

Dear Sirs,

We refer to Exposure Draft E65 issued by the International Accounting Standards Committee (IASC) and welcome the opportunity to comment on its contents.

Coillte Teoranta or The Irish Forestry Board Limited was established in 1989 and took over the forestry business formerly carried out by the Department of Marine and Natural Resources. The company is a limited liability semi-state company and prepares its financial statements in accordance with the Irish Companies Acts, 1963 to 1990, and the European Communities (Companies: Group Accounts) Regulations 1992. Its principal object is 'to carry on the business of forestry and related activities on a commercial basis and in accordance with efficient silvicultural practices'.

The company manages an estate of 435,098 hectares, of which 351,844 hectares are productive. The financial statements are prepared under the historical cost convention however, prior to the introduction of Financial Reporting Standard No. 3 (FRS 3), the carrying value of the asset was adjusted for forest growth and credited to a capital reserve in the Company's balance sheet. The accounting policy on the treatment of forest growth was revised because the application of FRS 3 to this valuation approach would exclude from the Company's profit and loss account all profits earned through the growth of the forest over its average life, with the exception of that element of the growth increase earned in the year the forests are harvested. The forest asset is the core trading asset and, in the opinion of the directors, the exclusion of profits earned through growth from the profit and loss account would not give a true and fair view of trading performance.

This Exposure Draft recognises the importance of biological transformation and that it should be reported in the period in which it occurs. The IASC are to be commended for addressing these issues and while some refinement may be required, the proposed treatment is, in our opinion, a significant improvement on the historical cost approach. We would be obliged if you could keep us informed of developments and we would be particularly interested in the results of your field testing.

Yours Sincerely

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Question 1 – Scope: Further Processing after Harvest (paragraphs 4-7 and 36)

We believe that the final Standard should not address further processing and that the guidance provided in paragraphs 4-7 is adequate.

Question 2 – Biological Assets: Measure at Fair Value (paragraphs 21 and 36)

We believe that all biological assets should be valued at each balance sheet date at fair value and that agricultural produce should be valued at fair value at the point of harvest.

Question 3 – Reliability of Fair Value Measurement (paragraphs 21-31)

We believe that a reliable estimate of fair value can be determined for biological assets and for agricultural produce at the point of harvest however, in the case of long term assets, such as forest plantations, it may not be possible to determine the fair value of the biological asset to a high degree of precision. Therefore it may be appropriate to use a number of different estimates of fair value, reflecting the different stages of development within the plantation.

The length of rotation will vary according to such factors as species, quality of land and geographic location however, assuming a rotation of 40 years, plantations could be divided into three distinct categories:

1. Establishment: (Planting to c.5 years):
During this period the impact of the biological transformation on price would not be significantly and therefore it is unlikely that the fair value will differ materially from cost.
2. Immature: (6 to 30 years):
A variety of bases have been put forward in the Exposure Draft. In view of the long-term nature of assets included in this category the net present value of expected cashflows is considered a suitable base. The most recent market price for this class of asset or market prices for similar or related assets may, in theory, be a more accurate measure of fair value, however sales of immature plantations may not be representative due to immateriality or the existence of a special purpose purchaser.

Paragraph 64 (c) (ii) requires disclosure of the methodology and assumptions used including the discount rate and the number of years over which future cash flows have been estimated. The Exposure Draft makes little reference to the discount rate to be applied to the future cashflows, merely stating that it should be commensurate with the risks associated with that class of asset. The choice of discount rate is critical when valuing long term assets however, the complexity of the calculations may make the financial statements difficult to understand without an explanation for rationale behind the choice of a particular rate.

3. Mature: (31 years plus):
At this point the majority of expected biological growth has taken place and,

although not fully mature, a market for the crop exists. Net realisable value is considered to be an appropriate measure of fair value.

Timber is a commodity product and the price of sawlog can be extremely volatile. If market value is considered to be the most reliable measure of fair value then the valuation of the asset and the net profit or loss for the period, could fluctuate significantly. These fluctuations would be reported despite the fact that the prevailing prices may only apply for a short period of time. Perhaps it would be more appropriate to apply a price curve, which would reflect real long-term price movements as opposed to applying the price prevailing on a particular day to a category of asset covering a ten-year time frame.

While the issues are complex, this approach is favourable to the historical cost approach, and gives a more realistic assessment of an enterprises' performance. The choice of discount rates is critical and perhaps the Board would consider issuing further guidance on the benchmarks to be used in arriving at a rate. This would facilitate comparability, particularly for users not familiar with the unique nature of the industry.

Question 4 – Fair Value Change in Net Profit or Loss (paragraph 22)

In the case of a forest asset, changes in fair value should be reported in net profit or loss only to the extent of the physical change component; the price change component should be reported directly in equity until the asset is sold or consumed. This would reflect the unique nature and characteristics of the forestry industry and would ensure that biological changes to the asset (growth) were recognised and reported in the income statement. This alternative was chosen because it best reflects the long-term nature of the forestry business. Applying short-term cyclical price movements to long-term assets is not considered to be a fair reflection of performance and would distort the profit and loss account, particularly during periods of volatility. Reporting on monthly performance during such periods would make interpretation difficult, the greater emphasis being placed on the impact of a price change on the value of assets which may not be harvested for several years instead of its impact on the current years annual cut.

The Draft Statement of Principles issued by the IASC in 1997 favoured recognition of the physical change component in the profit and loss account with the price change component credited to equity. The Exposure Draft does not adequately explain the reason for the change in proposed policy.

Question 5 – Definition of Fair Value (paragraph 24)

In most cases, price in an active market in the asset's intended location of sale or use is the best measure of fair value however, there are exceptions to this rule. The valuation of forest assets is more complex due to the long-term nature of the asset and, as outlined earlier, may require a number of valuation approaches. Timber is commodity product and subject volatility. A short-term price movement may have an impact on the current years cut however, may have no relevance to a crop several years away from harvest. In applying price in an active market to the valuation of a

substantial proportion of the estate we risk introducing unnecessary volatility into the financial statements which does not reflect the entities performance in the current year or potential performance in future years. In these circumstances, consideration should be given to using some form of long-term price curve in the valuation, which would reflect the trend in real prices and negate the effect of short-term price fluctuations.

Question 6 – Agricultural Land (paragraph 38)

We believe that agricultural land should be included within the proposed guidance and that agricultural land that is part of a combined group that includes the land and related bearer biological assets should be measured at fair value.

Bare land should be valued at either cost or valuation.

Question 7 – Government Grants (paragraph 41-44)

If a government grant is received in respect of a biological asset the grant should be recognised as income immediately if it is unconditional.

Question 8 – Components of Biological Assets (paragraph 46-47)

The Exposure Draft proposes that an enterprise should describe the nature and stage of production of each group of biological assets. Disclosure could take the form of a narrative description in the notes or alternatively, an enterprise may choose to disclose separate quantified measurements as outlined in paragraph 47 of the Exposure Draft. The proposals set out in the Exposure Draft are an appropriate way of accomplishing this objective.

Question 9 – Components of Change in Fair Value (paragraph 52-58)

If the production cycle is longer than one year, an enterprise should be required to disclose separately the components of the change in fair value of its biological assets due to physical changes and price changes.

Question 10 – Guidance on Components of Change in Fair Value (paragraph 56-58)

We believe that the guidance contained in paragraphs 56-58 is adequate to enable enterprises to disclose the components of the change in the fair value of its biological assets.

Question 11 – Analysis of Expenses (paragraph 59-60)

The analysis of expenses using a classification based on the nature of expenses (e.g., depreciation, harvesting costs, wages and salaries) is more meaningful than classification by function (e.g., cost of sales, selling expenses, administrative expenses) however, we believe the Exposure Draft should encourage but not require classification by nature of expense.

Question 12 – Disclosures in General (paragraph 44-67)

The disclosure requirements contained in paragraphs 44-67 are adequate.

Question 13 – Present Value Sensitivity Disclosure (paragraph 64C)

Where net present value had been used to determine the fair value of biological assets or agricultural produce, it has been suggested that, as well as disclosing the discount rate used, the Standard should require disclosure of an indication of the sensitivity of the present value measurement to changes in assumptions. We believe such disclosure should be encouraged but not required.

Question 14 – Transition: Follow IAS 8 (paragraph 69)

We believe that, during the transition period, both the benchmark and the allowed alternative treatments under IAS 8 should be permitted when an enterprise adopts this Standard.

Question 15 – Matters not covered by a specific question

We note that the Board intends conducting field tests of the proposals in the Exposure Draft. It would be useful if the results of the field-testing were released before the final Statement is issued.