Financial review

Results

Group turnover increased by €8.7m (3%) during 2011 to €259.1m. Demand for logs remained strong as Irish sawmills consolidated their position in the UK market when a number of factors, including exchange rates, restricted the supply of sawn timber into the UK from Scandinavian countries. Demand for panel products and, in particular our MDF products, was very strong in Europe as the Group continued to diversify as a hedge against end market weakness in the UK and Irish markets. Log prices remained relatively stable in 2011 and despite weakness in UK and Irish markets, both MDF and OSB prices increased. Export sales account for 57% of turnover and 67% of this figure was sold into the UK market.

Operating profit before exceptional items fell from €46.1m in 2010 to €41.5m in 2011. The increased contribution from sales was offset by an increase in input costs, mainly electricity, resin and wood residue costs. Profit after tax fell from €32.1m in 2010 to €19.9m in 2011 however, the results include an exceptional charge of €9.1m compared with an equivalent charge of €1.4m in the previous year. Further details are provided in Note 5 to the accounts.

EBITDA for the group decreased from €65.5m to €60.5m, a fall of 8%. A reconciliation of EBITDA is included in Table 2 below.

Interest (including related bank costs) and financing charges for the year were €11.6 million, a decrease of €0.2 million on 2010. Interest charges on our overdrafts and loan facilities were €8.6m (2010:€9.3m) while the finance charge relating to the FRS17 finance costs associated with the pension fund deficit was €3.0m (2010:€2.5m). The underlying EBIT interest cover for the year was 3.8 times.

The Group tax charge for 2011 was €0.9m (2010:€1.3m).

Outlook

The economic environment continues to be extremely challenging. Following strong growth in sales in the first half of 2011, there was a perceptible fall in activity in the second half of the year with little prospect of recovery in 2012. Despite this, demand for logs is likely to remain stable as Irish mills take advantage of reduced supply from Scandinavian mills into the UK market. By contrast, weak demand in EU markets for panel products will increase the likelihood of supply from central and eastern Europe finding its way into the UK market. The Sterling exchange rate remains a significant issue for the Group and any adverse movement, particularly relative to the Swedish Krona, could have a significant impact on the Group's overall results and cash flows. The Group also continues to make significant progress in reducing operating costs and further improvement is expected to continue during 2012, mainly as a result of a reduction in staff numbers. Subsequent to year end, the Group renegotiated its loan facilities and has adequate resources in place to continue its capital investment programme over the next 5 years.

Capital Expenditure

The Group continued its capital expenditure programme in 2011 with €42.5m (2010:€45.5m) invested. A significant proportion of the expenditure was incurred in enhancing and maintaining the forest estate (€34.5m). Expenditure in 2010 included a significant investment in Coillte owned mast sites which was not repeated in 2011. However, an additional €2.7m was invested in the Group's wind development programme.

Net Debt and Gearing

At year end, the Group's net debt increased by €3.9m to €154.5m with headroom on existing undrawn facilities of €77.8m. Gross debt increased by €10m and cash balances increased by €6.1m. These figures include the payment of a €10m dividend to the shareholder. Gearing was 12.9% at year end and 59% of the debt portfolio was at fixed interest rates at 31 December. The ratio of net debt to EBITDA was 2.55 times and interest cover was 7.1.

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 schemes' assets was €123.9m, which was €98.3m less than the scheme's liabilities.

A funding proposal (accepted by the Pensions Board) is in place for Coillte Teoranta which has the objective of bringing the Scheme back to full solvency on the Minimum Funding Standard basis by 31 December 2020. As part of this agreed funding proposal Coillte is committed to making significant additional cash contributions to the Scheme including an up front contribution of €3m, and a committed €1.5m annual contribution over twelve years (indexed at 6.5% p.a.) and has agreed to transfer €30m non-cash assets to the Scheme of which €7m has already been transferred.

The Group continues to adopt the full requirements of Financial Reporting Standard 17 (FRS 17) retirement benefits' disclosure in its financial statements. The deficit on the fund at 31 December 2011, based on FRS 17 and calculated using the projected unit method, is €135.0m (2010: €89.2million) and is fully reflected in the Group accounts. The FRS 17 deficit has increased substantially since the last actuarial valuation and indeed on prior year as a result of a combination of negative returns during the year from the pension fund assets coupled with a decrease in the discount rate which has added approximately €24m to the Group's deficit. This increase in deficit occurred despite a number of measures taken by the Group since the last actuarial valuation, including additional payments of €15m transferred to the scheme since 2008 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% (2010: 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 its 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 through hedging 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 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 certain larger customers of the Group.

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

	2011	2010
Revenue (€'m)	259.1	250.4
EBITDA (€'m)	60.5	65.5
EBIT (€'m)	32.3	44.6
Interest cover, excluding associates		
- EBITDA basis (times)	7.1	7.6
- EBIT basis (times)	3.8	5.2
Net Debt (€'m)	154.5	150.6
Net debt as a percentage of total equity (%)	12.9	12.3
Net debt as a percentage of fixed assets (%)	10.5	10.4
Net debt/EBITDA	2.55	2.30
Effective tax rate (%)	4.1	3.9

EBITDA – earnings before finance costs, tax, depreciation, depletion and intangible asset amortisation, impairment and exceptional costs

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

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

Table 2 – EBITDA Reconciliation

	2011	2010
EBIT	32,304	44,623
Adjustments		
Depreciation	10,255	10,259
Depletion	8,681	9,101
Amortisation of goodwill	118	118
Share of associate losses	50	50
Exceptional costs	9,131	1,392
EBITDA	60,539	65,543