Financial review

Results

Group turnover fell by €42.6m (17.1%) during 2009 to €206.9m, principally due to the difficult trading environment in the construction sector that resulted in a sharp fall in the price of logs and panel products. The fall in the price of logs occurred despite a 5% increase in sales volumes as sawmill customers moved into the UK market. Demand for panel products remained constant during 2009 however, movements in the sterling exchange rate had an adverse impact on the net sales price achieved. Export sales account for 53.8% of turnover and 70% of this figure is sold into the UK market.

Profit after tax fell by 54% from €9.2m in 2008 to €4.2m in 2009. The 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 compared with a profit of €8.7m in 2008. The decline in profitability had a significant impact on cash flow and the Group responded by taking a number of initiatives designed to maintain core debt at existing levels.

The Group disposed of immature forests for €33.8m, realising a profit on disposal of €25.4m. Unconditional capitalised grants of €1.5m relating to these plantations were also released to the profit and loss account. Significant savings in operating expenditure were also achieved through a combination of measures including voluntary redundancy, short time working and a reduction in the capital expenditure programme. Exceptional costs of €5.2m were incurred as a result of voluntary parting/early retirement programmes throughout the Group. The carrying value of certain forest assets was also reviewed and, as a consequence, the assets were written down to their recoverable amount by including an impairment charge of €3.1m in the group profit and loss account. These items were treated as exceptional (note 5) in the financial statements.

EBITDA (as defined) for the group increased from €54.8m to €56.3m, an increase of 2.7%. A reconciliation of EBITDA is included in Table 2 below.

Interest (including related bank costs) and financing charges for the year were €12.9 million, an increase of €3.5 million on 2008. The increase related primarily to the FRS17 finance costs associated with the pension fund deficit. The underlying EBIT interest cover for the year was 2.4 times.

The Group tax charge for 2009 was €3.3m (2008: €2.4m).

Outlook

Demand for logs remain strong and prices are likely to increase during 2010. Demand for panel products is also increasing and prices are trending upwards however, all of the increased activity is in the UK market and the current weakness in the sterling exchange rate remains a significant issue for the Group because it not only impacts the return from the sale of panel products but also the Group's overall results and cash flows. The Group continues to make significant progress in reducing operating costs and this should result in an improved performance in 2010 despite increased interest charges that will partially offset these savings. Management are determined to maintain core debt at 2008 levels and will take whatever further actions are deemed necessary to achieve this objective.

Capital Expenditure

The Group reduced its capital expenditure programme in 2009 from €58.1m to €40.7m. A significant proportion of the expenditure was incurred in enhancing and maintaining the forest estate however, €15.3m was invested in the Garvagh Glebe wind farm, through a joint venture between Coillte and ESB Power Generation Holding Company Limited (note 11). A significant proportion of this debt will be refinanced by the joint venture company once the wind farm is operational.

Net Debt and Gearing

At year end, the Group's net debt increased by €16.2m to €177.4m with headroom on existing undrawn facilities of €18.8m. Gross debt increased by €15.2m and cash balances decreased by €1.0m. These figures include the investment in the Garvagh Glebe wind farm which will not be earnings enhancing until late 2010. Gearing was 14.7% at year end and 56% of the debt portfolio was at fixed interest rates. The ratio of net debt to EBITDA was 3.15 times and interest cover was 6.7. The Group has also successfully completed a refinancing of Group debt.

Employee Benefits

Coillte operates a number of defined benefit pension schemes with assets held in separately administered funds. The most recent actuarial valuations (31 December 2008 – Coillte and 1 January 2009 – Medite) indicated that the market value of the scheme's assets was €123.9m, which was €98.3m less than the scheme's liabilities. Coillte reviewed the funding arrangements for these schemes with its advisers and has put in place a number of measures to address the deficit and support the benefits accruing to members on an ongoing basis.

The Group continues to adopt the full requirements of Financial Reporting Standard 17 (FRS 17) retirement benefits' disclosure. The deficit on the fund at 31st December 2009, based on FRS 17 and calculated using the projected unit method, is €72.4m (2008: €82.6million) and is fully reflected in the Group accounts. The FRS 17 deficit is lower than the last actuarial valuation due to a number of measures taken by the Group, including additional payments of €11.5m transferred to the scheme during 2009 and the introduction of employee contributions in September 2009.

Financial Risk Management

The Group's treasury operations are managed in accordance with policies approved by the Board. These policies provide principles for overall financial risk management and cover specific areas such as interest rate, liquidity and foreign exchange risk.

The Group's operations expose it to a variety of financial risks that include the effects of changes in debt market prices, foreign exchange risk, credit risk, liquidity and interest rate risk. The Group has in place a risk management programme that seeks to manage the financial exposures of the Group by monitoring levels of debt finance and the related finance costs.

In order to ensure stability of cash out flows and hence manage interest rate risk, the Group has a policy of maintaining at least 50% (2008: 50%) of its debt at a fixed rate. Further to this the Group seeks to minimise the risk of uncertain funding in its operations by borrowing within a spread of maturity periods. Financial instruments are used to manage interest rate and financial risk. The Group does not engage in speculative activity and treasury operating policy is risk averse.

Price risk

The Group is exposed to commodity price risk as a result of its operations. However, given the size of the Group's operations, the costs of managing exposure to commodity price risk exceed any potential benefits. The Directors will revisit the appropriateness of this policy should the Group's operations change in size or nature.

Foreign exchange risk

The Group is exposed to foreign exchange risks in the normal course of business, principally on the sale of sterling. The Group's policy on mitigating the effect of this currency exposure is to hedge sterling by entering into forward foreign exchange contracts, for periods of up to 6 months, based on expected sales in the UK markets.

Credit risk

The Group has implemented policies that require appropriate credit checks on potential customers before sales are made. In addition, insurance is also put in place for the larger customers of the Group. During 2009, the Group's insurers withdrew cover from a number of customers in the construction sector. In many cases cover has been restored and, at year end, uninsured debtors represented approximately 10% of total debtors.

Liquidity risk

The Group actively maintains a mix of long-term and short-term debt finance that is designed to ensure the Group has sufficient available funds for operations and planned expansions.

Key Financial Performance Indicators

Table 1 – Key Financial Performance Indicators

	2009	2008
Revenue (€'m)	206.9	249.5
EBITDA (€'m)	56.3	54.8
EBIT (€'m)	20.4	21.0
Interest cover, excluding associates		
- EBITDA basis (times)	6.7	7.6
- EBIT basis (times)	2.4	2.9
Net Debt (€'m)	177.4	161.2
Net debt as a percentage of total equity (%)	14.7	13.4
Net debt as a percentage of fixed assets (%)	12.5	11.4
Net debt/EBITDA	3.15	2.94
Effective tax rate (%) (note 8)	43.5	20.7

EBITDA– earnings (including profit on the disposal of immature forests) before finance costs, tax, depreciation, depletion and intangible asset amortisation, impairment and VR costs

EBIT – earnings before finance costs and tax (operating profit)

Interest cover – the ratio of EBITDA or EBIT to net interest charges

Table 2 – EBITDA Reconciliation

	2009	2008*
EBIT (€'m)	20,385	21,042
Adjustments:		
Depreciation	8,961	11,077
Depletion	18,439	12,765
Amortisation of Goodwill	117	312
Share of Associate losses	50	50
VR Costs	5,209	692
Impairment	3,100	18,900
EBITDA	56,261	54,838

** 2008 restated under the new facility definition of EBITDA*