

# Chairman's Statement

2009 was a difficult year for the Coillte Group. Profit after tax fell 54% from €9.2m in 2008 to €4.2m in 2009. The 2009 results include an exceptional profit of €18.5m (2008: €0.5m), therefore there was an underlying loss on trading activities of €14.3m in 2009, as the construction sector in Ireland, the United Kingdom (UK) and continental Europe continued to stagnate. This compares with an underlying trading profit of €8.7m in 2008. While this trading loss was a disappointing result, economic conditions would have led to a substantially higher loss had the Group not taken steps to reduce costs, develop new markets during the year and sell immature forests to unit trust funds. This decisive action meant the Group was able to return a net profit of €4.2m.

## **Innovative and sustainable natural resources**

The continuing difficult market conditions for construction products reinforce the need for the Group to continue to deliver on the corporate strategy developed in 2007. This strategy identified the need to move away from an over-reliance on construction and to broaden the revenue base of the Group. Coillte has unique assets that enable the Group to contribute in a major way to the achievement of critical national objectives in relation to forestry, sustainable timber products, climate change and renewable energy.

Recognition of the potential contribution that Coillte can make in these areas led us to re-define our purpose as an innovative and sustainable manager of natural resources. This purpose is consistent with the imperative to develop a smarter, greener economy as Ireland and Europe strive to return to economic growth. Our strategy envisages that Coillte will develop in four areas: forestry, land management, panel products and renewable energy. We believe that this strategy, when fully implemented, has the potential to add significant shareholder value to Coillte in the medium term while also fulfilling important national objectives.

## **Financial stability**

Successful implementation of the strategy requires that the company has a solid financial base from which to develop. Coillte took a number of actions in 2009 to stabilise its finances in response to the extremely difficult economic and trading conditions that are likely to persist through 2010.

The Group implemented a range of cost reduction measures across the organisation. Second, the Group has successfully completed a refinancing of Group debt. This required amending legislation to increase the Group's borrowing limit from the limit set in 1988. Third, the Group sold immature forests to the value of €33.8m to unit trust funds partly to alleviate the effects of adverse trading conditions but also to satisfy an emerging need for quality forestry investments. In the case of immature forest sales Coillte retains ownership of the underlying land. Taken together, these measures enabled Coillte to limit the increase in Group debt despite substantial trading losses and an extensive ongoing programme of capital investment in the forest estate and other assets.

## **Business challenges**

At an individual business level we faced a number of challenges. The collapse in construction activity in Ireland resulted in a significant reduction in demand for sawn timber produced by our sawmill customers with a consequent reduction in demand for sawlogs. Coillte, working closely with our sawmill customers and Enterprise Ireland, mounted a major marketing effort to promote Irish timber in the UK. This campaign resulted in Irish construction timber establishing a stronger position in that key market. Demand for logs increased accordingly in the second half of 2009, significantly boosting Coillte Forest's performance.

Despite a fall off in demand on foot of the global economic slowdown, Coillte Panel Products achieved record sales volumes in the UK market in 2009 – this was an exceptional achievement, particularly as we achieved an increase in our sales prices as



the year progressed. Coillte Panel Products continued to manage its costs very tightly across a number of areas, including a rolling programme of temporary shut downs. These measures have been difficult for staff to absorb but have been absolutely necessary in order to underpin the business. Coillte Panel Products also launched three new product ranges during the year.

Coillte remains focused on realising value from its land assets. While much lower levels of construction activity resulted in reduced demand for potential development land in 2009, we continued to find innovative ways to realise value from these assets. One such initiative is the National Broadband Scheme being delivered by '3' which aims to deploy broadband across the country using wireless technology. Coillte is providing 100 mast sites for this project which will significantly improve broadband availability in rural areas.

A key area of land development for Coillte is wind energy. In 2009, Coillte made substantial progress in adding value to our portfolio of wind energy projects. We progressed our first joint venture wind farm project at Garvagh Glebe, Co Leitrim with ESB. We also recruited an experienced wind energy professional to the newly created role of Director of Energy; we appointed consultants on two projects to move them forward through the planning process and we completed a number of large and small windfarm site sales.

Renewable energy from biomass is another potential development area for Coillte. The Group is well placed to make a major contribution to national targets especially in the biomass energy sector. Coillte has selected a technology partner to develop sustainable biomass energy solutions for large industrial customers. We have also examined ways in which we can supply customers with large volumes of forest biomass to enable them to meet the emerging demand for renewable sources of heat. We expect further significant developments in these areas in 2010.

### **Commitment to sustainability**

Our commitment to the innovative and sustainable management of natural resources runs through all of our activities. Since 2001 our forests have been certified by the Forest Stewardship Council (FSC) as being managed responsibly in accordance with stringent environmental, social and economic criteria. This certification enables our customers to market their products as having been sourced in well managed forests. Our SmartPly OSB and Medite MDF panel products are similarly certified giving assurance to discerning customers.

Coillte provides a wide range of 'public goods'. Extensive recreation facilities are provided in Coillte's forests including Ireland's best mountain biking facilities. Over fifteen per cent of our estate is actively managed for nature conservation. Habitat restoration projects such as the EU funded LIFE Priority Woodland Project, and recreation partnerships like the Dublin Mountains Partnership are showcase projects that demonstrate best practice natural resource management.

### **Sustainable Pension Arrangements**

In previous years we have highlighted the Board's concern that the cost of funding the Group's defined benefit pension schemes is unsustainable. The most recent actuarial valuations (31 December 2008 - Coillte and 1 January 2009 - Medite) estimated that the deficiency in both schemes was €98.3m.

While the deficit remains a concern I am pleased to report that Coillte has developed a funding plan which has been submitted to the Pensions' Board for approval. The plan assumes that Coillte's existing contribution rates are maintained and that employee contributions, which came into effect in September 2009, are broadly consistent with the pension levy recently introduced in the public service. Additional up front contributions will be made by Coillte, however, increases in pensions and pensionable remuneration will be limited to no more than 2% per annum for the next 5 years. The defined benefit scheme has also been closed to new entrants. We are confident that the approach adopted should secure the support of the Pensions' Board and safeguard pensions for Coillte employees.

### **Bóthar's Mighty Oak Tree**



In 2009 Bóthar and Coillte launched their "Mighty Oak Tree" initiative with the help of Eanna Ní Lamhna and the next generation of tree lovers. This initiative invites people to give the gift of trees to struggling families in the developing world and in return Coillte supplies a native oak tree for each donor, to be planted at Strokestown Park House and Famine Museum, Co. Roscommon.

This initiative forms part of Bóthar's gift catalogue and was a successful addition to their Christmas 2009 campaign.

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### **Corporate Governance**

As Coillte's business increases in scale, complexity and scope the need for robust systems of corporate governance is ever more apparent. The Board and Management of Coillte operate to the highest standards of corporate governance. We comply with the requirements of the Code of Practice for the Governance of State Bodies and conduct our businesses ethically. Details of the Group's compliance procedures are contained in the Report of the Directors.

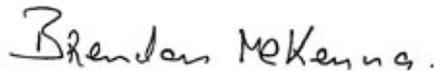
### **Thanks**

Coillte Group thanks its customers, contractors, suppliers and business partners for their business and support in 2009. Current economic difficulties are putting strain on every business and we are committed to working with our customers and partners to navigate a path through the current difficulties.

The Board wishes to acknowledge the encouragement and assistance of the Minister for Agriculture, Fisheries and Food, Brendan Smith, TD, former Minister of State with responsibility for Forestry and now Minister for Defence, Tony Killeen, TD, Minister for Finance Brian Lenihan TD and the officials of their Departments. I would like to thank Grainne Hannon and Philip Lynch whose terms of office as directors ended in 2009. On behalf of my fellow Directors I wish them both well in the future. I would also like to welcome our new Directors, Seamus Murray and Denis Byrne, who were appointed in September 2009 and January 2010 respectively.

For my part I would like to thank my Director colleagues for their work during the year and their commitment to the Group.

I would also like to join with my fellow Directors in thanking management and staff throughout the Group for their efforts. In this regard I would like to single out Tim Crowley who retired as Managing Director of Coillte Forest at the end of 2009. Tim served Coillte and its predecessor organisations for 37 years and made a major contribution to the commercial development of Coillte. We wish him well in his retirement.



**Brendan McKenna**

Chairman