation payments	0	52
Accrued liabilities and provisions	877	1,051

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:

	2020	2019
	US$'000	US$'000
Annual administration fee (AAF)	36,240	32,518
ASI generated revenue	5,874	5,352
Commercial services and other revenue	997	1,241
Revenue from contracts with customers	43,111	39,111
Revenue from other sources: donations, membership fees and other	1,130	1,064
	44,241	40,175

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 year 2018. As a result of the first-time application of IFRS 15 “Revenue from contracts with customers” as at January 1st, 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 accreditated certification bodies (CBs). Revenue from AAF rose by USD 3,722k from USD 32,518k to USD 36,240k.

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:

	2020	2019
	US$'000	US$'000
Current tax expense		
Current tax expense on earnings and income	2,482	1,023
Deferred tax expense		
Deferred tax income/expense from increase/decrease in deferred tax assets	0	0
Taxes on income and earnings	2,482	1,023
German withholding tax on royalties	1,609	1,463
Other taxes	0	62
Total tax expense	4,091	2,548

Taxes on income and earnings

FSC A.C. and the German subsidiary FSC IC are charitable, non-profit organizations 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 organizations which are not resident in Germany. Consequently, the license fee payments by FSC GD to FSC A.C. as an organization 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:

	2020	2019
	US$'000	US$'000
Royalty revenue generated by FSC A.C.	10,187	9,958
German withholding tax on royalties	1,609	1,463
tax rate in percent	15.79%	14.69%

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:

	2020	2019
	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.

Note 15: Total comprehensive income

Total comprehensive income consists of the profit or loss for the period and other comprehensive income (OCI). Any surplus at the end of each year shall be reserved for future operating needs and/or improving and increasing the programs of the FSC organization.

	2020 US$'000	2019 US$'000
Profit for the period	10,585	4,193
Other comprehensive income		
Exchange rate gains or losses arising on the translation of foreign operations	146	-19
Total comprehensive income for the period	**10,731**	**4,174**
Profit brought forward as at 1 January	19,514	15,321
Currency translation reserve as at 1 January	-162	-143
Total net assets as at 31 December	**30,083**	**19,352**

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. Pursuant to IAS (39c), all resulting exchange rate differences are recognized in other comprehensive income.

IV. Notes to the consolidated financial statements – other disclosures

Note 16: Consolidated statement of cash flows

The consolidated statement of cash flows have been prepared in accordance with International Accounting Standard (IAS) 7 “Statement of Cash Flows”. It describes the flow of cash and cash equivalents by origin and usage of liquid funds, distinguishing between changes in funds arising from operating activities, investing activities, and financing activities. Financial funds include cash on hand, checks and credit at banks, and other financial assets with a remaining term of not more than three 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 31/12/2020, the balance sheet of the Chinese subsidiary shows cash and cash equivalents in the amount of USD 382k.

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 171k (previous year USD 120k).

Due to the 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 years 2020 and 2019.

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:

	31 December 2020	31 December 2019
Short-terms leases	USD 82k	USD 80k
Lease of low-value assets	USD 0k	USD 0k

As of 31 December 2020, the Group also has USD 381k (previous year 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.

Note 19: Remuneration of committees and management

The total remuneration of the members of the Board of Directors of FSC amounted to USD 21k (previous year USD 20k). The total remuneration of the members of the Management FSC (Managing directors and Senior Management Team) amounted to USD 2,252k (previous year: USD 2,249k).

Note 20: Subsidiaries and Shareholdings

Name	Principal activity	Country of incorporation	Shareholders' Equity 2020 US$	Shareholders' Equity 2019 US$	% equity interest 2020	% equity interest 2019
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 gemeinützige 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

After the balance sheet date 31 December 2020, restructuring measures were carried out within the Group in which trademarks were transferred between Group companies. These measures had no effect on the level of the Group as a whole with regard to activities and assets.

Under section XIX of article 79 of the Mexican Income Tax Law, the parent company FSC A.C. was considered a tax-exempt organization. Section XIX of article 79 was repealed as an amendment of the Mexican Income Tax Law for 2021, published in December 2020. As FSC A.C. decided not to obtain the authorization to receive deductible donations, it does not fall under the tax regime for companies authorized to receive donations and as of 1 July 2021 is subject to taxation according to Title II of the Mexican General Regime of Taxpaying Legal Persons.

Other events of particular significance for the FSC Group have not occurred After 31 December 2020.

Oaxaca, Mexico

29 July 2021

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.

[Translator's notes are in square brackets]

General Engagement Terms
for
Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften
[German Public Auditors and Public Audit Firms]
as of January 1, 2017

1. Scope of application

(1) These engagement terms apply to contracts between German Public Auditors (*Wirtschaftsprüfer*) or German Public Audit Firms (*Wirtschaftsprüfungsgesellschaften*) – hereinafter collectively referred to as "German Public Auditors" – and their engaging parties for assurance services, tax advisory services, advice on business matters and other engagements except as otherwise agreed in writing or prescribed by a mandatory rule.

(2) Third parties may derive claims from contracts between German Public Auditors and engaging parties only when this is expressly agreed or results from mandatory rules prescribed by law. In relation to such claims, these engagement terms also apply to these third parties.

2. Scope and execution of the engagement

(1) Object of the engagement is the agreed service – not a particular economic result. The engagement will be performed in accordance with the German Principles of Proper Professional Conduct (*Grundsätze ordnungsmäßiger Berufsausübung*). The German Public Auditor does not assume any management functions in connection with his services. The German Public Auditor is not responsible for the use or implementation of the results of his services. The German Public Auditor is entitled to make use of competent persons to conduct the engagement.

(2) Except for assurance engagements (*betriebswirtschaftliche Prüfungen*), the consideration of foreign law requires an express written agreement.

(3) If circumstances or the legal situation change subsequent to the release of the final professional statement, the German Public Auditor is not obligated to refer the engaging party to changes or any consequences resulting therefrom.

3. The obligations of the engaging party to cooperate

(1) The engaging party shall ensure that all documents and further information necessary for the performance of the engagement are provided to the German Public Auditor on a timely basis, and that he is informed of all events and circumstances that may be of significance to the performance of the engagement. This also applies to those documents and further information, events and circumstances that first become known during the German Public Auditor's work. The engaging party will also designate suitable persons to provide information.

(2) Upon the request of the German Public Auditor, the engaging party shall confirm the completeness of the documents and further information provided as well as the explanations and statements, in a written statement drafted by the German Public Auditor.

4. Ensuring independence

(1) The engaging party shall refrain from anything that endangers the independence of the German Public Auditor's staff. This applies throughout the term of the engagement, and in particular to offers of employment or to assume an executive or non-executive role, and to offers to accept engagements on their own behalf.

(2) Were the performance of the engagement to impair the independence of the German Public Auditor, of related firms, firms within his network, or such firms associated with him, to which the independence requirements apply in the same way as to the German Public Auditor in other engagement relationships, the German Public Auditor is entitled to terminate the engagement for good cause.

5. Reporting and oral information

To the extent that the German Public Auditor is required to present results in writing as part of the work in executing the engagement, only that written work is authoritative. Drafts are non-binding. Except as otherwise agreed, oral statements and explanations by the German Public Auditor are binding only when they are confirmed in writing. Statements and information of the German Public Auditor outside of the engagement are always non-binding.

6. Distribution of a German Public Auditor's professional statement

(1) The distribution to a third party of professional statements of the German Public Auditor (results of work or extracts of the results of work whether in draft or in a final version) or information about the German Public Auditor acting for the engaging party requires the German Public Auditor's written consent, unless the engaging party is obligated to distribute or inform due to law or a regulatory requirement.

(2) The use by the engaging party for promotional purposes of the German Public Auditor's professional statements and of information about the German Public Auditor acting for the engaging party is prohibited.

7. Deficiency rectification

(1) In case there are any deficiencies, the engaging party is entitled to specific subsequent performance by the German Public Auditor. The engaging party may reduce the fees or cancel the contract for failure of such subsequent performance, for subsequent non-performance or unjustified refusal to perform subsequently, or for unconscionability or impossibility of subsequent performance. If the engagement was not commissioned by a consumer, the engaging party may only cancel the contract due to a deficiency if the service rendered is not relevant to him due to failure of subsequent performance, to subsequent non-performance, to unconscionability or impossibility of subsequent performance. No. 9 applies to the extent that further claims for damages exist.

(2) The engaging party must assert a claim for the rectification of deficiencies in writing (*Textform*) [*Translators Note: The German term "Textform" means in written form, but without requiring a signature*] without delay. Claims pursuant to paragraph 1 not arising from an intentional act expire after one year subsequent to the commencement of the time limit under the statute of limitations.

(3) Apparent deficiencies, such as clerical errors, arithmetical errors and deficiencies associated with technicalities contained in a German Public Auditor's professional statement (long-form reports, expert opinions etc.) may be corrected – also versus third parties – by the German Public Auditor at any time. Misstatements which may call into question the results contained in a German Public Auditor's professional statement entitle the German Public Auditor to withdraw such statement – also versus third parties. In such cases the German Public Auditor should first hear the engaging party, if practicable.

8. Confidentiality towards third parties, and data protection

(1) Pursuant to the law (§ [Article] 323 Abs 1 [paragraph 1] HGB [German Commercial Code: *Handelsgesetzbuch*], § 43 WPO [German Law regulating the Profession of Wirtschaftsprüfer: *Wirtschaftsprüferordnung*], § 203 StGB [German Criminal Code: *Strafgesetzbuch*]) the German Public Auditor is obligated to maintain confidentiality regarding facts and circumstances confided to him or of which he becomes aware in the course of his professional work, unless the engaging party releases him from this confidentiality obligation.

(2) When processing personal data, the German Public Auditor will observe national and European legal provisions on data protection.

9. Liability

(1) For legally required services by German Public Auditors, in particular audits, the respective legal limitations of liability, in particular the limitation of liability pursuant to § 323 Abs. 2 HGB, apply.

(2) Insofar neither a statutory limitation of liability is applicable, nor an individual contractual limitation of liability exists, the liability of the German Public Auditor for claims for damages of any other kind, except for damages resulting from injury to life, body or health as well as for damages that constitute a duty of replacement by a producer pursuant to § 1 ProdHaftG [German Product Liability Act: *Produkthaftungsgesetz*], for an individual case of damages caused by negligence is limited to € 4 million pursuant to § 54 a Abs. 1 Nr. 2 WPO.

(3) The German Public Auditor is entitled to invoke demurs and defenses based on the contractual relationship with the engaging party also towards third parties.

(4) When multiple claimants assert a claim for damages arising from an existing contractual relationship with the German Public Auditor due to the German Public Auditor's negligent breach of duty, the maximum amount stipulated in paragraph 2 applies to the respective claims of all claimants collectively.

(5) An individual case of damages within the meaning of paragraph 2 also exists in relation to a uniform damage arising from a number of breaches of duty. The individual case of damages encompasses all consequences from a breach of duty regardless of whether the damages occurred in one year or in a number of successive years. In this case, multiple acts or omissions based on the same source of error or on a source of error of an equivalent nature are deemed to be a single breach of duty if the matters in question are legally or economically connected to one another. In this event the claim against the German Public Auditor is limited to € 5 million. The limitation to the fivefold of the minimum amount insured does not apply to compulsory audits required by law.

(6) A claim for damages expires if a suit is not filed within six months subsequent to the written refusal of acceptance of the indemnity and the engaging party has been informed of this consequence. This does not apply to claims for damages resulting from scienter, a culpable injury to life, body or health as well as for damages that constitute a liability for replacement by a producer pursuant to § 1 ProdHaftG. The right to invoke a plea of the statute of limitations remains unaffected.

10. Supplementary provisions for audit engagements

(1) If the engaging party subsequently amends the financial statements or management report audited by a German Public Auditor and accompanied by an auditor's report, he may no longer use this auditor's report.

If the German Public Auditor has not issued an auditor's report, a reference to the audit conducted by the German Public Auditor in the management report or any other public reference is permitted only with the German Public Auditor's written consent and with a wording authorized by him.

(2) If the German Public Auditor revokes the auditor's report, it may no longer be used. If the engaging party has already made use of the auditor's report, then upon the request of the German Public Auditor he must give notification of the revocation.

(3) The engaging party has a right to five official copies of the report. Additional official copies will be charged separately.

11. Supplementary provisions for assistance in tax matters

(1) When advising on an individual tax issue as well as when providing ongoing tax advice, the German Public Auditor is entitled to use as a correct and complete basis the facts provided by the engaging party – especially numerical disclosures; this also applies to bookkeeping engagements. Nevertheless, he is obligated to indicate to the engaging party any errors he has identified.

(2) The tax advisory engagement does not encompass procedures required to observe deadlines, unless the German Public Auditor has explicitly accepted a corresponding engagement. In this case the engaging party must provide the German Public Auditor with all documents required to observe deadlines – in particular tax assessments – on such a timely basis that the German Public Auditor has an appropriate lead time.

(3) Except as agreed otherwise in writing, ongoing tax advice encompasses the following work during the contract period:

a) preparation of annual tax returns for income tax, corporate tax and business tax, as well as wealth tax returns, namely on the basis of the annual financial statements, and on other schedules and evidence documents required for the taxation, to be provided by the engaging party

b) examination of tax assessments in relation to the taxes referred to in (a)

c) negotiations with tax authorities in connection with the returns and assessments mentioned in (a) and (b)

d) support in tax audits and evaluation of the results of tax audits with respect to the taxes referred to in (a)

e) participation in petition or protest and appeal procedures with respect to the taxes mentioned in (a).

In the aforementioned tasks the German Public Auditor takes into account material published legal decisions and administrative interpretations.

(4) If the German Public auditor receives a fixed fee for ongoing tax advice, the work mentioned under paragraph 3 (d) and (e) is to be remunerated separately, except as agreed otherwise in writing.

(5) Insofar the German Public Auditor is also a German Tax Advisor and the German Tax Advice Remuneration Regulation (*Steuerberatungsvergütungsverordnung*) is to be applied to calculate the remuneration, a greater or lesser remuneration than the legal default remuneration can be agreed in writing (*Textform*).

(6) Work relating to special individual issues for income tax, corporate tax, business tax, valuation assessments for property units, wealth tax, as well as all issues in relation to sales tax, payroll tax, other taxes and dues requires a separate engagement. This also applies to:

a) work on non-recurring tax matters, e.g. in the field of estate tax, capital transactions tax, and real estate sales tax;

b) support and representation in proceedings before tax and administrative courts and in criminal tax matters;

c) advisory work and work related to expert opinions in connection with changes in legal form and other re-organizations, capital increases and reductions, insolvency related business reorganizations, admission and retirement of owners, sale of a business, liquidations and the like, and

d) support in complying with disclosure and documentation obligations.

(7) To the extent that the preparation of the annual sales tax return is undertaken as additional work, this includes neither the review of any special accounting prerequisites nor the issue as to whether all potential sales tax allowances have been identified. No guarantee is given for the complete compilation of documents to claim the input tax credit.

12. Electronic communication

Communication between the German Public Auditor and the engaging party may be via e-mail. In the event that the engaging party does not wish to communicate via e-mail or sets special security requirements, such as the encryption of e-mails, the engaging party will inform the German Public Auditor in writing (*Textform*) accordingly.

13. Remuneration

(1) In addition to his claims for fees, the German Public Auditor is entitled to claim reimbursement of his expenses; sales tax will be billed additionally. He may claim appropriate advances on remuneration and reimbursement of expenses and may make the delivery of his services dependent upon the complete satisfaction of his claims. Multiple engaging parties are jointly and severally liable.

(2) If the engaging party is not a consumer, then a set-off against the German Public Auditor's claims for remuneration and reimbursement of expenses is admissible only for undisputed claims or claims determined to be legally binding.

14. Dispute Settlement

The German Public Auditor is not prepared to participate in dispute settlement procedures before a consumer arbitration board (*Verbraucherschlichtungsstelle*) within the meaning of § 2 of the German Act on Consumer Dispute Settlements (*Verbraucherstreitbeilegungsgesetz*).

15. Applicable law

The contract, the performance of the services and all claims resulting therefrom are exclusively governed by German law.