



ANNUAL REPORT

AND ACCOUNTS

FOR THE YEAR ENDED 30 JUNE 2017



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EXECUTIVE DIRECTOR'S MESSAGE



The past year has been exceptional in many ways. Exceptional in its complexity and the unpredictability of events. Exceptional in the scale of humanitarian challenges and needs. Yet it has also been exceptional in the way Mercy Corps has responded with urgency and at scale.

The horrors of the Syria crisis continue, there is an upsurge in violence in Afghanistan, and ongoing conflict and unrest in South Sudan, now widely said to be one of the most dangerous places to be a humanitarian worker, is widespread. One famine was declared there this year whilst three others (north Nigeria, Somalia and Yemen) loom. In 2015, 80 million people were facing food insecurity, but that number jumped to 108 million in 2016 (UN). Globally, more than 65 million people remain displaced. Closer to home we have seen a spate of terrorist attacks here in Europe.

These are certainly challenging times in many ways, but there is still much to be positive about. From Syria to South Sudan, Greece to Guatemala, our work has brought positive change to millions of people and thousands of communities, which fills me with optimism for the year ahead. With such widespread humanitarian need it has been encouraging to see a commitment from all the main political parties here in Britain to maintain UK aid spending at 0.7% of Gross National Income. At a time when we are seeing protracted crises in multiple geographies, predictable funding has never been more necessary.

It has been inspiring and humbling over the past year to see our work and meet so many of our extraordinary team members operating in some of the most fragile and challenging places around the world. I am particularly proud of the expansion of our emergency cash programming in line with the commitments we made at 2016's World Humanitarian Summit. In Iraq, Mercy Corps was the first organisation to begin providing families displaced from east Mosul with cash assistance as they fled their homes with only what they could carry. We were also the first to offer cash cards to refugee families arriving in Europe - money that stimulated local businesses and provided families the dignity to purchase what they need.

In February 2017, the Turkish government revoked Mercy Corps' licence to operate in the country forcing us to shut down our operations there. We have been unable to obtain clarity as to the reasons for this revocation and we remain deeply disappointed by this turn of events, which came after five years of cooperation with the Government of Turkey and other local partners to provide lifesaving cross-border aid to Syrians from Turkey as well as to refugees and host communities in Turkey. We have rapidly pivoted our programmes and continue our large-scale humanitarian response both inside Syria and in the neighbouring countries of Lebanon, Iraq and Jordan.

Meanwhile, we have expanded our response to crises in Nigeria, Somalia, South Sudan and Yemen, as well as our efforts to influence understanding of conflict as the leading driver of these crises. We will deepen our commitment to addressing the root causes of conflict in the year ahead by leveraging and scaling up evidence-based approaches to complex programmes. With deepening and prolonged emergencies in many of the geographies where we work, we remain committed to influencing smarter, non-siloed approaches to protracted crises.

We are expanding our ability to influence with a strengthened presence in the UK and continental Europe, building our teams in London and Geneva, as well as new partnerships across the US, Canada, China and The Gulf to find new ways of communicating with those who are less familiar with our mission, which is crucial to achieving our vision for a more secure, productive and just world.

I am immensely proud that over the past year as a global organisation we have been able to reach over 21 million people – often in the most fragile geographies and challenging contexts. Of that number, 8 million were refugees and people displaced from their homes. What continues to distinguish Mercy Corps is our ability to adapt and create new opportunities in the face of some of the most challenging situations. We are one extraordinary, unified global organisation of over 5,000 team members worldwide. One aligned team working along the arc from fragility to resilience to transform the lives of millions. To our board and extraordinary team spread out across the globe, my deepest gratitude for your work.

Simon O'Connell
Executive Director, Mercy Corps Europe

MESSAGE FROM THE CHAIR OF THE MERCY CORPS EUROPE BOARD



Over the last 12 months as Chair, I have had a chance to learn about the wealth of Mercy Corps programmes that are being implemented in more than 40 countries around the world by our global organisation. Against the turbulent background of this last year, for me one thing rings true, the need for organisations like Mercy Corps has never been greater.

I am particularly struck by the great strides we continue to make in establishing livelihoods and opportunity as a central pillar of moving communities from crisis to independence. We are working to expand opportunities for all, and most importantly for young people, who will be relied on to build the future prosperity of their communities and their countries.

In Nigeria, where poverty, violence and hunger have denied many young people access to education and economic prosperity, I see Mercy Corps' distinctive approaches in action. We are being supported by the UK Government and private sector partners to empower young women with the job training and financial skills to transform their lives.

One young woman called Charity, at the age of 19, overcame a parent's death, early pregnancy, and unemployment to open a small retail business selling household goods to her local community with the help of Mercy Corps. She now has her mind set on becoming a wholesale trader and building on her successes.

Globally, we see violence and crisis shifting the rules for young people trying to make their way in the world. In Africa a surging young population will see 26 of the continent's countries double in population by 2050. The worry is that provisions for them will not develop as fast, or that conflict will impede development.

Where others might see challenges, Mercy Corps sees opportunities. At the most grassroots level we have shown how transformative it can be when young people's energies are harnessed and their potential is unlocked. While we continue to defend the rights of people on the move, we recognise that migration and brain drain can pose significant challenges to communities and investing in jobs, education and training is our duty to future generations.

Indeed, I am pleased that at the G20 in June there was recognition that concerted investment and support for Africa is the only way to improve stability and prosperity for the continent and to reduce the migration crisis and all the attendant horrors that we have seen on the Mediterranean Sea.

As an organisation, we believe that truly transformational change can only be brought about when civil society, government and the private sector work together. No one agency can change the world but together we can create a brighter future for all. I was particularly delighted this year to host our first joint global board meeting and flagship event in London, highlighting Mercy Corps' increasing influence in solving some of the world's toughest challenges.

In finishing, I would like to thank my fellow Board Members for all that they bring to Mercy Corps, as well as Simon O'Connell, our Executive Director, and Neal Keny-Guyer, our Global Chief Executive for their strength of character and unwavering leadership.



Tom Murray
Chair, Mercy Corps Europe



WHO WE ARE

Mercy Corps is a leading global organisation powered by the belief that a better world is possible. In disaster, in hardship, in more than 40 countries around the world, we partner to put bold solutions into action – helping people triumph over adversity and build stronger communities from within. Now, and for the future.

We have no political or religious agenda. For almost four decades, we have learned and grown alongside extraordinary people who understand their own needs better than anyone else. Our experience shows they are best able to strengthen their communities from within. In everything we do, we look for moments of transition to connect people to the resources and expertise that they need so that they can catalyse transformative change.

When we refer to “Mercy Corps” throughout this report we are referring to the global agency which is supported by central offices in Europe and North America, our unified global programmes employ over 5,000 team members worldwide. This year our work saved and improved the lives of over 21 million people in more than 40 countries.

Mercy Corps Global (MCG) is a US company, a separate charity registered in Portland, Oregon USA.

Mercy Corps Europe (MCE) is based at Mercy Corps’ European headquarters in Edinburgh, and at offices in London and Geneva. While we are a separate legal entity (company limited by guarantee number SC208829; registered charity SC030289), we work as part of the global Mercy Corps agency.


Mercy Corps Europe exists for three charitable purposes, as set out in the objects of our Articles and Memorandum of Association:

- to promote the relief of persons suffering from poverty, sickness and distress in any part of the world and to preserve and protect health;
- to advance the education of such persons; and
- to advance education for the public benefit.

Our charitable objectives are:

- the relief of poverty
- the advancement of health
- the advancement of community development
- the saving of lives
- the advancement of human rights, conflict resolution or reconciliation; and
- the advancement of environmental protection.

To make us a more effective and efficient organisation, Mercy Corps is now in its second year of a new governance structure which better reflects the integrated global agency, with a Joint Board Executive Committee (JBEC) with membership from both the MCG and MCE Boards, as well as a Joint Finance Committee (JFC) and Joint Audit & Risk Committee (JARC).



Our mission is to alleviate suffering, poverty and oppression by helping people around the world to build secure, productive and just communities.

OUR APPROACH

Mercy Corps’ Mission

Our mission is to alleviate suffering, poverty and oppression by helping people around the world to build secure, productive and just communities.

Mercy Corps’ Vision and Strategy

Our ‘Vision for Change’, based on the Universal Declaration of Human Rights, is that peaceful, secure and just societies emerge when the private, public and civil society sectors are able to interact with accountability, inclusive participation and mechanisms for peaceful change.

Our strategy is to work in countries in transition, where communities are suffering and recovering from disaster, conflict or economic collapse. We help communities move rapidly from crisis to long-term, durable recovery and then continue to provide assistance until we are no longer needed. We do so by helping communities organise for the change they wish to see, bringing together a strengthened civil society with the private and public sectors, and promoting economic opportunity so positive change can be sustained.

What we do

We often enter countries during a humanitarian crisis, in which our immediate action saves lives and reduces suffering. We do this work quickly and well. Then, just as quickly, we extend our efforts to economic empowerment initiatives. In this way we help communities rapidly recover from the crisis - and also create mechanisms to increase their resilience to shocks and setbacks that are likely to recur. We want to make sure that communities grow stronger, more self-reliant and are better able to continue achieving progress on their own.

We frequently focus our assistance on youth, women and smallholder farmers – the demographic groups that often have the greatest power to transform their communities. That is because when their lives improve, the lives of many other people also improve. By combining three areas of programmatic focus - immediate humanitarian response, rapid economic recovery and long-term resilience - Mercy Corps takes a distinct approach to international development work and creates a vehicle for lasting, sustainable improvement in people’s lives.

Simply put, where others see intractable problems we see opportunities for progress. Decades of field experience have shown us the most effective ways to support that transformation. We know that local people are the best agents of the fastest, most durable economic recovery. That is why we live in the communities we work to improve. We literally speak the language and partner with local people to develop unique solutions to the challenges they confront.

Where we work

As a global organisation, we work on some of the toughest challenges around the world. These include programmes in fragile states such as Somalia, conflict zones including Afghanistan, Central African Republic, Iraq, Syria, South Sudan and Yemen, and countries that have endured natural disasters. In these places, a child’s life is often at risk, a woman’s education is regularly ignored and a family’s livelihood is rarely a sure thing. These conditions threaten the welfare of communities, towns, provinces, countries and entire regions.

OUR CAPACITY

As a highly decentralised, global organisation, we are committed to achieving best practice in all areas of our operations through the promotion and adoption of shared values, the efficient employment of up-to-date technology and resources, and the development and well-being of our team members.

Last year we:

- Operationalised a new governance structure with the development and agreement of joint committee charters and the signature of the new Memorandum of Understanding between MCG and MCE.
- Invested in the legal and compliance teams to raise awareness on fraud prevention and mitigation.
- Set up a new corporate risk register template and process.
- Expanded our European footprint and influence with team members now based in Edinburgh, London, Brussels, Geneva and Ireland.
- Produced a multi-year finance strategy focusing on cash management and internal efficiencies.
- Improved donor reporting tools, incorporating a new FX exposure analysis for each project.
- Improved our cash position to allow us to support awards which are funded in arrears.
- Built a strengthened advocacy team with expertise on key policy issues, building Mercy Corps' reputation as thought leaders on economic development, youth and violence and on how to respond to complex crises.
- Increased engagement with, and funding from, continental European donors and the UK's Department for International Development (DFID).
- Recruited a Strategic Institutional Partnerships team.

This year we have:

- Moved in to a new London office, providing space for new members and collaboration with external partners, including DFID. Expanded the Geneva office and added a team member in Brussels.
- Restructured the finance division to better reflect and support regional programming and country operations.
- Recruited a Strategic Institutional Partnerships Manager to strengthen our relationship, elevate our influence and increase revenue with the French Development Agency (AFD), the Swiss Development Cooperation (SDC), Danish Refugee Council (DRC), and the European Commission (EC).
- Invested in a dedicated New Initiatives team member, focused on European donor funding, to provide additional bandwidth on opportunities and improve the quality of proposals submitted.
- Strengthened the fundraising team and hired new colleagues into Edinburgh, London and Geneva offices; having a greater reach than ever before, including a new Fundraising Director based in Geneva.
- Diversified and significantly increased funding from key institutional donors.
- Established a new fundraising strategy aimed at new audiences, including legacies and major donors.
- Continued to increase our influence and profile through media coverage, increasing mentions in UK and European media by close to 100%.
- Become International Aid Transparency Initiative compliant and committed to organisational transparency.

In the coming year we will:

- Fully recruit the remaining vacant positions within the newly restructured finance team.
- Expand our Strategic Institutional Partnerships team to engage more effectively with donors in the Netherlands, Germany and Scandinavia.
- Improve our capacity to win and implement contracts issued by DFID and other European donors.
- Increase Mercy Corps Europe's private donor base and outreach to a wider UK population.
- Implement a communications strategy aligned with fundraising, influence priorities and policy and advocacy goals.
- Continue to build links with policy makers in UK and Europe, advancing on advocacy goals on cash, youth, resilience, foreign aid, and preventing conflict.
- Continue to support an efficient risk process linking it to agency wide Enterprise Risk Management.
- Establish Mercy Corps entity within an additional EU jurisdiction, in anticipation of Brexit.

European Senior Leadership Team (ESLT)

Simon O'Connell – Executive Director
 Abdul-Jalil Ali – Director of Finance (joined March 2017)
 Alexandra Angulo – Director of Compliance, Governance and Risk
 Louise Barber – Director, Human Resources
 Michael McKean – Director of Programmes and Strategic Institutional Partnerships
 Liz Sams – Director of Finance (left March 2017)
 Henri Van Eeghen – Senior Director of Fundraising
 Selena Victor – Director of Policy & Advocacy

Mercy Corps Europe Board of Directors:

Tom Murray, Chair
 Adrienne Airlie
 Nick Blazquez
 Roberto Bocca
 Allen Grossman
 Paul Dudley Hart
 Elsie Kanza (appointed July 2016)
 Neal L. Keny-Guyer – Global CEO
 Debu Purkayastha
 Howard Taylor

Mercy Corps Europe Audit and Risk Committee:

Adrienne Airlie (Board director) (Chair)
 Bob Cowan
 Richard Martin
 Howard Taylor (Board director)
 Alison Warden

Mercy Corps Joint Board Executive Committee (JBEC)

The JBEC exercises the full power of the Board of MCG and of the Board of MCE in the management of each entity during periods of adjournment of the respective Boards.

Adrienne Airlie - MCE
 Nick Blazquez - MCE
 Allen Grossman - MCG
 Neal Keny-Guyer - MCG
 David Mahoney - MCG
 Linda Mason - MCG
 Tom Murray - MCE
 Robert Newell- MCG
 Melissa Waggener Zorkin – MCG

Joint Audit Committee

Established in FY17, the Joint Audit and Joint Finance committees assist the Board with advice and recommendations regarding their responsibility of oversight duties and in financial affairs.

Bob Newell, Chair
 Gun Denhart
 Mark Gordon
 Howard Taylor
 Alison Warden

Joint Finance Committee

David Mahoney, Chair
 Adrienne Airlie
 Nick Blazquez
 Scott Brown
 Hank Vigil

BIOGRAPHIES FOR BOARD AND COMMITTEE MEMBERS:

Tom Murray (Chair): Director, Charityflow; consultant to Gillespie MacAndrew LLP, Tom brings expertise in charities, NGOs, trusts & tax.

Adrienne Airlie: Chief Executive of Martin Aitken & Co, an independent firm of Chartered Accountants, Adrienne brings extensive expertise of UK charity legislation and accountancy.

Nick Blazquez: Former President of Diageo across Africa, Turkey, Russia, Central and Eastern Europe and with over ten years' experience managing businesses in Africa and Asia, Nick provides great insights, views and advice around the private sector's role in economic and social development in emerging markets, and how enterprise can support the building of human capacity.

Roberto Bocca: Senior Director, Head of Energy Industries at the World Economic Forum with over fifteen years' experience in the energy sector working across business and international organisation. Roberto brings in depth knowledge of the international energy sector combined with the ability to work across different stakeholders groups.

Scott Brown: CEO and co-founder of New Energy Capital Corp., a New England-based company with investments in biofuels, renewable power generation, and on-site cogeneration assets. Mr. Brown's career in the renewable energy sector has included positions as a member of the founding management team of First Solar, Inc., and the President of Glasstech Solar, Inc. Mr. Brown was also a founding member of the Harvard Negotiation Project at Harvard Law School, and was the President of Conflict Management Group, Inc. from 1992-1996.

Bob Cowan: Scottish Chartered Accountant with over 16 years' experience in senior finance roles in the private and public sectors. He is a Deputy General Treasurer of the Church of Scotland. He has been a member of the Audit and Risk Committee of Mercy Corps Europe since 2007.

Gun Denhart: co-founded the Hanna Andersson children's clothing company in 1983. Through her leadership, the company has become known for its high quality clothing made from soft cotton materials, as well as community involvement and family-friendly work practices. Gun Denhart and successful entrepreneur Laury Hammel also co-authored the book Growing Local Value.

Mark Gordon: co-founder and Chairman of the Conflict Management Group and the Senior Adviser to the Harvard Negotiation Project. He is Managing Director of Vantage Partners, a negotiation consulting firm, and co-author of "The Point of the Deal: How to Negotiate When 'Yes' Is Not Enough".

Allen Grossman: Senior Fellow at Harvard Business School, Allen has written extensively on high-performing non-profits. He has experience of running non-profit organisations and has served and chaired many non-profit and for-profit boards. He has a B.Sc. in Corporate Finance.

Paul Dudley Hart: Senior Advisor, has held a number of executive positions at Mercy Corps over the last 16 years. Throughout his tenure at Mercy Corps much of Paul's efforts were focused on Mercy Corps' evolution to a more diversely funded global agency. After starting his career in marine science, he brings over 35 years of NGO senior management experience to the board.

Elsie Kanza: Senior Director and Head of Africa for the World Economic Forum, Elsie is responsible for the Forum's Africa Strategy, and champions multi-stakeholder regional initiatives. She has held various positions in the political and financial sector in Tanzania and was ranked among the Choiseul 100 Africa 2015: 'Economic Leaders for Tomorrow' for the second consecutive year.

Neal L. Keny-Guyer: Chief Executive Officer of Mercy Corps. Brings over 30 years' of international relief and development experience in leadership positions. Neal is also actively involved with the Yale School of Management (SOM), and serves on its Board of Advisors, and is the Alumni Fellow to the Yale Corporation. He also serves on the Yale President's Council on International Affairs Advisory Board. He serves on ImagineNations' Board of Directors, and the Nike Foundation's Advisory Group.

David Mahoney: a private equity investor and the former Co-CEO of McKesson HBOC and CEO of iMcKesson LLC. He serves on the board of Symantec, Inc., Corcept Therapeutics, and Adamas Pharmaceuticals as well as a trustee of the Schwab Mutual Funds and SFMOMA. He has a bachelor's degree from Princeton University and an MBA from Harvard Business School.

Richard Martin: has had a long career in investment that has included managing the Royal Bank of Scotland's pension fund and supervising Scottish Amicable's investments. Richard has worked in Algeria, Zambia, and Malawi. His charity work has included convening the investment committee of the National Trust for Scotland and he also founded the Prince's Trust Financial Lunch fundraising event.

Linda Mason: Chair and Founder of Bright Horizons, the largest worldwide provider of worksite childcare and early education. She is the former co-director of Save the Children's emergency program in Sudan. Ms. Mason currently serves as Leader-in-Residence at the Center for Public Leadership at the Harvard Kennedy School.

Bob Newell: partner with Davis Wright Tremaine LLP, one of the Northwest's largest and leading law firms with offices throughout the U.S. and overseas.

Debu Purkayastha: Formerly Principal of New Business Development at Google. MBA (London Business School) and qualified Chartered Accountant. Debu brings his expertise and experience to the voluntary work he undertakes in his personal time with leading NGOs and governmental institutions, focusing on economic development initiatives.

Howard Taylor: As Vice-President and Managing Director of the Nike Foundation, Howard led the foundation's strategy, programmes, partnerships and advocacy. He was the driving force behind the successful spin-out of Girl Effect as an independent social business to change behaviours and tackle negative social norms. Prior to Nike, Howard held senior roles across the UK Government, including at the Department for International Development (DFID), Cabinet Office and Foreign Office.

Hank Vigil: an independent tech investor and advisor. Before retiring in July 2011, Mr. Vigil worked at Microsoft for 25 years including as Senior Vice President, Consumer Strategy and Partnerships. Mr. Vigil was responsible for developing Microsoft's consumer strategy, managing Microsoft's strategic engagements with consumer electronics companies, and developing relationships around emerging consumer platforms and consumer services.

Alison Warden: FSCI, ACA, Finance & Administration Partner at Baillie Gifford & Co. Alison is a qualified accountant who has gained expertise in the areas of business management, finance, compliance, internal audit and risk management during her 24 years with the firm

Melissa Waggener Zorkin: CEO, President and Founder of Waggener Edstrom Worldwide an independent communications agency. Melissa has been recognised for her contributions initiatives that lift women out of poverty through education and entrepreneurial training, notably in Ethiopia, and together with her family has supported women and children in Ghana through a school library and an orphanage.

OUR STRUCTURE, GOVERNANCE AND MANAGEMENT

Mercy Corps Europe (MCE) is a registered charity (registration number SC030289) and is constituted as a company limited by guarantee (registration number SC208829). The objects (defined on page 8 of this report) and powers are set out in its Memorandum and Articles of Association.

MCE operates as the European headquarters for Mercy Corps, with Mercy Corps Global (MCG) as the US headquarters based in Portland, Oregon. Together this gives us the ability to secure resources, build partnerships and influence and advocate policies on a global scale. Both organisations have separate Boards of Directors who are responsible for the operation of the respective companies. MCE & MCG operate globally under the title of "Mercy Corps". The formalisation of this operational structure was completed in July 2015 and is detailed below.

MCE and MCG are both member corporations, made up of a common nine Members and the current Members are listed on page 11; those individuals sit on the JBEC.

The Directors of MCE are the statutory Charity Trustees, collectively known as the Board. The Board, by which MCE is governed, comprises a minimum of six and a maximum of 20 directors. The Board meets three times a year and the current Directors are listed on page 11.

MCE Board Directors serve an initial term of three years. One third of the Directorate retires each year but may be re-elected for further terms of office. Director appointments are made based on the skills and experience required by MCE to guide the strategic direction of the charity and to monitor its implementation. New Directors are nominated by the Board of MCE, following recommendation and nomination by existing Board Members and the Executive Director.

The selection process of new Board Directors includes interviews by the Board Chair and Executive Director, organisational briefings, office visits and attendance at a board meeting or event. On appointment, new Directors are offered an induction by each of the departmental directors – the European Senior Leadership Team (ESLT) - who cover the functional operational aspects of the organisation. All Directors are given the opportunity and encouraged to visit field offices and attend US Board meetings.

There is also a Joint Board Executive (JBEC) Committee made up of the Board Chair of MCG, the Board Chair of MCE, the global Chief Executive Officer (CEO), four Members of the Board of MCG and two members of the Board of MCE. The JBEC exercises the full power of the Board of MCE and of the Board of MCG as delegated to it by the Boards. Conversely the Boards of the two organisations will remain in overall control of their respective organisation.

The roles and responsibilities of the Board are published in the Governance Handbook which is updated periodically. In addition to the Board and the JBEC, there are three sub-committees, the MCE Audit and Risk Committee, the Joint Audit and Risk Committee and the Joint Finance Committee, which all have specific terms of reference and functions. Each of these has a chair and provides reports to the directors.

MCE has an Executive Director who is appointed by the MCE Board subject to the approval of the global CEO. The Executive Director is the principal manager of MCE and reports jointly to the MCE Board and the global CEO.

OUR REMUNERATION POLICY

Mercy Corps' compensation package – competitive pay and comprehensive benefits – is designed to both attract and retain high-calibre, diverse, high-performing individuals at all levels. We believe in the power of the individual to create their own future and we believe that both team members and beneficiaries alike have the possibility to shape the organisation. We want our team members to embrace interesting opportunities, feel empowered to make decisions, generate new ideas, tackle challenging problems and pursue valuable solutions. In addition to Mercy Corps' entrepreneurial culture, we strive to offer competitive pay. Every position at Mercy Corps is essential to our success and we want our team members to feel valued for the work they do.

Mercy Corps evaluates the external market and internal organisation context on a regular basis to ensure that our compensation packages are equitable and in line with our targeted colleague agencies and other comparator organisations. Mercy Corps has a banded pay structure that has been established with input by third-party compensation consultants. We have established guidelines that enable our hiring and leadership teams to accurately determine the salary band of a position and appropriate range for each team member. Additionally, with recent enhancements to family friendly and flexible working approaches and enhancements to team member care support, our benefits packages are comprehensive and competitive. We believe in fair pay and this 'package' signals the value we place on our team members.



OUR DIRECTORS AND THEIR STATUTORY RESPONSIBILITIES

The directors are responsible for preparing the Annual Strategic Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice, including FRS 102: 'The Financial Reporting Standard applicable in the UK).

Company law requires the directors to prepare financial statements for each financial year. These financial statements must only be approved if directors are satisfied that they give a true and fair view of the state of affairs of the charitable company and of the incoming resources and application of resources for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Charities Statement of Recommended Practice (SORP);
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed;
- report on the charity's public benefit;
- prepare the financial statements on a going concern basis unless it is inappropriate to presume that the charitable company will continue in business; and
- take reasonable steps for the prevention and detection of fraud and other irregularities to ensure compliance with the Companies Act 2006.

The directors are also responsible for:

- setting their charity's approach to raising funds, as well as making sure that any policies or procedures are followed in practice and reflect our organisational values;
- keeping adequate accounting records that are sufficient to show and explain the charitable company's transactions;
- disclosing with reasonable accuracy at any time the financial position of the charitable company;
- taking all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information; and
- ensuring there is no relevant audit information of which the charitable company's auditor is unaware.

The directors confirm that they complied with the above requirements in preparing these financial statements.

The directors are also responsible for the maintenance and integrity of the charity and financial information included on the charitable company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. This information should be interpreted in accordance with the provisions of the Companies Act 2006 s418.

STRATEGIC REPORT: 1 JULY 2016 TO 30 JUNE 2017

Our Strategic Report provides a snapshot of our activity from 1 July 2016 to 30 June 2017. As a global organisation working in over 40 countries and this report documents the 34 countries where MCE is operational. It would be unwieldy to cover every programme during this period in one report, however we are happy to provide further information on any of our programmes.

As in previous years, we have documented our four key charitable activities under our umbrella headings of **Relief – Recovery – Resilience**. This is the essence of what we do at Mercy Corps. By combining these three areas of programmatic focus - immediate humanitarian relief, rapid economic recovery and long-term resilience and self-reliance - Mercy Corps takes a distinct approach to international development and humanitarian work and creates a vehicle for lasting, sustainable improvement in people's lives.

Our key charitable activities are covered under these headings:

- Civil Society, Education and Conflict Management
- Economic Development
- Public Health, Water and Environment
- Disaster Risk Reduction and Emergency Response

Our Strategic Report includes the following sections:

- Relief – Ensuring people and communities receive the emergency help they need following conflict or disaster
- Recovery – Building secure, productive and just communities
- Resilience – minimise exposure to risks and strengthen capacities to achieve positive, inclusive change
- Risk Management
- Financial Review and Reserves



Mercy Corps takes a distinct approach to international development and humanitarian work and creates a vehicle for lasting, sustainable improvement in people's lives.



Mercy Corps provides emergency relief in times of crisis. We react swiftly to serious humanitarian crises by providing targeted short-term aid – relief - and by quickly identifying ways to help communities recover and rebuild. Mitigating the impact of emergencies and building resilience to future challenges is at the heart of our work.

Alongside the ongoing conflict in Syria and Iraq, the status of the world’s humanitarian crises this year has been compounded by the severe escalation of hunger in four countries: South Sudan, Nigeria, Yemen, and Somalia. 20 million people across these countries are at risk of famine. Mercy Corps has reached tens of thousands of people with urgently needed food, water and hygiene, as well as interventions to address the root causes of hunger and conflict: training farmers, educating health workers, managing conflict, and helping people increase their incomes.

Keeping children fed and educated amidst conflict in South Sudan



RELIEF:

ENSURING FAMILIES AND INDIVIDUALS RECEIVE THE EMERGENCY HELP THEY NEED FOLLOWING CONFLICT OR DISASTER

Since violent conflict erupted in December 2013, tens of thousands of South Sudanese civilians have been killed and more than 3 million people have been forced to flee their homes. The country’s economy is in pieces and this has left many people in a desperate state. In February, famine was declared in some areas of South Sudan’s Unity State. Meanwhile, across the country, hunger has continued to rise with now 50 per cent of the population – or six million people – severely food insecure.

In response to the famine declaration earlier this year, Mercy Corps expanded its response to areas designated as ‘emergency’, which means that a famine is ‘likely to happen’ in the next few months. In Panyijar and Rubkona Counties, Mercy Corps began an urgent school feeding programme that gives hot cooked meals to 4,000 children for five days a week in seven different schools. These meals are provided to children suffering from hunger and malnutrition, and will serve to increase school attendance rates so that children keep learning, even in the midst of conflict.

Mercy Corps is also reaching more than 51,000 children (nearly 40 per cent of whom are girls) with emergency education in safe and protected environments.

Providing cash in Iraq, where the need is great



With massive displacement and conflict occurring across Iraq, the humanitarian needs are severe. The UN puts the figure of people in need of humanitarian assistance at 11 million, in a country of 36 million. Mercy Corps was the first organisation to provide families with emergency cash in east Mosul. This is in line with our objectives to provide cash as a first response in a humanitarian emergency, where markets are operational, as part of an agency-wide commitment made at the World Humanitarian Summit in 2016 to dedicate 25 per cent of our humanitarian assistance to cash by 2018.

In Iraq, people's most pressing needs are food and shelter and research shows that many families have been relying on debt to meet basic needs. Cash assistance has the benefit of stimulating the local economy while providing urgent support to those in need. It also enables families to make their own decisions about how to cover basic needs in a dignified manner. Newly displaced families receive a one-off transfer of 480,000 IQD (£312) to cover their needs for one month and the most vulnerable are eligible for up to three months of assistance.

Mercy Corps is the lead member of the Cash Consortium of Iraq, a group of NGOs who have come together to coordinate geographies, pool resources and team members, and harmonise approaches in cash assistance. This year, the CCI provided assistance to some 106,680 conflict-affected people across Iraq and since November we have reached over 34,000 people with cash transfers. Our monitoring shows that there is an over 50 per cent drop in negative coping behaviours (such as skipping meals) among people who receive the assistance.



ESCAPING DEBT AFTER LIFE UNDER ISIS

At a centre in East Mosul, Sulaiman and Atisa, who have been displaced twice, receive their second cash distribution equivalent to £312 from Linda, a Mercy Corps team member. They had been in debt as food prices in Mosul were very high under ISIS and so they used the first cash payment to help pay off that debt. Sulaiman and Atisa plan to use this money for much needed dental care.

LIFESAVING SUPPORT TO PEOPLE IN WAR-TORN SYRIA

Now in its seventh year, Syria continues to be one of the world's most pressing humanitarian crises with an impact that has spread far beyond its borders. With a number of active programmes in Syria, Mercy Corps has had one of the largest humanitarian operations in the country, providing urgently needed relief and moments of hope amid the war. In Syria and four neighbouring countries, Mercy Corps is actively helping more than a million people affected by the crisis.

In November 2016, our two-year UK Government funded programme ended after providing more than 1,650,000 individuals with access to basic humanitarian services in some of the worst affected governorates including Aleppo, Homs, Dar'a and Damascus. Mercy Corps delivered food supplies, hygiene goods and other non-food items including tents and baby care supplies, designed to alleviate suffering and reduce exposure to harm. We have improved access to safe drinking water for more than 30,000 people as well as reaching over 819,000 Syrians with food. Since we started partnering with private bakeries in Syria more than three years ago, we have delivered more than 116 million pounds of flour and helped more than 129 bakeries stay in business. Today, this programme helps more than 130,000 people access affordable food.

In February 2017, the Turkish government revoked Mercy Corps' licence to operate in the country effectively shutting down our operations in the country. Despite this, we continue our work in Syria and provide life-saving assistance to families in urgent need.



RELIEVING HUNGER IN ALEPPO

Mohammad, his four children and his parents have suffered from the compounded horrors of the violence in Aleppo. He suffers from constant nervous tension, epilepsy and is unable to perform any physical movement after being hit in the back by a ricochet, losing his work as a baker. His boys left school early during the war to work for survival and his nine year old daughter suffers from trauma from bombardment.

Without money or assets, the number of meals the family ate began to decrease and medicines became unaffordable. Mercy Corps began supporting the family with food baskets of staple items that kept the family fed and freed up their little disposable income.

“Many days passed with only one meal every day... Problems began to increase in my family; their psychological state was deteriorating... [Now] getting food is no longer a problem for us, which enables me to obtain my medications and other needs of my family.” – Mohammad



Next year, Mercy Corps will continue our support for the vast numbers of South Sudanese displaced by the country's civil war. Leading a consortium of other agencies, we will work in Uganda to improve the conditions of South Sudanese refugees and host communities in the West Nile area. This support will include protection for vulnerable individuals, including children, improvements to water and sanitation infrastructure as well as hygiene promotion.

In Yemen, our new UK Government programme will provide life-saving cash assistance to address immediate food needs of the most vulnerable groups through gender-sensitive methods which mainly benefit women, elderly, chronically ill, physically challenged and other marginalised people. Mercy Corps will deliver sanitation interventions to help prevent further outbreak of disease and in total will reach over 600,000 Yemenis in three years in the country.

In Libya, fragile and fractured by ongoing civil war, Mercy Corps plans to begin a programme to support internally displaced Libyans with a holistic response to their basic needs. After a needs assessment in late 2016, we have developed a programme that will reach some of the most vulnerable Libyans with pre-paid cards and bank transfers. By keeping the cash assistance digital this will ease the burden on the country's liquidity crisis.

Mercy Corps aims to reach over 600,000 Yemenis in three years with sanitation programmes to help prevent disease.



In the chaos of a disaster or conflict, daily trade is disrupted - this often prevents people being able to provide for their families. Mercy Corps helps to maintain, restore and rebuild commerce by providing finance, insurance, training, equipment and technical support. This helps people start and expand businesses, purchase tools, improve productivity, protect resources and reopen markets. We aim for a world where every member of the community is given the chance to thrive and support themselves and their family.

Improving the prosperity and stability of communities in Lebanon



As the Syria crisis extends into a seventh year, neighbouring Lebanon with its population of 3 million people has been home to a million Syrian refugees. Mercy Corps research has shown that the relative stagnation of the Lebanese economy, along with a deterioration of public services and strain on national resources, has greatly increased tensions between Lebanese and Syrian refugee communities. The influx of the Syrian refugee population represents a significant increase in the available national labour force, resulting in strong competition between Lebanese nationals and refugees in both the formal and informal sectors.

Mercy Corps is working to improve the stability and prosperity of communities in Lebanon by tackling unemployment and improving economic prospects for businesses and communities. Our objectives include improving the employability of individuals, supporting existing businesses to improve their operations, and a better functioning value chain and markets for solid waste management and recycling in order to promote green jobs. In the first year of the programme, Mercy Corps had supported 1,624 people to improve their skills and knowledge, helped 77 companies and associations to improve management (33 of these already report an increased capacity or plan to hire new employees), created full-time or part-time or seasonal employment for 468 individuals, and has increased access to solid waste management and recycling services for over 8,000 families.

RECOVERY:
BUILDING SECURE, PRODUCTIVE AND JUST COMMUNITIES



SUCCESS STORIES IN LEBANON'S LOCAL ECONOMY

Izabelle Saliba, owner of a grain processing business participated in a business coaching programme. After working with Mercy Corps, Izabelle secured business with a Swedish distributor that ordered 20 tons of couscous with plans for three contracts. Using a grant from the programme, Izabelle also procured a semi- automatic machine that speeds up the packing process and they are now able to pack larger amounts of grains in less time.

MOVING FROM CONFLICT TO COOPERATION IN NIGERIA

Over the past decade, Nigeria's ethnically and religiously diverse Middle Belt has experienced recurrent eruptions of violence, much of which stems from conflicts over shared resources between farmer and pastoralist communities. Each year, hundreds of people across the region are killed in clashes from disputes mainly concerning land use between settled Christian farmers and semi-nomadic Muslim herdsman.

These conflicts, which often include the destruction of property, crops, and livestock resources, directly undermine market development and hinder economic growth. Families and communities fear for their personal safety and refrain from traveling to markets, their fields or accessing other key natural resources. Moreover, since livelihood strategies in Nigeria are closely tied to ethnic and religious identity, conflicts have the potential to escalate into communal violence if they are not rapidly resolved.

For four years, Mercy Corps worked to reduce conflict between the different groups and increase local economic activities in four Middle Belt states. The programme trained local leaders in techniques of cooperation, negotiation and inclusive decision making, as well as generated support among local national leaders for long-term policy solutions through business-led research and advocacy. By December 2016, 500 land disputes had been resolved and fresh violence was averted among 50 communities in the Middle Belt region.



PROMOTING PEACE IN THE MIDDLE BELT

When unknown armed men attacked the pastoralist community in Agbashi 80 of their cattle were killed. Cognisant that such an event could lead to escalation of violence in the area, Mercy Corps met with representatives of the community. The meeting provided leaders with a platform to express their grievances and concerns but also presented an opportunity to demonstrate their commitment to peace, as they agreed to not carry out a retaliation attack.

Weeks later, leaders from the local pastoralist and farmer communities participated in an Interest-Based Negotiation Training led by Mercy Corps. This form of negotiation is a process that enables traditional negotiators to become effective problem solvers and encourages leaders to separate the people from the problem, focus on interests rather than positions, and create options for mutual gain.

During the training, an influential local leader who had initially expressed scepticism of any outside intervention, became one of the most active participants and inspired others to engage fully. "Any time Mercy Corps is doing anything in the area, I will be the first one there," he said.

Our holistic intervention in Nigeria has included a rigorous research project on the drivers and economic costs of conflict among the country's farming communities. Published and promoted by Mercy Corps, this research has helped move the understanding of conflict in the Middle Belt beyond anecdotal terms and is now a resource for national and international actors to improve the regions prospects.

BUILDING TRUST, PEACE AND PROSPERITY IN MYANMAR

Myanmar has suffered from internal conflict for many decades, such that it has been called one of the world's longest civil wars. Kayah state is one of the country's least developed states and a region that struggles with conflict over land, internal displacement, armed groups and widespread landmines. _

Mercy Corps established a programme that aims to lay the foundations for sustainable peace and development by developing the skills and relationships of stakeholders at the village, town, district and state level to work together peacefully. Mercy Corps' programme also works towards increasing economic and social wellbeing as part of the process of building trust, focussing on 15,000 households in Kayah State.

So far, Mercy Corps has trained 72 civil society leaders and members of ethnic armed organisations on negotiation techniques as well as supporting the Kayah State Peace Monitoring Network (KSPMN) to develop civilian ceasefire monitors. Out of the 30 reported conflict resolution attempts, 25 social, inter-communal or land-related disputes were successfully resolved by trained participants of the programme, while KSPMN monitors have reported 11 ceasefire violations across the seven townships of Kayah state.

The PROSPER project has provided vocational training – carpentry, mechanics, traditional weaving, design and sewing, early childcare and development, hotel hospitality to 105 youth (57 males and 48 females) trained to date, of which 95 received their certificates. So far 17 community driven development projects to improve the infrastructure of water supply, roads, community halls, pre-schools and staff housing have been implemented; a further 59 projects are in the pipeline.



MA HTAY MYAR, A TEACHER TRAINED IN PEACE EDUCATION

My name is Ma Htay Myar and I come from Htee Ku So Village, located in Hpruso Township.

After graduating from Loikaw University with a Geography major, I became a teacher in my community. I took part in a five-day training Yangon, along with 23 other teachers from Kayah State. The subject that interested me the most was psychosocial education, and how to help my students cope with the effects of conflicts.

Before that training, I never thought peace was my thing or that I could have any control over it or have a role to play. When I thought about peace, I could only think of World Peace or our National Peace Process here in Myanmar, and I never thought that peace could start from me, at a more personal level.

After following this training, I felt I had to share my new knowledge with as much people as possible. During last Thingyan Festival, I organised training for 30 people in Shar Taw Village where we discussed the value of a person to achieve peace.

In FY18, Mercy Corps will receive support from the Dutch government for key programmes in the Middle East, including a significant grant to continue the highly successful Gaza Sky Geeks programme until 2021. This ground-breaking programme equips aspiring young Gazan entrepreneurs and online freelancers with the internationally relevant technical and soft skills they need to advance their careers. Experts and mentors are paired with young innovators, allowing them to grow their futures digitally beyond the confines of the Gaza Strip.

Also in the coming year, a DFID-funded programme to address the entrenched marginalisation of Nigerian girls will work to improve the access to and continuation of secondary education; transitions to higher level education or the workforce; and personal empowerment. This programme builds on an earlier programme which has already helped 25,000 Nigerian girls with education, life and job skills.



Around the world, communities face loss and danger of all kinds. To mitigate the impact of disaster, we work with communities to develop strategies and practices that build resilience and minimise the impact of future challenges and crises. This work includes providing long-term and sustainable livelihoods opportunities and helping communities manage the impacts of climate change.

Enhancing wellbeing and resilience to climate extremes in northern Kenya and Uganda



RESILIENCE:

HELPING VULNERABLE COMMUNITIES PLAN AHEAD AND MITIGATE RISK

Climate extremes, drought and climate variability are affecting the people of Wajir in Kenya and Karamoja in Uganda. To combat the impact, Mercy Corps is bringing together communities, the private sector and governments to change behaviour and have improved the lives of over 300,000 in both countries. Activities include awareness-raising campaigns through radio and print to provide communities with improved climate and weather information, as well as technical trainings for government offices.

Drought has fuelled a breakdown in community relations and an increase in conflict over shared resources, with gender violence on women from different clans being used to send a political message and threats. Therefore, this programme recognises the importance of a functioning system of governance to put communities, private sector and government in a position of responsibility to decide and affect their future vulnerability to shocks and stresses. In one case, a support desk and hotline in Wajir for women affected by gender-based violence was established; women are able to call the number to prompt an investigation into allegations of abuse and in the past year nine cases of violence against women and girls have been tried, all of which concluded in jail sentences. By making individuals, not entire clans, responsible for their actions, the intention is for community conflict to reduce and improve collective decision making.

Mercy Corps has also provided financial support for six small infrastructure projects in Kenya and eight in Uganda designed to improve resilience at the local level while laying the groundwork for future investment by government, and developed mobile services so that male and female pastoralists can be reached with necessary information and supplies.

SUPPORTING VULNERABLE MIGRANTS IN NORTH AND WEST AFRICA

This year, Mercy Corps began a new two-year programme in Mali, Tunisia and Niger that aims at strengthening the socioeconomic status of migration-affected populations, such as stranded migrants, young people at risk of emigration, returnees, third country nationals, families of migrants or even diaspora communities.

The programme focuses on improving financial education, products and services to migrants and partners with local authorities to encourage the creation of small businesses.

The programme helps to enable young men and women to make informed choices regarding migration related risks and opportunities. Support will also be provided to civil society organisations to develop advocacy and awareness-raising activities.

In Mali, a youth-led labour market assessment and a study to define migrant profiles in the three targeted areas are ongoing. The assessment of migrants' financial needs and constraints in the three countries will be launched very shortly so as to adapt financial education modules and products to their special features.

Building in protection to climate change in Tajikistan



Of 28 Central Asian states, Tajikistan is considered to be the most vulnerable to the impacts of climate change. Its high mountainous regions are experiencing an ongoing loss of ice and glacial cover and the instability of seasonal water availability means that the area is increasingly vulnerable to natural shocks, in particular the area of Rasht Valley where Mercy Corps works. Almost half of Tajikistan's population lives in poverty, with women, children and the poor representing the most vulnerable segments of the population, made more vulnerable due to Tajikistan's reliance on migrant labour and remittances, which also removes many males from their traditional roles as heads of households and decision-makers.

To support these vulnerable communities, Mercy Corps established a disaster risk management project to reach over 40,000 people, covering 14 villages and over 6,000 school children. Households, local councils, community leaders and schools in Rasht Valley became informed of risk zones, through hazard mapping and were trained through simulation exercises on how to react in the onset of a mudslide, landslide or threat of avalanches and flooding. The project also developed innovative warning methods such as the creation of a real time monitoring system against flash floods from mountain rivers and mass SMS delivery to inform vulnerable populations when shocks may occur and make preparations. Additionally, 16 small-scale mitigation measures such as river bank reinforcement and tree planting were implemented by Mercy Corps in the hazard zones to increase the local areas resilience to flooding.



SIMULATION DRILLS FOR THE RASHT VALLEY'S COMMUNITIES

Mercy Corps worked with community organisations and government agencies to host simulation exercises in especially climate vulnerable districts in the Rasht valley. Each simulation exercise was held over two days: on the first day meetings were held with representatives of the local community to establish the roles of different stakeholders during the exercise; the second day saw the practical part of the exercise itself performed by the participants. In total, 14 simulation drills were conducted with 1,846 participants from community-based organisations, local government officials, national police, hospitals, the Red Crescent and schools.

These simulations gave local communities the chance to practice implementing possible contingency plans, including the use of early warning, communication and decision-making, as well as evacuating the population to 'safe havens'. It helped to identify potential gaps in their level of preparedness and the technical, communication and coordination skills of different actors. The event was further used as a tool to raise public awareness in the general public and to provide visibility for actors and donors alike.

One of the resilience focussed programmes Mercy Corps will initiate in FY18 is a project funded by the Dutch government to increase sustainable jobs and equal access to resources in the Democratic Republic of the Congo over four years for 150,000 people. Years of conflict and mass displacement have severely undermined the agricultural sector and over 60% of the population is food insecure, conflict over limited resources is increased by a weak system of governance. Mercy Corps will improve the equitable access for resources by improving state services, as well as diversifying the agricultural and non-agricultural livelihoods of target households; improving the governance of shared resources will improve the equity to and availability of local resources.

RISK MANAGEMENT AGENCY-WIDE

Mercy Corps works in fast-changing, often insecure and high-risk environments, delivering its mission in some of the toughest and riskiest places in the world, which means that risks are inherent in how we operate. The problems we seek to address are often entrenched and require innovative approaches which inherently carry risks. However, we believe the potential opportunities are worth the risks, so managing opportunities and risk must permeate everything we do. In order to operate effectively, bring about the changes we aim for, and safeguard our team members and the people we work with, we examine and respond to the risks we face. Risk management is therefore embedded at various levels throughout Mercy Corps.

It begins with security and risk management assessments of our field programmes and related training programmes for our team members.

Additionally, as part of the Annual Planning Cycle, key risks are identified for each of our countries of operation by their relevant teams. Mitigating strategies are subsequently developed and managed throughout the year.

Risk management is also a key component of "Programme Management at Mercy Corps" and programmes designated complex, either by virtue of size, nature or location, are subject to additional rigour. Review of a Risk Register is part of the regular Board agenda that takes place for these designated complex programmes.

Additionally, most Mercy Corps programmes develop programme risk registers as part of the good project governance and required by most of our donors.

The Corporate Risk Register is a standing point on the MCE senior leadership monthly meeting and as such regular discussions around Corporate Level risks have taken place this year at Mercy Corps Europe and have improved the collective understanding at European Senior Management level.

At the global agency level, the Mercy Corps Global Enterprise Risk Management Group includes representation from the Programmes, Human Resources, Finance, and Legal departments, and MCE is represented by the Executive Director, the Director of Finance and the Director of Compliance, Governance and Risk. This group meets regularly and each function represented in the group brings forward main emerging strategic concerns for discussion and action. The MC Global Enterprise Risk Management Group reports to the Joint Audit and Risk Committee. Going forward, we will be working to further improve how Mercy Corps defines and tolerates risk and we will be formalising a consolidated Mercy Corps Global Risk Matrix and Process.

RISK MANAGEMENT MERCY CORPS EUROPE

Based on recommendation from our Audit and Risk Committee, the risk management process at MCE was adjusted. The main change relates to the departmental risks registers which are no longer required and instead each department has been asked to include as part of their regular team meetings a time to discuss and identify potential risks that they deem should be monitored or raised to the ESLT for discussion and /or action or inclusion into the Corporate Risk Register (CRR). The CRR still only includes high-level risks and the format remains the same.

The MCE CRR continues to be grouped by Risk Categories: Strategic/Commercial/Business, Political, Environmental, and Technical/Operational/Infrastructure Financial/Economic/Market, Legal and Regulatory, Organisational/ Management/ Human Factors.

Below are some of the key risks identified over the year and the mitigation measures taken.

A key Political Risk but also Strategic/Commercial/Business is the change in the political status of the UK in the EU. During the year since June 2016, we have had active participation in BREXIT/NGOs working groups and have gathered information around the continued possible eligibility for EU funding post Brexit. Additionally a scenario planning paper looking at risks and opportunities was prepared and discussed extensively at the senior leadership level and measures to mitigate some of the impact were identified, researched and documented. The agency is carefully monitoring the impact of Brexit and will action any of the measures identified when it is deemed appropriate including registering within an EU jurisdiction.

A key Organisational/Management/Human Factors risk is child and adult safeguarding both for MCE and the agency overall. Mercy Corps has a safeguarding policy but as we are constantly updating, evolving and improving our processes with regards to the protection of children and vulnerable adults, an updated policy is required. The updated policy will be submitted to the Board in November 2017 and procedures are now being tested in four pilot countries before being rolled out widely.

Another important Organisational/Management/Human Factors risk is around the recognition that our team members are placed at risk because of the nature of our work and the contexts where we work. As was the case last year, we continue to work on developing appropriate processes and procedures to keep our people safe whilst delivering challenging, and in some cases life-saving work. This includes up-to-date security policies and procedures in place, training opportunities and comprehensive induction of team members and appropriate employers liability insurance.

A key Strategic/Commercial/Business risk that has been identified is around avoiding creating unsustainable cost structures and donor dependencies whilst ensuring that we are able to respond to those experiencing the impact of global crises. The unprecedented scale of the Syria crisis is an example of this challenge and risk. The agency continues to carefully monitor and manage its impact.

Two Financial/Economic/Market risks identified are around cash flow and a reduction in unrestricted income. To mitigate risk around cash flow, an established designated fund continues to be cash backed and the process by which funds are sent to the field are being reviewed with the aim of developing sound processes that would help mitigate exposure to exchange rate variations.

FINANCIAL REVIEW

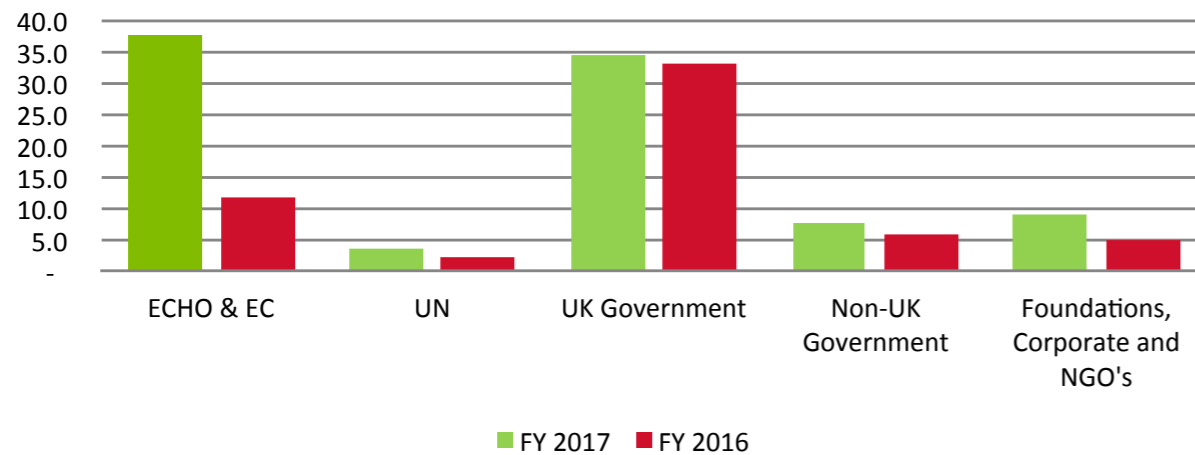
This year has been a high achieving one for Mercy Corps Europe (MCE), both in terms of income and charitable expenditure. True to our mission our aim as always has been to alleviate human suffering, poverty and oppression and in doing so, our charitable expenditures in the core areas of relief and development increased by 63 per cent to our highest level ever of £92.9 million (FY 2016: £57.2m) representing 96% of overall income.

Income and fundraising

Like-for-like income (excluding foreign currency gains and losses) reached its highest level in history of £93.1m (FY 2016: £58.6m), an increase of 59 per cent on the previous year. Income from institutional donors remains the main source of MCE income and as in the prior year the increase was driven largely from contributions to alleviate the continued plight of people in Syria and the Middle East and food crises across Northern Nigeria, South Sudan, Somalia and Yemen.

Further analysis of income is provided in note 2.

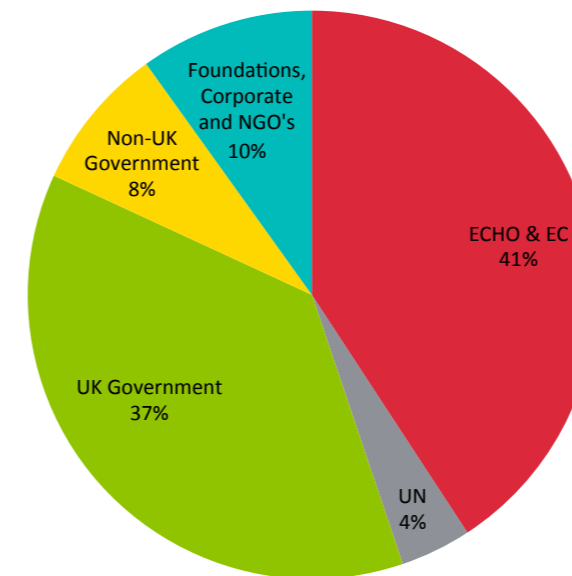
Institutional Donor Income in £'M



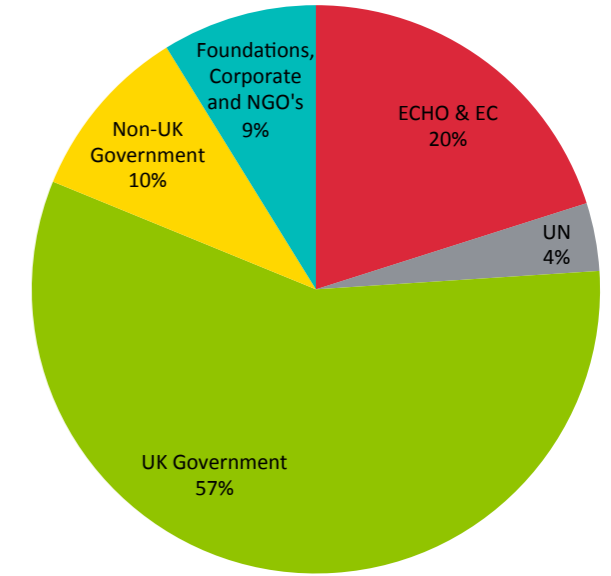
The chart compares institutional donor income over the last two financial years. While income from the UK Government remains a significant part of our portfolio, the greatest increase is from the EU (ECHO and EC) now making 41% of overall grant income due mainly to our humanitarian relief and development work related to the Middle East and Syrian refugee crisis. Non-UK Government (Switzerland, Sweden, France, Denmark, Netherlands etc.) income also showed an increase and developing these donors remains a key part of our strategy.

Donor diversification is both a strategic objective and an area of focus in MCE's risk management discussions. Donor dependency on UK Government sources is now 37% (FY 2016: 57%). MCE has a strategic initiative to expand our work with European donors in order to reduce our reliance on the UK Government. With the new office in Geneva fully mobilised and the Strategic Institutional Partnerships team in place the fruits of this investment are beginning to support the diversification strategy. The exit from the EU poses significant risk to our growing EU donor based income. The European Senior Leadership team (ESLT) is already in the final stages of executing its plan to preserve the EU based income after Brexit.

Institutional Donor Sources - FY 2017



Institutional Donor Sources - FY 2016



Unrestricted voluntary income at £593.7k (FY 2016: £935.2k) was down 37 per cent on last year. New investment has been made and since March a new fundraising team has been in place to drive new initiatives and performance targets. The Board recognises that this will complement the diversification aims but it will take a few years for the new team to grow our voluntary individual giving.

Low interest rate levels meant that investment income continued to yield low returns at £34k; a slightly lower level than last year (FY 2016: £45k).

Charitable Expenditure

In the year we spent £92.9m (FY 2016: £57.2m), our highest level ever, as charitable expenditure continued to reach those who most needed our help in the world's poorest and most challenging places. As in previous years, programme expenditure was analysed and the amount of expenditure allocated against the appropriate charitable activity. The chart below shows where funds were deployed by country (reference note 2). This year MCE was active in 34 countries with Middle East countries dominating our expenditure in the region. The response inside Syria is slowing down largely as a result of access and donor focus shifting to emergency response in the neighbouring countries such as Jordan and Lebanon. While the internally displaced peoples in East Mosul, Iraq were our biggest recipients, there was also increased activity in Greece largely resulting from cash programming in supporting the plight of refugees fleeing from conflict.

BALANCE SHEET AND RESERVES

The year end cash position stands at £40.1m (FY 2016: £31.2m). The £8.9m increase on the previous year was due mainly to the timing of advance instalments of programme monies, and payments to the field which are in arrears with MCG. The MCG intercompany balance (see note 11) was £9.9m (FY 2016: £8.7m), a 14% increase on last year. The bulk of the cash funds continue to be restricted and the related deferred income (note 11) of £29.4m reflects the extent of these up-front instalment payments.

Many donors withhold final payments on grants pending satisfactory evidence of financial and programmatic delivery. As MCE's growth continues the cash flow impact of these will increase. As a result of an overall higher volume in FY17 and some larger grants with less favourable cash flow terms, the amount owed from donors was £11.2m (FY 2016: £5.4m). The general backdrop remains with a growing number of high value grants being won but also the growing trend by European donors towards payment by results and applying retention payments until final reporting and audit clearance. All these require prefinancing. MCE continues to investigate options with MCG to ease the cash flow pressures.

RESERVES

The Board of Directors has examined the requirement for unrestricted funds. In arriving at a target figure, the Directors have considered the following points:

- The nature of our work and the vulnerability of grant and donation funding flows.
- Quick response to emergencies where immediate funds are needed.
- Adequate working capital for our core costs.
- Cover for potential long term commitments relating to staff and leases.
- Funders' viability criteria.

Accordingly the Directors wish to achieve a target of unrestricted funds (which exclude Designated Funds) representing at least 6 months operating expenditure, currently being £3.0m (FY 2016: £1.7m). Operating expenditure is defined as the total cost of generating funds, direct charitable expenditure, total expenditure on governance, foreign exchange losses and any allocation to Mercy Corps restricted funds. Current unrestricted funds of £3.6m (FY 2016: £3.7m) represent 7 months (FY 2016: 13 months) of operating expenditure.

Whilst unrestricted reserves exceed the target, the Directors are mindful of current global economic conditions and instability, particularly in foreign exchange markets. Consequently, they wish to adopt a prudent approach to reserves. The designated funds created in earlier years remain intact (detailed in note 13). The unrestricted general reserves are detailed after higher levels of support provided to MCG for sharing investments in proposal development activities across country operations. Restricted reserves have increased modestly due to appeals monies raised which were allocated against project spending (detailed in note 14). These sums will remain held until they are allocated against expenditure.

This Report was approved by the Board of Directors on 26 October 2017 and signed on their behalf by:



Tom Murray
Director [Chairman]

INDEPENDENT AUDITORS' REPORT TO THE TRUSTEES OF MERCY CORPS EUROPE

Opinion

We have audited the financial statements of Mercy Corps Europe (the 'company') for the period ended 30 June 2017 which comprise the Statement of Financial Activities, the Balance Sheet, the Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006, and to the charity's directors, as a body, in accordance with Section 44 (1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and regulation 10 of the Charities Accounts (Scotland) Regulations 2006 (as amended). Our audit work has been undertaken so that we might state to the members and the charity's directors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charity, its members as a body and its directors as a body, for our audit work, for this report, or for the opinions we have formed.

In our opinion the financial statements:

- give a true and fair view of the state of the charitable company's affairs as at 30 June 2017 and of its income and expenditure for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006, the Charities and Trustee Investment (Scotland) Act 2005 and Regulation 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended)

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006 and Charities Accounts (Scotland) Regulations 2006 (as amended)

In our opinion, based on the work undertaken in the course of our audit:

- the information given in the Strategic Report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the charitable company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report and the Directors' Report.

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement, the directors (who are also the trustees of the charitable company for the purposes of charitable law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company'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 the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 (UK) 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 financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.



James Davidson (Senior Statutory Auditor)

For and on behalf of Henderson Loggie Statutory Auditors

Henderson Loggie is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006

Edinburgh, 26 October 2017

Mercy Corps Europe - Registered Company SC208829

FINANCIAL STATEMENTS

Statement of Financial Activities and Income and Expenditure Account for the year ending 30 June 2017

	Note	Unrestricted Funds £	Unrestricted Contracts £	Designated Funds £	Restricted Grants £	Restricted Donations £	Total 2017 £	Unrestricted Funds £	Unrestricted Contracts £	Restated Designated Funds £	Restricted Grants £	Restricted Donations £	Restated Total 2016 £
INCOME													
Donations and Legacies	2	593,706	-	-	-	314,215	907,921	935,171	-	-	-	322,131	1,257,302
Income from Investments		33,610	-	-	-	-	33,610	45,338	-	-	-	-	45,338
Other income		7,472	-	-	-	-	7,472	208	-	-	-	-	208
Income from Charitable activities													
Civil Society, Education and Conflict Management	2	1,208,694	-	-	17,301,368	-	18,510,062	901,987	23,780	-	12,103,018	-	13,028,785
Economic Development	2	1,606,851	140,203	-	24,040,980	-	25,788,034	967,799	756,878	-	14,716,935	-	16,441,612
Public Health, Water and Environment	2	469,568	119,019	-	6,244,967	-	6,833,554	338,840	226,130	-	4,796,446	-	5,361,416
Disaster Risk Reduction and Emergency Response	2	2,096,297	-	-	38,970,633	-	41,066,930	1,503,365	-	-	20,974,886	-	22,478,251
Gains on Exchange	3	-	-	-	-	-	-	-	-	1,604,449	-	14,507	1,618,956
Total income		6,016,198	259,222	-	86,557,948	314,215	93,147,583	4,692,708	1,006,788	1,604,449	52,591,285	336,638	60,231,868
EXPENDITURE													
Expenditure on Raising Funds	5	621,520	-	-	-	43,663	665,183	424,953	-	-	-	1,208	426,161
Expenditure on Charitable activities													
Civil Society, Education and Conflict Management	5	888,276	-	-	17,295,439	-	18,183,715	653,690	23,780	-	12,191,973	-	12,869,443
Economic Development	5	1,252,383	146,323	-	24,238,556	-	25,637,262	829,245	446,911	-	15,049,475	-	16,325,631
Public Health, Water and Environment	5	327,915	119,019	-	6,265,738	-	6,712,672	262,799	226,130	-	4,684,902	-	5,173,831
Disaster Risk Reduction and Emergency Response	5	2,039,159	-	-	39,704,036	-	41,743,195	1,136,443	-	-	21,237,150	-	22,373,593
Losses on Exchange	3	-	-	136,430	-	-	136,430	-	-	-	-	-	-
Total expenditure		5,129,253	265,342	136,430	87,503,769	43,663	93,078,457	3,307,130	696,821	-	53,163,500	1,208	57,168,659
Net income/(expenditure) before transfers		886,945	-6,120	-136,430	-945,821	270,552	69,126	1,385,578	309,967	1,604,449	-572,215	335,430	3,063,209

Mercy Corps Europe - Registered Company SC208829

FINANCIAL STATEMENTS

Statement of Financial Activities and Income and Expenditure Account for the year ending 30 June 2017 (Continued)

	Note	Unrestricted Funds £	Unrestricted Contracts £	Designated Funds £	Restricted Grants £	Restricted Donations £	Total 2017 £	Unrestricted Funds £	Unrestricted Contracts £	Restated Designated Funds £	Restricted Grants £	Restricted Donations £	Restated Total 2016 £
Transfers between Funds													
Unrestricted Funds to Designated Funds	13	-12,000	-	12,000	-	-	-	-12,000	-	12,000	-	-	-
Designated Funds to Restricted Grants	13,14	-	-	-	-	-	-	-	-	-82,716	82,716	-	-
Restricted Grants from/to Unrestricted	13,14	-895,827	-	-	895,827	-	-	1,216	-	-	-1,216	-	-
Unrestricted Contracts from/to Unrestricted Funds		-6,120	6,120	-	-	-	-	309,967	-309,967	-	-	-	-
Restricted Donations to Restricted Grants	14	-	-	-	49,994	-49,994	-	-	-	-	490,715	-490,715	-
Net movement in funds		-27,002	-	-124,430	-	220,558	69,126	1,684,761	-	1,533,733	-	-155,285	3,063,209
Balances brought forward		3,657,243	-	2,971,551	-	515,568	7,144,362	1,972,482	-	1,437,818	-	670,853	4,081,153
Balances carried forward		3,630,241	-	2,847,121	-	736,126	7,213,488	3,657,243	-	2,971,551	-	515,568	7,144,362

The charity has no recognised gains and losses other than the results for the year as set out above. All of the activities of the charity are classed as continuing. The notes on pages 48 to 75 form part of these financial statements.

BALANCE SHEET AS AT 30 JUNE 2017

	Note	2017 £	Restated 2016 £
FIXED ASSETS			
Tangible assets	8	359,492	13,487
CURRENT ASSETS			
Debtors	9	12,065,975	7,160,468
Cash at bank and in hand	10	40,111,154	31,157,993
		<u>52,177,129</u>	<u>38,318,461</u>
CREDITORS: amounts falling due within one year	11	(45,323,133)	(31,187,586)
		<u>6,853,996</u>	<u>7,130,875</u>
NET CURRENT ASSETS			
		<u>6,853,996</u>	<u>7,130,875</u>
NET ASSETS		<u>7,213,488</u>	<u>7,144,362</u>
FUNDS			
Restricted	14	736,126	515,568
Designated	13	2,847,121	2,971,551
Unrestricted	13	3,630,241	3,657,243
		<u>7,213,488</u>	<u>7,144,362</u>

The notes on pages 48 to 75 form part of these financial statements.

These financial statements were approved by the Board of Directors on 26 October 2017 and signed on their behalf by:

Tom Murray
Director [Chairman]

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2017

	2017 £	Restated 2016 £
Cash flows from Operating Activities		
Net income	69,126	3,063,209
Income from investments	(33,610)	(45,338)
Depreciation	30,798	12,766
(Increase) in debtors	(4,905,507)	(831,610)
Increase in creditors	14,135,547	11,622,850
Cash provided by operating activities	9,296,354	13,821,877
Cash flows from investing activities		
Interest received	33,610	45,338
Purchase of fixed assets	(376,803)	(11,518)
Cash provided by investing activities	(343,193)	33,820
Increase in cash and cash equivalents at the end of the year	8,953,161	13,855,697
Cash and cash equivalents at the beginning of the year	31,157,993	17,302,296
Total cash and cash equivalents at the end of the year	40,111,154	31,157,993
Cash and cash equivalents comprise:		
Cash in hand	502	1,465
Bank accounts	40,110,652	31,156,528
	<u>40,111,154</u>	<u>31,157,993</u>

The notes on pages 48 to 75 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies

The charity is a "Public Benefit Entity".

Basis of accounting

The financial statements have been prepared under the historical cost convention, and in accordance with applicable accounting standards in the United Kingdom, the Companies Act 2006, the Charities and Trustees Investment (Scotland) Act 2005, Regulation 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended) and the Statement of Recommended Practice – Accounting and Reporting by Charities (revised 2015) and in accordance with Financial Reporting Standard 102 (FRS 102). The financial statements are prepared in sterling, which is the functional currency of the company. Monetary amounts in these financial statements are rounded to the nearest pound.

The Board has considered the position for the next twelve months and concluded the use of the going concern basis of accounting is appropriate because there are no material uncertainties related to events or conditions that may cast doubt about the ability of the charity to continue as a going concern.

Prior year adjustment

The foreign exchange revaluation of the intercompany creditor balance was not performed accurately in accordance with the accounting policies in prior years and this has resulted in the restatement of prior period results as follows:

Reconciliation of net assets

	30 June 2016	1 July 2015
	£	£
Net assets as previously reported	9,913,859	6,190,046
Adjustment in respect of revaluation of foreign exchange	<u>(2,769,497)</u>	<u>(2,108,893)</u>
Restated net assets	7,144,362	4,081,153

Reconciliation of net movement in funds

	Year ended 30 June 2016
	£
Net income as previously reported	3,723,813
Adjustment in respect of revaluation of foreign exchange	<u>(660,604)</u>
Restated net income	3,063,209

Fund accounting

The general fund is an unrestricted fund which is available for use, at the discretion of the directors, in furtherance of the general objectives of the charity and which has not been designated for other purposes.

Designated funds comprise unrestricted funds that have been put aside at the discretion of the directors for particular purposes. There are five designated funds:

- a dilapidations fund to cover future dilapidation costs of our Edinburgh office, which will be increased gradually to the amount required as estimated by the directors.
- a foreign exchange fund used to offset future foreign exchange losses.
- a fund to support the development of the European platform.
- a fund to assist with co-financing when this cannot be secured for projects.
- a fund to support working capital needs due to new funding modalities.

Restricted funds are funds to be used in accordance with specific restrictions imposed by donors.

NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies (continued)

Income

Income is recognised in the period in which there is legal entitlement, any performance conditions attached to the income have been met, the amount can be quantified with reasonable accuracy and there is probability of receipt.

Income is shown within four main categories in the Statement of Financial Activities: donations and legacies, investment income, income from charitable activities and gains on exchange.

Restricted income

Restricted income relates to funds received from sources which are subject to specific conditions imposed by the donor and binding on the company.

Revenue donations

The charity receives donations in cash, which are recognised in the statement of financial activities and income and expenditure account. Donations in kind are recognised at fair market value, as agreed between the donors and the directors of Mercy Corps Europe.

Income from charitable activities

This comprises grants and contracts which are recognised using the performance model. Funds are recognised as income from charitable activities once there is entitlement, reasonable probability of receipt and the amount can be measured with sufficient reliability. Many projects are funded on the basis of claims made for actual expenditure incurred and are subject to post-project operational and financial reports. There remains the probability that certain expenditure may be disallowed and all income may not be spent.

Funding is often received subject to match funding for a proportion of the total expenditure being available. Where the match funding has not yet been obtained a transfer from unrestricted to restricted funds is made. This is normally temporary and when the funding is subsequently obtained a transfer back to unrestricted funds is made. In the rare situations where match funding cannot be obtained the shortfall is covered by the Memorandum of Understanding with Mercy Corps Global (MCG) and the matched funding requirement would be met from this source.

In such circumstances advance receipts are credited to deferred income until matched against actual expenditure. The donors have the right to repayment of disallowed expenditure and/or unused funds. Consequently such income remains deferred until used or repaid, rather than being treated as unspent funds.

Interest receivable

Interest is recognised in the income and expenditure account and the statement of financial activities in the period in which it is receivable.

Analysis of expenditure

Wherever possible, expenses are attributed to the expenditure on raising funds, or to the charitable activities directly. Where this is not possible, they are apportioned among the functions to which they relate on the basis of time allocation.

Pensions

The company contributes to defined contribution pension schemes on behalf of employees. The assets of the schemes are held separately from those of the company. Contributions are charged to the income and expenditure account and the statement of financial activities in the period in which they are incurred.

Leasing and hire purchase agreements

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and are depreciated over their estimated useful lives. The interest element of the rental obligations is charged to the income and expenditure account and the statement of financial activities over the period of the lease. Rentals applicable to operating leases, where substantially all of the benefits and risks of ownership remain with the lessor, are charged against the income and expenditure account and the statement of financial activities as incurred.

Notes to the Financial Statements

1. Accounting Policies (continued)

Fixed assets

Fixed assets purchased directly by Mercy Corps Europe (MCE) with a cost exceeding £2,500 are included at cost. Donated fixed assets are included at fair market value having regard to the age and condition of the assets concerned. All assets financed by donor funding for specific projects are written off at the time of purchase through the statement of financial activities because in the majority of cases the projects are of limited duration and at the end of which the assets can be donated to the ongoing project. Therefore, such assets have not been incorporated in the balance sheet.

Depreciation

Depreciation is calculated to write off the cost of tangible fixed assets over their estimated useful lives. The rates used are as follows: -

Leasehold improvements	25% straight line
Equipment	25% straight line
Computers	33% straight line

Overseas Operations/Foreign Currencies

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date with all foreign currency transactions for the year being translated at the official EC monthly rate. The exchange difference resulting from the restatement of the opening reserves denominated in foreign currencies, as at 30 June 2017, has been taken to the appropriate reserves.

All transfers between foreign currency bank accounts are reflected in the financial statements at the average monthly rates applicable. Exchange gains or losses are treated as unrestricted except where restricted by contract and taken to the statement of financial activities and income and expenditure account. Foreign exchange gains and losses are taken to the Statement of Financial Activities in the year in which they arise.

Debtors

Other debtors are recognised at the settlement amount due. Prepayments are valued at the amount prepaid net of any trade discounts due.

Cash and cash Equivalents

Cash and Cash equivalents comprise cash at bank and monies held in short term deposits. Cash and cash equivalents are measured at fair value.

Creditors and Provisions

Creditors and provisions are recognised where the charity has a present obligation resulting from a past event that will probably result in a transfer of funds to a third party and the amount due to settle the obligation can be measured or estimated reliably. Creditors and provisions are normally recognised at their settlement amount after allowing for any trade discounts due.

Financial Instruments

The charity only has financial assets and financial liabilities of a kind that qualify as basic financial instruments. Basic financial instruments are initially recognised at transaction value and subsequently measured at their settlement value.

Redundancy and Termination payments in the period

Compensation for loss of employment due to redundancy is based on the current statutory entitlement but may also be subject to compensation agreements.

Taxation status

The company is recognised by HM Revenue & Customs as a charity and accordingly is exempt from corporation tax on its charitable activities.

Value Added Tax

The company is not registered for VAT. Accordingly all expenditure is stated inclusive of VAT where applicable.

Notes to the Financial Statements

2. Income

Donations and legacies

	Unrestricted		Restricted		Totals	
	2017	2016	2017	2016	2017	2016
	£	£	£	£	£	£
Donations in cash	593,706	928,671	314,215	322,131	907,921	1,250,802
Donations in kind	-	6,500	-	-	-	6,500
	593,706	935,171	314,215	322,131	907,921	1,257,302

Restricted donations are held in the appropriate fund until they can be spent for the purposes for which they were given. Restricted donations vary from restricted grants in that the donor has placed restrictions on the nature of the spend, but not over the detailed expenditure itself. Donations in kind represented pro bono support given in connection with the development of an online campaign.

During the year unconditional donations of £2,580 (2016: £4,091) were received from trustees.

Income from charitable activities

By charitable activity	2017	2016
	£	£
Civil Society, Education and Conflict Management	18,510,062	13,028,785
Economic Development	25,788,034	16,441,612
Public Health, Water and Environment	6,833,554	5,361,416
Disaster Risk Reduction and Emergency Response	41,066,930	22,478,251
Total	92,198,580	57,310,064

Income from charitable activities by Donor

		2017	2016
		£	£
European Commission	European Commission	9,605,148	4,983,106
	ECHO	27,990,710	6,534,221
		37,595,858	11,517,327
United Nations	CHF	8	87,837
	UNDP	275,479	829,091
	UNFAO	96,600	55,625
	UNICEF	190,696	166,229
	UNHCR	1,169,070	-
	UNMIL	-	41,396
	UNOCHA	7,765	-
	UNOPS	1,983,334	1,038,622
		3,722,952	2,218,800

UK Government	British Council	177,842	97,015
	DFID	33,900,324	32,227,398
	FCO	-	235,005
	Scottish Government	99,864	230,987
		34,178,030	32,790,405
Non-UK Government	French Government (AFD)	180,101	359,070
	Kosovo Ministry of Communities and Returns (MCR)	-	34,431
	Ministry of Foreign Affairs of Denmark	195,957	108,760
	Monaco Aid	1,037	-
	Norwegian Agency for Development (NORAD)	42,302	589,828
	Royal Netherlands Embassy	1,527,724	545,746
	Swedish International Development Agency (SIDA)	2,622,564	1,887,287
	Swiss Agency for Development and Co-operation (SDC)	2,998,740	2,209,867
		7,568,425	5,734,989

Notes to the Financial Statements

2. Income (continued)

Income from charitable activities by Donor (Continued)

Corporates & NGOs	ACF	1,064,418	49,769
	ACP	143,589	-
	Aga Khan Foundation	-	619,464
	Artemis	135,316	2,924
	Adam Smith International	-	25
	AREU	-	4,934
	Asfari	61,651	56,860
	CARE	403,625	-
	CTA	-	3,752
	Cofra	-	96,249
	Danish Refugee Council	1,247,336	-
	DKH	356,504	187,513
	Ecosystems Services	3,686	-
	Expo DUBAI	8,025	-
	Farm Africa	1,546,274	664,494
	FSDZ	30,284	-
	Futures Group Europe Limited (GRM)	107,307	145,579
	GIPA	47,990	-
	GIZ	269,930	-
	Global Conversations	107,800	-
	Global Partnership Alliance	82,483	-
	GOAL	864,505	-
HIVOS	307,160	20,689	
Initiative France	33,854	1,135	
Institute of Development Studies	(507)	-	
KMT	-	140,189	
Landell Mills	119,019	206,245	
Netherlands Organisation for Scientific Research	10,082	-	
NIRAS	142,698	149,005	
Orange Foundation	57,075	19,451	
Peace Support Fund	221,421	22,382	
Porticus	117,803	272,359	
Practical Action	-	8	
Private	38,932	-	
Refugee International Japan	-	13,418	
Rheatech	9,848	-	
Salama Foundation	-	(6,615)	
Save The Children	19,324	-	
Shell	445,806	(4)	
Sheikha	25,327	318,008	
Silatech	-	13,497	
Soneva	116,659	-	
Start Network	184,932	1,500,282	

Swedish Postcode Lottery	8	-
Swisscontact	-	68
Twinnings	102,601	103,475
Unilever	5,079	-
Vitol	246,575	182,351
VSF International	47,969	-
World Vision	131,302	114,506
Welt Hunger Hilfe	76,330	74,522
Zurich	193,295	72,009
	9,133,315	5,048,543
Total	92,198,580	57,310,064

Notes to the Financial Statements

2. Income (continued)

Income from charitable activities by Donor (Continued)

The following restricted funds were released to match project expenditure in the year. All the amounts detailed below relate to aid agreements with the following funding bodies for projects to be carried out in the countries listed.

Country	Donor	2017 £	2016 £
Afghanistan	Aga Khan Foundation	1,064,418	619,464
	AREU	-	4,933
	British Council	141,909	97,015
	DFID	-	81,848
	EuropeAid	271,904	182,096
	Expo Dubai 2020 LLC	8,025	-
	GIZ	269,930	-
	Landell Mills	119,019	206,245
	Netherlands Organisation for Scientific Research	10,082	-
		1,885,287	1,191,601
Central African Republic	DFID	-	(94)
	Danish Refugee Council	436,365	-
	ECHO	-	7
	EuropeAid	211,170	230,194
	647,535	230,107	
Colombia	EuropeAid	94,269	30,763
	START Network	66,669	-
	160,938	30,763	
Democratic Republic of Congo	DFID	4,116,012	3,181,264
	Dutch Embassy	66,891	-
	Swiss Development	393,509	-
	4,576,412	3,181,264	
Ecuador	ECHO	943,022	-
Ethiopia	DFID	-	692,272
	Farm Africa	1,546,274	664,493
	1,546,274	1,356,765	

Timor Leste	Norwegian Agency for Development (NORAD)	42,302	589,828
	Shell	-	(4)
		42,302	589,824
Georgia	EuropeAid	1,739,954	1,016,217
	GIPA	47,990	-
	Institute of Development Studies	(507)	-
	NIRAS	142,698	149,005
	Swiss Agency for Development and Cooperation (SDC)	1,860,774	1,782,317
		3,790,909	2,947,539

Notes to the Financial Statements

2. Income (continued)

Income from charitable activities by Donor (Continued)

Greece	DKH	356,504	187,513
	ECHO	5,645,013	-
	Porticus	117,803	272,359
	Scottish Government	-	134,200
	Start Network	-	1,500,282
	UNHCR	1,169,070	-
		7,288,390	2,094,354
Guatemala	ACF	-	49,769
	EuropeAid	-	79,965
		-	129,734
Haiti	Artemis	9,871	-
Indonesia	Cofra	-	96,249
	ESPA	3,686	-
	EuropeAid	-	35,420
	Global Partnership Alliance	82,483	-
	Zurich	193,298	72,009
		279,467	203,678
India	ECHO	-	308,765
	Twinnings	102,601	103,475
		102,601	412,240
Ivory Coast	DFID	21,412	7,774
Iraq	Artemis	14,891	-
	British Council	14,542	-
	DFID	3,611,278	184,471
	ECHO	12,473,722	4,113,488
		16,114,433	4,297,959
Jordan	EuropeAid	1,745,152	176,669
	DFID	8,044,134	6,428,190
	Danish Refugee Council	810,972	-
	Dutch Embassy	1,106,361	545,746
		11,706,619	7,150,605

Notes to the Financial Statements

2. Income (continued)

Income from charitable activities by Donor (Continued)

Kenya	DFID	1,805,435	1,074,305
	EuropeAid	525,335	356,364
	Futures Group Europe Limited (GRM)	-	25,444
	KMT	-	140,189
	Swiss Agency for Development and Cooperation (SDC)	-	15,554
		2,330,770	1,611,856
Kosovo	EuropeAid	-	35,205
	Kosovo Ministry of Communities and Returns	-	34,431
		-	69,636

Lebanon	Denmark Ministry of Foreign Affairs	195,957	108,759
	DFID	5,537,255	2,963,695
	Dutch Embassy	345,637	-
	EuropeAid	884,079	620,442
		6,962,928	3,692,896
Liberia	Adam Smith International	-	25
	EuropeAid	375,160	8,669
	SIDA	1,417,698	1,503,518
	UNMIL	-	41,396
		1,792,858	1,553,608
Mongolia	Swiss Development Corporation	-	1,885
Myanmar	British Council	21,391	-
	DFID	-	177,788
	EuropeAid	1,290,985	736,269
	Peace Support Fund	221,421	22,382
	UNOPS	1,983,334	1,038,622
	Soneva Foundation	116,659	-
	Swedish Postcode Lottery	8	-
	Unilever	5,079	-
	Vitol	-	48,186
		3,638,877	2,023,247
Nepal	DFID	426,059	1,186,806
	EuropeAid	201,872	132,562
	Practical Action	-	8
		627,931	1,319,376
Niger	EuropeAid	184,201	-
	Orange	57,075	19,451
	Vitol	-	134,165
		241,276	153,616
Nigeria	DFID	2,160,463	647,850
	ECHO	1,518,696	618,017
	EuropeAid	597,131	-

	Shell	441,548	-
		4,717,838	1,265,867
Pakistan	EuropeAid	730,441	989,338
	Scottish Government	99,864	96,787
	START Network	30,545	-
		860,850	1,086,125
Sierra Leone	DFID	-	841
Somalia	Shell	4,259	-
	UNCHF	8	87,837
	UNOCHA	7,765	-
		12,032	87,837

Notes to the Financial Statements

2. Income (continued)

Income from charitable activities by Donor (Continued)

South Sudan	DFID	(1,030)	2,449,354
	GOAL	864,505	-
	Swiss Agency for Development and Cooperation (SDC)	149,167	18,438
	START Network	87,719	-
	UNDP	184,094	286,522
	UNFAO	73,918	-
		1,358,373	2,754,314
Sudan	EuropeAid	82,471	60,538
	UNDP	91,385	542,569
	UNFAO	22,682	13,072
	VSF International	47,969	-
		244,507	616,179
Syria Response	Artemis	16,712	-
	CARE	403,625	-
	DFID	8,159,009	13,151,037
	ECHO	2,975,509	4,815
	EuropeAid	-	(1,551)
	Private	38,932	-
	Swiss Agency for Development and Cooperation (SDC)	61,727	-
		11,655,514	13,154,301
Tajikistan	DFID	20,345	-
	ECHO	9,201	-
	Welt Hunger Hilfe	76,330	74,523
		105,876	74,523
Tunisia	AFD	180,101	359,070
	DCO Monaco	1,037	-
	EuropeAid	152,885	52,696
	FCO	-	235,005
	HIVOS	307,160	20,689
	Initiative France	33,854	1,135
	Silatech	-	13,497
	Swiss Contact	-	68
		675,037	682,160

Turkey	Asfari	32,017	17,972
	ECHO	4,124,579	1,489,129
	Refugee International Japan	-	13,418
		4,156,596	1,520,519

Notes to the Financial Statements

2. Income (continued)

Income from charitable activities by Donor (Continued)

Uganda	Artemis	93,842	-
	CTA	143,589	3,752
	ECHO	300,969	-
	Rheatech	9,848	-
	Swiss Development Corporation	599,026	388,449
	SIDA	1,143,140	383,769
	Technical Centre for Agriculture	-	2,924
	UNFAO	-	42,553
		2,290,414	821,447
United Kingdom	Save The Children	19,270	-
West Bank Gaza	Asfari	29,633	38,888
	Global Conversations	107,800	-
	Kingdom of The Netherlands	8,836	-
	Sheikha	25,327	318,008
	Vitol	246,575	-
		418,171	356,896
Yemen	EuropeAid	372,007	25,608
	Salama Foundation	-	(6,615)
		372,007	18,993
Zambia	FSDZ	30,284	-
Zimbabwe	EuropeAid	146,131	215,641
	Futures Group Europe Limited (GRM)	107,307	120,135
	SDC	(3,737)	3,224
	UNICEF	190,696	166,229
	World Vision	131,302	114,506
		571,699	619,735
Total		92,198,580	57,310,064

3. Foreign Exchange Gains and Losses

	2017	Restated 2016
	£	£
Realised Gains / (Losses)	(3,046,142)	(2,027,176)
Unrealised Gains/ (Losses)	2,909,712	3,646,132
	(136,430)	1,618,956

Notes to the Financial Statements

4. Team member numbers and costs

	2017	2016
The average monthly number of team members was:	101	89
Comprising		
UK based employees	63	55
Expatriate employees	31	34
Continental Europe based employees	7	-

The above figures do not include team members seconded to the charity from MCG.

	2017	2016
	£	£
Wages and salaries:		
Employed by the charity	4,478,296	3,674,717
Redundancy and termination	25,000	62,475
(Less seconded to MCG)	(1,563,848)	(1,358,049)
Field team members seconded from MCG	<u>16,080,414</u>	<u>9,628,797</u>
	19,019,862	12,007,940
Social security		
Employed by the charity	426,759	226,803
(Less seconded to MCG)	(95,537)	(52,289)
Field team members seconded from MCG	<u>6,537,094</u>	<u>3,948,289</u>
	6,868,316	4,122,803
Pension costs		
Employed by the charity	224,013	157,139
(Less seconded to MCG)	<u>(73,063)</u>	<u>(50,765)</u>
	150,950	106,374
	26,039,128	16,237,117

	2017	2016
Salary Bands (£)	Number of Employees	
60-70k	6	5
70-80k	3	2
80-90k	2	3
90-100k	1	1
120 – 130k	1	-
130 – 140k	1	-
Total	14	11

Retirement benefits accrue to these employees under defined contribution schemes. Contributions made by the company on their behalf to secure benefits totalled £61,956 (2016: £43,327).

Key management remuneration – comprising members of the European Senior Leadership Team - were as follows:-

	2017	2016
	£	£
Total employment benefits	723,865	601,911

Pension costs relate to defined contribution pension schemes contributed to during the year. The funds in these schemes are held separately from the charity. Contributions of £39,162 (2016: £51,403) were outstanding at the year end.

None of the Board of Directors received any remuneration (2016: £0). One director is remunerated by MCG as they are an employee of MCG, a US charity and related party (see note 16). Expenditure of £21,379 (2016: £6,896) relating to all the directors was made during the year, either by the reimbursement of business expenses or payments to suppliers. The charity has third party indemnity insurance on behalf of the directors.

Notes to the Financial Statements

5. HQ support costs allocation – Unrestricted Funds

HQ support costs of £5.1m (2016: £3.3m) comprising Executive, Finance, Programmes, Fundraising, Governance, IT, Human Resources and Office Administration are allocated to the Statement of Financial Activities and Income and Expenditure account as per the following tables.

Note: Figures in bold are disclosed separately on the face of the Statement of Financial Activities and Income and Expenditure account.

- Allocate IT, Office Administration and Human Resources to Executive, Finance, programmes and Fundraising on the basis of team members numbers.
- Allocate an element of remaining Fundraising costs to Expenditure on Raising Funds.
- Allocate an element of Fundraising, Executive, Finance and Programmes expenditure to Governance on the basis of time spent by departmental managers on governance matters.

Stage 1	2016 Costs	2017 Costs	Allocate Office Admin	Allocate IT	Allocate HR	Allocate to Governance (note 6)	Remove expenditure on raising funds	To be allocated In stage 2
	£	£	£	£	£	£	£	£
Executive	206,263	280,645	13,948	3,438	21,617	(21,029)	-	298,619
Finance	638,040	751,483	118,561	29,222	183,745	(71,251)	-	1,011,760
Programmes	1,011,867	1,957,561	160,405	39,536	248,597	(158,296)	-	2,247,803
Fundraising	703,064	989,519	90,664	22,346	140,511	(81,779)	(621,520)	539,741
Human Resources	359,251	577,084	13,948	3,438	(594,470)	-	-	-
Governance	50,391	77,455	-	-	-	332,355	-	409,810
Office Administration	247,375	404,500	(404,500)	-	-	-	-	-
IT	90,879	91,006	6,974	(97,980)	-	-	-	-
Totals	3,307,130	5,129,253	-	-	-	-	(621,520)	4,507,733

- Finally, the remaining unallocated Executive, Finance, Programmes, Fundraising and Governance costs are allocated to Expenditure in proportion to direct spend in those areas.

Stage 2	Governance £	Executive £	Finance £	Programmes £	Fundraising £	2017 £	2016 £
Civil Society, Education and Conflict Management	80,756	58,845	199,373	442,943	106,359	888,276	653,690
Economic Development	113,857	82,965	281,098	624,507	149,956	1,252,383	829,245
Public Health, Water and Environment	29,812	21,723	73,600	163,517	39,263	327,915	262,799
Disaster Risk Reduction and Emergency Response	185,385	135,086	457,689	1,016,836	244,163	2,039,159	1,136,443
Totals	409,810	298,619	1,011,760	2,247,803	539,741	4,507,733	2,882,177

Cost allocation includes an element of judgement and the charity has to bear in mind the cost / benefit of undertaking detailed calculations.

Notes to the Financial Statements

6. Governance costs

	2017 £	2016 £
External Audit	22,950	19,404
Trustees' indemnity insurance	1,953	1,908
Trustees' expenses	21,379	6,896
Board costs	21,563	22,183
Professional Fees	9,610	-
Apportionment of senior team members costs (based on time spent)	332,355	214,259
	<u>409,810</u>	<u>264,650</u>

7. Net income / (expenditure) for the year is stated after charging

	2017 £	2016 £
Depreciation	30,798	12,766
Operating lease rentals – land and buildings	167,809	117,189
Operating lease rentals – other	9,829	6,201
Auditors' remuneration – in respect of the audit	22,950	19,404
in respect of programme audits	3,600	5,400
In respect of VAT advice	-	1,003

8. Tangible Fixed Assets

	Leasehold improvements £	Computers £	Equipment £	Total £
Cost				
At 1 July 2016	-	173,445	19,063	192,508
Additions	338,737	16,473	21,593	376,803
At 30 June 2017	<u>338,737</u>	<u>189,918</u>	<u>40,656</u>	<u>569,311</u>
Depreciation				
At 1 July 2016	-	168,182	10,839	179,021
Charge	25,068	2,836	2,894	30,798
At 30 June 2017	<u>25,068</u>	<u>171,018</u>	<u>13,733</u>	<u>209,819</u>
Net Book Value at 30 June 2017	<u>313,669</u>	<u>18,900</u>	<u>26,923</u>	<u>359,492</u>
Net Book Value at 30 June 2016	<u>-</u>	<u>5,263</u>	<u>8,224</u>	<u>13,487</u>

Notes to the Financial Statements

9. Debtors

	2017 £	2016 £
Income tax recoverable	3,531	21,398
Other debtors	745,695	1,630,779
Prepayments	155,044	84,449
Accrued project income	11,161,705	5,423,842
	<u>12,065,975</u>	<u>7,160,468</u>

Accrued project income relates to funds due from donors for projects in which expenses have already been paid by Mercy Corps Europe as at 30 June 2017.

10. Cash at Bank and in Hand

	2017 £	2016 £
Bank accounts	40,110,652	31,156,528
Cash in hand	502	1,465
	<u>40,111,154</u>	<u>31,157,993</u>

11. Creditors: amounts falling due within one year

	2017 £	Restated 2016 £
Deferred income	29,406,264	21,946,874
Mercy Corps Global Intercompany balance	9,932,076	8,656,713
Accruals	73,605	42,337
Taxation and social security	175,224	70,078
Other creditors	5,735,964	471,584
	<u>45,323,133</u>	<u>31,187,586</u>

Deferred income above relates to project income received in advance, or the balance of income held for projects, which are still to be completed. Mercy Corps Global (MCG) Intercompany balance represents funds owed by the charity to MCG for funding advances to the charity's projects and in respect of the settlement of expenditure between Headquarters.

	£
At 1 July 2016	21,946,874
Transfer from accrued project income	(5,423,842)
Currency	859,693
Grant funds received in year	87,932,174
Grant funds spent during year	(87,070,340)
Transfer to accrued project income	11,161,705
At 30 June 2017	<u>29,406,264</u>

Notes to the Financial Statements

12. Operating lease commitments

The company has total future minimum lease commitments under non-cancellable operating leases expiring as follows:

	Land and Buildings £	Other £	2017 £	2016 £
In less than 1 year	283,567	12,349	295,916	101,181
In 2 to 5 years	700,050	7,138	707,188	126,234
Over 5 years	-	-	-	-
	<u>983,617</u>	<u>19,487</u>	<u>1,003,104</u>	<u>227,415</u>
Lease payments recognised as an expense	167,809	9,829	177,638	123,390

Operating lease - rental income

The company holds surplus office space which is let to third parties. The future minimum rentals receivable under non-cancellable operating leases are as follows:

	Land and Buildings £	Other £	2017 £	2016 £
In less than 1 year	33,600	-	33,600	-
In 2 to 5 years	28,000	-	28,000	-
	<u>61,600</u>	<u>-</u>	<u>61,600</u>	<u>-</u>
Rental receipts recognised as income	7,472	-	7,472	-

Notes to the Financial Statements

13. Unrestricted funds

	Balance at 1 July 2016 £	Income £	Expenditure £	Transfers (Out) / In £	Balance at 30 June 2017 £
General Funds	<u>3,657,243</u>	<u>6,275,420</u>	<u>(5,394,595)</u>	<u>(907,827)</u>	<u>3,630,241</u>
Designated Funds					
Dilapidations	90,000	-	-	12,000	102,000
Foreign Exchange	888,835	-	(136,430)	-	752,405
European Platform	450,000	-	-	-	450,000
Co-financing	42,716	-	-	-	42,716
New Modalities	1,500,000	-	-	-	1,500,000
	<u>2,971,551</u>	<u>-</u>	<u>(136,430)</u>	<u>12,000</u>	<u>2,847,121</u>
	<u>6,628,794</u>	<u>6,275,420</u>	<u>(5,531,025)</u>	<u>(895,827)</u>	<u>6,477,362</u>
	Restated Balance at 1 July 2015 £	Restated Income £	Expenditure £	Transfers (Out) / In £	Restated Balance at 30 June 2016 £
General Funds	<u>1,972,482</u>	<u>5,699,496</u>	<u>(4,003,951)</u>	<u>(10,784)</u>	<u>3,657,243</u>
Designated Funds					
Dilapidations	78,000	-	-	12,000	90,000
Foreign Exchange	(715,614)	1,604,449	-	-	888,835
European Platform	450,000	-	-	-	450,000
Co-financing	125,432	-	-	(82,716)	42,716
New Modalities	1,500,000	-	-	-	1,500,000
	<u>1,437,818</u>	<u>1,604,449</u>	<u>-</u>	<u>(70,716)</u>	<u>2,971,551</u>
	<u>3,410,300</u>	<u>7,303,945</u>	<u>(4,003,951)</u>	<u>(81,500)</u>	<u>6,628,794</u>

The directors have reviewed unrestricted funds and their potential use and are mindful of future calls on the funds which they now specifically designate as above.

The transfer out of general funds of £907,827 (2016: £10,784) comprises an increase in dilapidations fund of £12,000 (2016: £12,000), and a net increase in the gap funding for projects (£895,827) (2016: net reduction of £1,216).

In 2016 the transfer out of designated funds of £82,716 was to support a project with a co-financing gap.

The foreign exchange revaluation of the intercompany creditor balance was not performed accurately in accordance with the accounting policies in prior years and this has resulted in the restatement of 2015 and 2016 (Note 1).

Notes to the Financial Statements

14. Restricted Funds

	Balance at 1 July 2016 £	Income £	Expenditure £	Transfers In / (Out) £	Balance at 30 June 2017 £
Grants	-	86,557,948	(87,503,769)	945,821	-
Donations	515,568	314,215	(43,663)	(49,994)	736,126
	<u>515,568</u>	<u>86,872,163</u>	<u>(87,547,432)</u>	<u>895,827</u>	<u>736,126</u>
	Balance at 1 July 2015 £	Income £	Expenditure £	Transfers In / (Out) £	Balance at 30 June 2016 £
Grants	-	52,591,285	(53,163,500)	572,215	-
Donations	670,853	336,638	(1,208)	(490,715)	515,568
	<u>670,853</u>	<u>52,927,923</u>	<u>(53,164,708)</u>	<u>81,500</u>	<u>515,568</u>

Transfer in to Restricted Grants of £945,820 (2016: £572,215) comprises restricted donations used to cover programmatic expenditure of £49,994 (2016: £490,715) and programme expenditure covered temporarily from unrestricted and designated reserves in lieu of co-financing of £895,827 (2016: £81,500).

Restricted Funds are country or project specific and allocated to projects as expenditure is incurred. The balances held on individual restricted funds are listed below.

Nature of restriction	Balance at 30 June 2017 £	Balance at 30 June 2016 £
<u>To Co-finance projects</u>		
Central African Republic- 1	12,673	12,673
Central African Republic- 2	26,020	37,446
East Timor – 1	10,229	10,229
East Timor – 2	21,131	-
Iraq – 1	20,000	-
Iraq – 2	15,000	-
Lebanon – 1	37,065	33,749
Lebanon – 2	123,852	-
Liberia	12,711	12,710
Niger	54,286	-
Nepal - 1	35,592	35,592
Nepal - 2	23,267	46,326
Syrian Arab Republic	44,455	-
Turkey	88,785	-
Uganda	127,640	127,640
<u>Other</u>		
Refugee Crisis	39,798	112,984
Nepal Earthquake	13,991	13,614
Haiti	10,000	-
Other funds (under £10,000)	19,631	72,605
	736,126	515,568

Notes to the Financial Statements

15. Analysis of Net Assets between Restricted and Unrestricted Funds

	Unrestricted Funds £	Restricted Funds £	Total 2017 £
Tangible fixed assets	359,492	-	359,492
Other net assets	6,117,870	736,126	6,853,996
	<u>6,477,362</u>	<u>736,126</u>	<u>7,213,488</u>
	Restated Unrestricted Funds £	Restricted Funds £	Restated Total 2016 £
Tangible fixed assets	13,487	-	13,487
Other net assets	6,615,307	515,568	7,130,875
	<u>6,628,794</u>	<u>515,568</u>	<u>7,144,362</u>

16. Related party transactions

Mercy Corps Global (MCG) is a charitable company registered in the United States of America. The registered office is 45 SW Ankeny Street, Portland, Oregon, 97204.

As detailed in the Trustees Annual Report Mercy Corps Europe works with MCG globally to deliver services in the name of Mercy Corps.

In recognition of this joint arrangement the following directors of Mercy Corps Europe were also directors of Mercy Corps Global during the year.

Tom Murray	Chairman of Mercy Corps Europe
Neal Keny-Guyer	Chief Executive Officer of Mercy Corps Global

No directors received any remuneration from Mercy Corps Europe. Neal Keny-Guyer was remunerated by Mercy Corps Global, though not in a directorial capacity.

Mercy Corps Europe and Mercy Corps Global work closely together under a Memorandum of Understanding. In some instances both organisations will pool administrative and technical resources for the benefit of their respective projects. In such cases a re-charge of the actual costs incurred will be made between Mercy Corps Europe and Mercy Corps Global.

For the purposes of this note, related party transactions include (a) any expenditure made by Mercy Corps Europe on behalf of Mercy Corps Global and (b) any expenditure made by Mercy Corps Global HQ or field offices in relation to Mercy Corps Europe core HQ departments. Direct expenditure by field offices and / or Mercy Corps HQ on Mercy Corps Europe programmatic activity is not treated as related party expenditure.

During the year the following transactions arose:

Expenditure on behalf of Mercy Corps Global by Mercy Corps Europe: £2,645,373; (2016: £1,606,067)

Expenditure on behalf of Mercy Corps Europe by Mercy Corps Global: £823,812; (2016: £378,399)

At the year-end MCE's liability with MCG was £9,932,076; (2016 restated: £8,656,713)

Notes to the Financial Statements

17. Contingencies

The directors have confirmed that there were no contingent liabilities which should be disclosed at 30 June 2017 (2016: none).

18. Capital Commitments

The directors have confirmed that there were no capital commitments at 30 June 2017.

19. Ultimate Controlling Party

The company is limited by guarantee and the directors have each agreed to contribute £1 in the event of the company being wound up. The directors control the company.

In view of the global nature of work undertaken by Mercy Corps, the agency to which Mercy Corps Europe contributes and the joint management that is exercised by JBEC, MCG will produce consolidated accounts which include the results of MCE. The next period of consolidation will be for the year ended 30th June 2017.

20. DFID – Schedule to Financial Statements

Projects implemented on behalf of DFID during period from 1 July 2016 to 30 June 2017. We certify that each of the DFID grants below were expended in accordance with the terms agreed with DFID.

Country	Cost Centre	Reference	Instalments received/ (returned) £	Expended during the financial year £
Nigeria	90958	PO40063564	386,655	445,060
Syria Response	91060,91061,91063	PO40085092	5,279,873	5,475,806
Nepal	91001, 91220	6616	574,235	426,093
Democratic Republic of Congo	91083	203445-109	4,647,014	4,116,012
Central African Republic	91043	PO40081743	(1,146,910)	-
South Sudan	91078	PO40087173	(47,771)	(1,030)
Myanmar	91088	951401/082015	7,047	-
Kenya	91090	B16	1,966,662	1,805,435
Jordan	91099	PO40091849	(2,193)	-
Lebanon	91119	205075-101	(80,995)	-
Jordan	91146	Aries 300030	6,633,392	8,044,134
Lebanon	91147	PO40098618	3,566,888	5,537,255
Tajikistan	91158	203106-103	9,872	20,345
Nigeria	91166	300309-101	1,700,000	1,620,518
Iraq	91185	205094-101	3,454,015	3,611,278
Syria Response	91190	300090-101	5,070,510	3,361,507
Nigeria	91221	9002	85,007	94,885

Notes to the Financial Statements

20. British Council – Schedule to Financial Statements

Projects implemented on behalf of British Council during the period from 1 July 2016 to 30 June 2017. We certify that each of the British Council grants below were expended in accordance with the terms agreed with British Council.

Country	Cost Centre	Instalments received £	Expended during the financial year £
Afghanistan	91032	94,375	141,909
Iraq	91178	26,340	14,542
Tunisia	91186	6,464	-
Myanmar	91191	-	7,552
Myanmar	91232	-	13,838

OUR SUPPORTERS

The work of Mercy Corps globally would not be possible without the support of Mercy Corps Europe's many donors, both private and public. We would like to take this opportunity to thank all those listed below, all those who participated in events on behalf of Mercy Corps Europe and those that supported them. Thank you also to our donors who wish to remain anonymous.

Grants and Funders

Agence Française de Développement
British Council
CARE
Danish Church Aid
Danish Government Overseas Aid (DANIDA)
Danish Refugee Council
Department for International Development (DFID)
Dutch Ministry of Foreign Affairs
Ecosystem Services for Poverty Alleviation (ESPA)
European Commission (EC)
European Humanitarian Aid and Civil Protection (ECHO)
Farm Africa
Financial Sector Deepening (FSD) Africa
Financial Sector Deepening (FSD) Zambia
Foreign & Commonwealth Office (FCO)
FSDZ
GIPA
GIZ
Global Resilience Partnership
GOAL
Government of Monaco
GRM International
Hivos (Humanist Institute for Cooperation)
Initiative France
Institute of Development Studies
Kingdom of the Netherlands
Landell Mills
Netherlands Organisation for Scientific Research
NIRAS
Peace Support Fund
PROPARCO
Refugees International Japan
Royal Norwegian Embassy
Save the Children
Scottish Government
Start Network
Swedish Agency for International Development Cooperation (SIDA)
Swiss Agency for Development and Cooperation (SDC)
Technical Centre for Agricultural and Rural Cooperation (CTA)
United Nations (UN)
Vétérinaires Sans Frontières (VSF)
Welt Hunger Hilfe
World Vision International

Corporate

Expo 2020 Dubai
Global Conversations Ltd
GLOCK Ltd
Goodricke Tea Company
Google
Hogan Lovells International LLP
Kelvin Top-Set Ltd
Orange Foundation
Pentland Medical Ltd
Rhea Group
Shell
Soneva SLOW LIFE Trust
Twinings
Unilever PLC
Zurich

Organisations

Artemis Charitable Foundation
CRH Trust
Diageo Foundation
Eldon Charitable Trust
Elizabeth Bennett Charitable Trust
Invesco Cares Foundation
Martin Currie Charitable Foundation
Miss S M G Ross Trust
Rolls-Royce Enthusiasts' Club
Swedish Postcode Lottery Foundation
The Asfari Foundation
The Big Heart Foundation
The Porticus Foundation
The Rhododendron Trust
The St Mary's Charity
Vitol Foundation
West Hall Charitable Fund

In addition, in FY17 Mercy Corps Europe also thankfully received donations from 60 community organisations such as schools, community groups and religious communities totalling £51,035.

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Mercy Corps Europe is a registered charity no: SC030289

Company registered in Scotland no: S208829

