

Report of the Directors



The Directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2009.

The Company

The Company was incorporated on 8 December 1988 and commenced trading on 1 January 1989 when it took over the forestry business formerly carried out by the Department of Agriculture, Fisheries and Food. The related assets were acquired and liabilities assumed as at 1 January 1989.

One ordinary share is held by the Minister for Agriculture, Fisheries and Food and the remainder of the issued share capital is held by the Minister for Finance.

Principal activities and review of the business

The principal activities of the Group are forestry and forestry related activities, engineered wood products and land development. The review of the business required by Section 13 (as amended) of the Companies (Amendment) Act, 1986 is included in the Chairman's Statement, Chief Executive Review, Division Reviews and Financial Review sections of the Annual Report.

Results and dividends

Details of the results of the Group are set out in the profit and loss account and the related notes. Group turnover fell by €42.6m (17%) to €206.9m in 2009 and the net profit for the year declined from €9.2m to €4.2m. The downturn in the construction sector and continuing weakness in the value of sterling are principally responsible for the decline.

The Directors do not propose payment of a final dividend (2008: €0.00412 per share).

Directors

The Directors of the Company were appointed by the Minister for Agriculture, Fisheries and Food. The Directors in office during the year ended 31 December 2009 were as follows:

Brendan McKenna (Chairman)	Alma Kelly
David Gunning (Chief Executive)	Philip Lynch
Breffni Byrne	Seamus Murray
Eugene Griffin	Yvonne Scannell
Grainne Hannon	Frank Toal

Grainne Hannon and Philip Lynch retired from the Board on 27 March 2009 and 30 April 2009 respectively. Seamus Murray was appointed to the Board on 1 August 2009.

The Directors and Secretary have no interests in the shares of the Company, its subsidiary, joint venture or associated undertakings.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable Irish law and Generally Accepted Accounting Practice in Ireland including the accounting standards issued by the Accounting Standards Board and published by The Institute of Chartered Accountants in Ireland.

Irish company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper books of account that disclose with reasonable accuracy at any time the financial position of the Company and Group and enable them to ensure that the financial statements are prepared in accordance with accounting standards generally accepted in Ireland and with Irish statute comprising the Companies Acts 1963 to 2009 and the European Communities (Companies: Group Accounts) Regulations, 1992. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the Republic of Ireland governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

The Directors are also required to include in the Annual Report a statement on the system of internal control in accordance with the requirements of the Code of Practice for the Governance of State Bodies.

Corporate governance

The Board of Coillte is committed to the highest standards of corporate governance and is accountable to its shareholders for those standards. The Code of Practice for the Governance of State Bodies, issued by the Department of Finance, sets out the principles of corporate governance that apply to the Company and the Directors support the principles and provisions of the code.

In December 2009, the Board established a committee to review the Group's corporate governance obligations having regard to the provisions of the Forestry Act 1988; the company's memorandum and articles of association, the Code of Practice for the Governance of State Bodies and other best practice frameworks including the Combined Code. It will also assess how these obligations are met by the Group's current corporate governance systems and practice and recommend improvements where necessary. The members of the Committee are Yvonne Scannell (Chairwoman), Eugene Griffin, Alma Kelly and Gerry Egan (Company Secretary).

Board of Directors

During the year the Board consisted of the Chief Executive, a non-executive Chairman and seven non-executive Directors. The Chairman and non-executive board members are independent of the Chief Executive and senior management. All the Directors are appointed to the Board by the Minister for Agriculture, Fisheries and Food for a period not to exceed 5 years and their terms of office are set out in writing. The level of remuneration for the Board of Directors is also determined by the Minister and remuneration of non-executive Directors is not linked to performance.

The Board meets formally on a monthly basis. It has a schedule of matters specifically reserved to it for decision and is satisfied that the direction and control of the Group is firmly in its hands. The Group's annual budget and rolling five year plan are reviewed and approved by the Board. The Board receives monthly management accounts promptly with detailed comparison of actual to budget. The presentation of management accounts is supported by detailed presentations by senior management to the Board on a regular basis. All significant contracts, major investments and capital expenditure are also subject to review by the Board. Each non-executive Director brings an independent judgement to bear on all matters dealt with by the Board including those relating to strategy, performance, resources and standards of conduct.

All members of the Board have access to the Company Secretary and the Company's professional advisors as required. This ensures that Board procedures are followed and that applicable rules and regulations are complied with. Each Director received appropriate briefing on being appointed to the Board.

The Board uses two main committees to assist in the effective discharge of its responsibilities:

Audit Committee

Members: **Breffni Byrne** (Chairman) and **Frank Toal**

The Audit Committee is composed of non-executive Directors, including a qualified accountant and operates under formal terms of reference. Frank Toal retired from the Committee on 26 July 2008 and was reappointed on 29 January 2009. Grainne Hannon retired from the Committee on 27 March 2009. The Committee may review any matters relating to the financial affairs of the Group, in particular, the annual financial statements, the financial controls, the internal audit function, reports of the external and internal auditors and proposed changes to accounting policies. The Chief Executive, Chief Financial Officer, the Chief Internal Auditor and other senior managers are normally invited to attend these meetings as appropriate. The Committee is responsible for the appointment and fees of the external auditors and meets with them to plan and subsequently review the results of the annual audit. The external auditors also meet privately with the Committee. The Chief Internal Auditor reports directly to the Committee and the Committee is responsible for approval of the internal audit plan. The Chief Internal Auditor also meets privately with the Committee.

A framework to formally identify risk and assess the effectiveness of internal controls has been established. Internal auditors monitor the Group's control systems by examining financial reports, by testing the accuracy of the reporting of transactions and by otherwise obtaining assurances that the systems are operating in accordance with the Group's objectives. Management's response to significant risks identified and their reporting procedures are also evaluated.



Remuneration Committee

Members: **Brendan McKenna** (Chairman), **Yvonne Scannell**, **Breffni Byrne**, **Denis Byrne**

The Committee operates under formal terms of reference and met once during the year. It assists the Board in implementing the performance related pay system applicable to the Chief Executive and selects the specific performance criteria applicable to this aspect of the Chief Executive's remuneration. It advises the Board on executive remuneration generally in the Company and provides guidance and advice to the Chief Executive with regard to implementation of Board policy in this area. Details of Director's fees are set out in note 3 to the financial statements. Coillte's policy in relation to remuneration of the Chief Executive is in accordance with "Arrangements for determining the remuneration of the Chief Executive of Commercial State Bodies under the aegis of the Department of Public Enterprise" issued in July 1999. An assistant secretary from the Department of Agriculture, Fisheries and Food attends the meetings of the remuneration committee.

Relations with Shareholders

The Chairman, Chief Executive and management maintain an ongoing dialogue with the Company's shareholders on trading performance, future plans and strategic issues. Certain specified matters require the approval of the Minister for Agriculture, Fisheries and Food and/or the Minister for Finance and ongoing communication with the relevant Minister is maintained through their respective departments.

Internal Control

The Board has overall responsibility for the Group's system of internal control. Those systems which are maintained by the Group can only provide reasonable and not absolute assurance against material misstatement or loss. The Board confirms that it has reviewed the effectiveness of the system of internal control.

Management is responsible for the identification and evaluation of significant risks applicable to their areas of business, together with the implementation of suitable internal controls. These risks are assessed on a continuous basis and may arise because of control breakdowns, disruption to IT systems, legal and regulatory issues, market conditions and natural catastrophes. Management also reports to the Board on major changes in the business and external environment which affects risk. Where areas of improvement in the system are identified the Board considers the recommendations of management and the Audit Committee.

The system of internal control is designed to ensure management carry on the business of the Group in an orderly manner, safeguard its assets and ensure, as far as possible, the accuracy and reliability of its records. The key elements of the system are:

- An organisation structure with clear operating and reporting procedures, authorisation limits, segregation of duties and delegated authorities.
- A comprehensive system of financial reporting.
- Annual budgets and long term plans for the business that identify key risks and opportunities.
- Monitoring performance against budgets and reporting on it to the Board on a monthly basis.
- A formal code of ethics applicable to the business and communicated to staff.
- An internal audit function that reviews the system of internal controls on a regular basis.
- An audit committee that reviews the effectiveness of the Group's system of internal financial control on an annual basis.

A risk register has been compiled that identifies the most significant risks facing the Group. In reviewing these risks managers were asked to pay particular attention to:

- The counter measures in place to mitigate the risk.
- The net residual risk having regard to the processes and controls in place.
- Actions required or being taken to further mitigate the risk.

The risks identified were ranked in terms of their impact and likelihood of occurrence and managers have been instructed to ensure these risks are considered in the development of business plans and the performance plans of individual managers. This is an ongoing process and the Group's risk profile and risk management process will continue to be reviewed on a periodic basis.

Books of account

The measures taken by the Directors to secure compliance with the Company's obligation to keep proper books of account are the use of appropriate systems and procedures and the employment of competent persons. The books of account are kept at the Group's head office at Dublin Road, Newtownmountkennedy, Co. Wicklow.

Health and safety

All business units across the Group have developed safety statements which are updated on an ongoing basis in accordance with the provisions of the Safety, Health and Welfare at Work Act 2005. Risk assessment programmes are in place which are reviewed and updated to ensure in so far as is reasonably practicable the safety, health and welfare of those affected by the Groups activities. Safety committees are in place and meet on a regular basis to ensure effective health and safety consultation with employees' representatives and to monitor and improve safety standards and performance across the Group. Safety and skills training programmes are implemented to ensure competence and compliance with legislation, industry best practice and relevant safety guidelines in all business units across the Group.

Research and development

During the year, the Group continued its research and development programme in relation to its forestry activities and in expanding the application of its panel board products.

Prompt Payments

The Directors acknowledge their responsibility for ensuring compliance with the provisions of the Prompt Payment of Accounts Act, 1997 ('the Act').

Procedures have been implemented to identify the dates upon which invoices fall due for payment and for payments to be made on such dates.

Accordingly, the Directors are satisfied that the Company has complied with the requirements of the Act.

Subsidiary, associated and joint venture undertakings

A list of subsidiary, joint venture and associated undertakings as at 31 December 2009 is set out in note 29.

Auditors

The auditors PricewaterhouseCoopers will continue in office in accordance with Section 160(2) of the Companies Act 1963.

Brendan McKenna

Chairman

David Gunning

Chief Executive