

# Accounting Policies

The significant accounting policies adopted by the Group are as follows:

## Authority

Coillte Teoranta (The Irish Forestry Board) was established under the Forestry Act, 1988.

## Basis of preparation

The financial statements are prepared under the historical cost convention as modified by the revaluation of certain financial assets and have been prepared in accordance with accounting standards generally accepted in Ireland and Irish statute comprising the Companies Acts, 1963 to 2009, and the European Communities (Companies: Group Accounts) Regulations, 1992. Accounting standards generally accepted in Ireland in preparing financial statements giving a true and fair view are those published by the Institute of Chartered Accountants in Ireland and issued by the Accounting Standards Board.

The Directors have concluded having made due enquiries that it is appropriate to prepare the Group and Company financial statements on a going concern basis.

## Critical accounting estimates and judgements

Preparation of the consolidated financial statements requires management to make certain assumptions that affect the reported amounts of assets and liabilities. These include but are not limited to the following areas:

### A. Impairment of assets and goodwill

Intangible assets including goodwill, forests and land, buildings, machinery and equipment are reviewed for impairment whenever events or changes in circumstances indicate that carrying values may not be recoverable. The recoverable amount of income generating units is determined based on value in use calculations. These calculations require the use of estimates. The calculations are inherently judgmental and susceptible to change from period to period because they require the Group to make assumptions about future supply and demand, future sales prices, the achievement of cost savings, applicable exchange rates and an appropriate discount rate.

If the Group fails to meet its forecasted sales levels or fails to achieve anticipated cost reductions, or if weak economic conditions prevail in its primary markets, the value in use of an income generating unit is likely to be adversely affected.

### B. Pensions

The actuarial valuation of pensions is based on assumptions regarding inflation, discount rates, the expected return on plan assets, salary increases, pension payment increases and mortality rates. The assumptions may differ from the actual data as a result of changes in economic and market conditions.

## Consolidation and equity accounting

The Group financial statements consolidate the financial statements of the holding Company and its subsidiary undertakings and the Group's share of the results and net assets including the premium on acquisition of associated undertakings. Associated undertakings are accounted for under the equity method of accounting.

## Turnover

Turnover, excluding value added tax, represents the income received and receivable from third parties, in the ordinary course of business, for goods and services provided. Any discounts given to the Group's customers are deducted from turnover.

Revenue from the sale of standing timber is recognised when the timber is released to the customer for harvest. Revenue from the sale of harvested timber is recognised when delivered to the mill gate. Revenue from the sale of panel products is recognised when the goods are delivered. Revenue from operating leases is recognised over the term of the lease. Revenue from the sale of fixed assets is recognised when an unconditional contract has been signed. Revenue is recognised on the sale of units in the Irish Forestry Unit Trust or by marking units that are readily realisable to market.

Operating lease rental income is charged to the profit and loss account on a straight line basis over the life of the lease agreement. All other revenue is recognised when the goods or services are delivered.

### **Exceptional items**

The Group has adopted a profit and loss account format which highlights significant items within the Group's results for the year. Exceptional items are those items of income and expense that the Group considers are material and/or of such a nature that their separate disclosure is relevant to a better understanding of the Group's financial performance. Judgement is used by the Group in assessing the particular items, which by virtue of their materiality and/or nature, are disclosed in the Group profit and loss account and related notes as exceptional items.

### **Tangible assets**

Forests and land are stated at cost less depletion. Critical spare parts (components) are stated at cost and are depreciated over the shorter of the economic life of the component or the tangible asset that the component is incorporated into, once the component is utilised. Other tangible assets are stated at cost less accumulated depreciation. Depreciation is calculated in order to write off the cost of tangible assets other than forests, land and critical spare parts over their estimated useful lives by equal annual instalments.

### **Forest capitalisation policy**

The Group capitalises the costs associated with establishing and maintaining forest plantations. Direct costs are capitalised on the basis of the specific operations carried out. Indirect costs are capitalised by operation where this information is available or by reference to the proportion of the direct costs capitalised for which the individual management team has responsibility.

### **Joint arrangements**

The Group has certain contractual arrangements with other participants to engage in joint activities that do not create an entity carrying on a trade or business of its own. The Group includes its share of assets, liabilities and cash flows in such joint arrangements, measured in accordance with the terms of each arrangement, which is usually pro-rata to the Group's risk interest in the joint arrangement.

### **Depletion**

Depletion represents the costs of forests clear felled and is calculated as the proportion that the area harvested bears to the total area of similar forests. The amount of depletion charged to the profit and loss account is based on the original cost of the forest asset at vesting day plus an estimate of maintenance costs capitalised since that date.

### **Leased assets**

The capital cost of assets acquired under finance leases is included under tangible assets and written off over the shorter of the lease term or the estimated useful life of the asset. The outstanding capital element of the lease obligations is included in loans and other debt, while the interest is charged to the profit and loss account over the primary lease period. Assets acquired under operating leases are not capitalised. The lease charges are expensed over the period of the lease.

### **Financial assets**

Interests in subsidiary, associated and joint venture undertakings are stated in the Holding Company's balance sheet at cost less provisions for impairment. The Group's share of profits less losses of associated and joint venture undertakings is included in the Group profit and loss account and added to the carrying value of investments in the Group balance sheet. Other investments are stated at cost except for investments that are readily marketable, which are stated at market value.

### **Intangible assets**

Goodwill arising on the acquisition of subsidiary undertakings by the Group is capitalised and amortised to the Group profit and loss account over its estimated useful life.

### **Impairment of assets and goodwill**

Intangible assets, forests and land, buildings, machinery and equipment are reviewed for impairment whenever events or changes in circumstances indicate that carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or income generating units are written down to their recoverable amount.

The recoverable amount of intangible assets, forestry and land, buildings, machinery and equipment is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined by the income generating unit to which the asset belongs.

Goodwill is reviewed for impairment if events or changes in circumstances indicate that the carrying value may be impaired. As at acquisition date any goodwill acquired is allocated to each of the income generating units expected to benefit from the business combination's synergies. Impairment is determined by assessing the recoverable amount of the income generating unit to which the goodwill relates.

When the recoverable amount of the income generating unit is less than the carrying amount, including goodwill, an impairment loss is recognised.

## **Stocks**

Stocks are stated at the lower of cost and net realisable value. Cost is based on normal levels of cost and comprises supplier's invoice price with the addition of charges such as freight or duty where appropriate. Net realisable value comprises the actual or estimated selling price (net of trade but before settlement discounts), less all costs to be incurred in marketing, selling and distribution. Non-critical spare parts are included in stock at cost and a provision is made for obsolete, slow-moving or defective items where appropriate.

## **Financial instruments**

Forward foreign exchange contracts are used to hedge foreign currency exposures arising from trading activities. At the balance sheet date, debtor or creditor balances that are hedged by forward foreign currency contracts are translated into Euro at the contract rate.

Interest rate swap agreements and similar contracts are used to manage interest rate exposures. Amounts payable or receivable in respect of these financial instruments are amortised to finance charge over the remaining life of the financial instrument.

## **Foreign currencies**

Transactions denominated in foreign currencies are translated into Euro at the rate of exchange ruling at the transaction date or, if hedged, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the balance sheet date or, if hedged forward, at the rate of exchange under the related forward currency contract. The resulting profit or loss is included in the profit and loss account.

## **Pensions**

(a) The pension entitlements of the majority of employees in Coillte Teoranta and Medite Europe Limited, are funded through separately administered defined benefit superannuation schemes. A full actuarial valuation is undertaken every three years and is updated to reflect current conditions in the intervening periods. The schemes' assets are valued at market value and the schemes' liabilities are measured on an actuarial basis, using the projected unit credit method. If the schemes are in surplus, the surplus is shown net of deferred tax as an asset on the balance sheet. If the schemes are in deficit, the deficit is shown as a liability on the balance sheet net of deferred tax. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses. The current service and past service cost of the defined benefit scheme is charged to operating profit and the expected return on assets net of the change in the present value of the scheme's liabilities arising from the passage of time is credited to other finance income/charges.

(b) Pension entitlements of employees of SmartPly Europe Limited and Coillte Panel Products (UK) Limited are funded through a separately administered defined contribution superannuation scheme. Pension entitlements of employees in Coillte Teoranta and Medite Europe Limited who are not members of the defined benefit superannuation scheme are funded through separately administered defined contribution schemes and are charged to the profit and loss account as they fall due.

(c) The payment of pre-Vesting Day pension entitlements of employees retiring after Vesting Day, which is the liability of the Minister for Public Expenditure and Reform, has been delegated to the Company by the Minister for Agriculture, Food and the Marine under section 44 of the Forestry Act, 1988. Payments made by the Company in accordance with such delegation are reimbursed by the Minister for Public Expenditure and Reform.

## Grants

Revenue based grants are credited to the profit and loss account on the same basis as the related expenditure is incurred.

Capital grants received and receivable under EU-assisted schemes are recognised when received or when their receipt can be foreseen with virtual certainty.

Grants, in respect of afforestation costs which have been capitalised, are treated as grant reserve and will be amortised to the profit and loss account when the related forests are clearfelled. Grants, in respect of afforestation costs expensed by the Group, are credited to the profit and loss account on the same basis as the related expenditure is incurred.

Other non-repayable grants are amortised to the profit and loss account at the same time as the related assets are depreciated.

## Taxation

Corporation tax is provided, where applicable, at current rates.

Deferred tax liabilities are recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future, have occurred at the balance sheet date.

Deferred tax assets arising from timing differences are recognised only to the extent that the Directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Timing differences are differences between profits as computed for tax purposes and profits as stated in the financial statements, which arise because certain items of income and expenditure in the financial statements are dealt with in different periods for taxation purposes.

Deferred tax is calculated at the rates at which it is estimated that tax will arise based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

## Research expenditure

All expenditure on research is written off to the profit and loss account in the year in which it is incurred.

## Legal claims and provisions

The Group employs an in-house team to manage all claims against the Group. It has also established a Liability Provisions Committee that meets four times a year to assess the provisions for legal claims proposed by the in-house legal team. The committee is made up of senior management and a representative of the Group's insurance brokers.

Provisions are included in the financial statements for legal and any other matters on the basis of the amounts that management consider will become payable, after evaluating the recommendations of claim advisors, the specific knowledge of the in-house legal team, insurance thresholds and any other experts.