

Chief Executive's Review

2011 saw a continuation of the successful transformation of Coillte into a dynamic, export-led business focused on the innovative and sustainable management of natural resources.

This continuing transformation has been the key focus of the management team over the past five years. During this time we have successfully executed a strategy focused on adding value to our forest and land assets.

Partnering with Customers

The biggest business challenge faced by Coillte and our Irish sawmill customers in particular in recent years has been the collapse of the Irish construction sector, which historically has been the mainstay of our business. This dramatic fall in the number of houses and apartments built annually from 90,000 in 2006 to under 10,000 today has resulted in a huge reduction in demand for wood products in Ireland. This has prompted us to re-focus our business on export markets and to create new, innovative, value added products and services across the business.

In our forestry business our partnership with our sawmill customers has resulted in a shift from a position five years ago where less than 10% of sawmill output was exported, to a position today where over 60% is exported primarily to the UK but also to other European destinations and as far afield as Turkey.

Our panel products business, which manufactures SmartPly oriented strand board (OSB) and Medite medium density fibreboard (MDF), has always been export led and some 90% of our sales in 2011 were in export markets. Our products were used in everything from garden sheds to iconic building projects in Dubai, Qatar and Singapore.

In the renewable energy sphere we worked with over 50 private and State enterprises in the development of windfarm projects where we were able to provide vital land to site wind turbines, enable access for construction of projects and provide wayleaves to facilitate export of electricity from these sites. We have also made significant progress in identifying opportunities in the utilisation of biomass for energy, primarily in the industrial heat sector, displacing traditional fossil fuel with renewable energy sources.

Coillte was a key partner in the roll out of the National Broadband Scheme designed to provide improved broadband access in rural areas. We provided 107 out of the 400 sites. Coillte's network of mast sites is key to the enhancement of mobile phone and broadband coverage in rural areas and we are working closely with all of the telecoms service providers to enable them to enhance their services to their customers.

A Progressive Business

Coillte occupies a unique position as owner of 7% of Ireland's national territory. In addition to providing economic and commercial benefits to our shareholders in the form of profits, dividends, employment and export earnings we also provide a wide range of public goods and services.

In 2011 Coillte achieved a significant milestone in forest management. Our forests were first certified by the Forest Stewardship Council® (FSC®) as 'managed responsibly' in 2001 so 2011 completed a decade of independent assurance that our forests are managed responsibly in accordance with stringent environmental, social and economic criteria. We are playing a leadership role in policy formulation at national level. Our forest and land assets are playing a central role in the pursuit of national policy objectives ranging from renewable energy to tourism to job creation and we are working with relevant Government Departments and agencies to help achieve these objectives.

A Vibrant and Competitive Organisation

We have accelerated improvements in the performance of our legacy forestry business and targeted new business opportunities while transforming how we run our business. Innovation has been central to this transformation. We have set and exceeded targets for revenues from new products and services and identified changes to our business

models that are driving margin improvement across our businesses. We recognise that enhancing our innovation capability is the key to the growth of our business and we are implementing a strategy to embed this capability.

We have also succeeded in other aspects of performance improvement including headcount and other cost reductions and implementing a robust performance management system while improving employee engagement, investing in learning and development and improving health and safety performance.

A Profitable Commercial Business

Ultimately success for a business is determined by the bottom line. Unlike Coillte, which operates commercially as a standalone State enterprise, most State forest organisations across Europe receive a significant subvention from the taxpayer to provide public goods and services.

In 2011 we achieved a profit of €19.9m after exceptional items and we paid a dividend of €10m. After two difficult years in 2008-9 when the Irish construction sector collapsed we succeeded in stabilising our business during 2010 and 2011. We are confident that we can achieve sustainable profits based on a lower cost base and new revenue streams. Increasing profits and generating cash for reinvestment and to pay dividends remain a constant challenge, given the exposure of our various businesses and our customers to challenging trading conditions.

Outlook

The immediate outlook for Coillte remains very challenging as consumption of wood products is closely correlated to GDP. The prospect for low growth in 2012-13 means there is unlikely to be much increased demand for the foreseeable future at least.

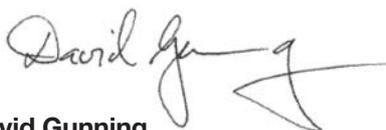
In the medium term we believe the prospects for Coillte are good for a number of reasons. First, we expect that European demand for wood will increase as part of a broader trend towards new, more energy efficient building methods with a focus on sustainable materials. Timber components, including sawnwood and wood panels will be at the heart of these new building methods and Ireland is well placed to supply these elements to the UK market in particular.

Second, industry commentators are forecasting a significant increase in the demand for wood for use in renewable electricity and renewable heat applications to replace fossil fuel and nuclear plants.

Third, Coillte is well placed to avail of opportunities in other sectors in Ireland. We have already demonstrated a capability to exploit market opportunities in markets such as wind energy and telecoms infrastructure and we are confident that we can increase the value of our assets and improve profitability by utilising our land for these and other purposes.

Given these business opportunities along with the increasing demand for other public goods and services we consider that Coillte has never been more relevant and we are very optimistic about the future. In 2012 we plan to develop a new strategy for the Group covering the period 2013-2017 in which we will lay out how we believe Coillte can achieve the next stage on its journey of transformation as an innovative and sustainable manager of natural resources.

I would also like to take this opportunity to thank Brendan McKenna, whose term as Chairman will end in October 2012, for his significant contribution to the development of Coillte over the past 10 years. On behalf of everyone in Coillte I would like to recognise his enthusiasm, encouragement and guidance, which has been critical to the transformation of Coillte over the past decade.



David Gunning

Chief Executive

Coillte celebrates 10 years of FSC® certified forest management



David Gunning and Kevin McCloud at FSC10 event Aviva Stadium, Dublin

2011 marked a major milestone for Coillte – 10 years of Forest Stewardship Council® (FSC®) Certification. We hosted an event at Dublin's Aviva Stadium with Kevin McCloud writer, designer and television presenter best known for Channel 4's Grand Designs, to celebrate this achievement.

FSC® certification is an independent endorsement of our management of our forests and has been a major factor in allowing Coillte and our customers to increase exports of timber and timber panel products. The event also recognised the role of all of Coillte's customers, contractors and stakeholders in maintaining this certification and was attended by approximately 200 people.

FSC® Certification gives our customers and stakeholders the assurance that we meet strict environmental, social and economic criteria in managing our forests.

Forest certification extends to all areas of forest management – wood production, nature conservation, stakeholder consultation, recreation management, environmental protection and community relations.

Our timber panel products manufactured in Clonmel and Waterford Port - Medite MDF and SmartPly OSB - are also FSC® certified, enabling us to increase our exports to markets in the UK and Europe.

Securing and maintaining an internationally recognised certification such as FSC® for our forestry management over the last 10 years is a clear demonstration of our commitment to the innovative and sustainable management of natural resources.