

10 Independent auditors' report to the Unit Holders of the Irish Forestry Unit Trust

We have audited the Trust's financial statements for the year ended 31 December 2010 on pages 12 to 16 which comprise the Statement of Assets and Liabilities, the Income Statement, the Statement of Gains, the Statement of Changes in Net Assets and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of management and the auditors

The Committee of Management's responsibilities for preparing the Annual Report and the financial statements in accordance with relevant legal and regulatory requirements and the accounting standards issued by the Accounting Standards Board and published by the Institute of Chartered Accountants in Ireland (Generally Accepted Accounting Practice in Ireland) are set out in the Statement of Responsibilities of the Committee of Management on page 6.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Trust's unit holders as a body and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with Generally Accepted Accounting Practice in Ireland, and are properly prepared in accordance with the Trust Deed. We state whether we have obtained all the information and explanations we consider necessary for the purposes of our audit, and whether the financial statements are in agreement with the books of account. We also report to you our opinion as to whether proper books of account have been kept by the Committee of Management.

We read the other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Committee of Management in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Trust's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements

- give a true and fair view in accordance with Generally Accepted Accounting Practice in Ireland, of the state of the Trust's affairs at 31 December 2010 and of its result for the year then ended; and
- have been properly prepared in accordance with the provisions of the Trust Deed.

We have obtained all the information and explanations we consider necessary for the purposes of our audit. In our opinion proper books of account have been kept by the Committee of Management of the Trust. The Trust's financial statements are in agreement with the books of account.

PricewaterhouseCoopers

Chartered Accountants and Registered Auditors

Dublin

19 May 2011

11 Accounting Policies

Historical cost convention

The financial statements are prepared under the historical cost convention, with the exception that established forests are stated at valuation (see below), and in accordance with accounting standards generally accepted in Ireland. 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.

Forest assets and land

Initial planting stage

Forest and land are stated at historic cost while in the initial planting stage (i.e. prior to establishment).

Established forest

Forests and land which reach the established stage are stated at valuation. Valuations are calculated based on anticipated future revenues and costs associated with the management and protection of the Trust's forest properties.

Forests and land are re-valued annually on the basis of crop inspection/assessment over an appropriate period. Differences between the previous carrying value of forests and land and current valuation are taken directly to the forest value increase reserve.

Forests are deemed to be established when it is determined that the forest crop has adequate stocking and will only require normal maintenance to reach maturity.

Thinning

Thinning profit and losses are determined by matching thinning revenues with the related harvesting and sales costs.

Thinning profits are recognised in the income account while thinning losses are capitalised to the extent that they do not exceed the lower of the estimated increase in the ultimate clearfell crop caused by the thinning or the revaluation surplus previously arising on the forest area thinned.

Realisation charge

The realisation charge on timber and assets sold represents the value of forests clear-felled during the year. It is represented by the original value of the related forest assets to the fund and any subsequent surplus or deficit on revaluation.

Other tangible assets

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 and land over their estimated useful lives by equal annual instalments.

Grants

Revenue based grants are credited to the income statement on the same basis as the related expenditure is incurred.

Non-repayable capital grants received and receivable are recognised when received or when their receipt can be foreseen with virtual certainty. These grants are offset against the historic cost of the related asset.

Foreign currency

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as of the date of transaction. Forest valuations and monetary assets and liabilities denominated in foreign currencies at the year-end are reported at the rates of exchange prevailing at the year-end. Any gain or loss arising from a change in exchange rate subsequent to the date of the transaction is included as an exchange gain or loss in the income statement or statement in changes in net assets as applicable.

12 Statement of Assets & Liabilities

As at 31 December 2010

	Notes	2010 €	2009 €
Assets			
Forest Assets	2	155,353,409	168,286,830
Debtors	5	2,219,220	1,987,846
Cash		17,320,159	4,180,123
Total Assets		174,892,788	174,454,799
Liabilities			
Creditors	6	2,392,136	5,036,635
Total liabilities (excluding net assets attributable to unit holders)		2,392,136	5,036,635
Unit holders net subscriptions	3	86,480,321	82,136,890
Forest value increase reserve	3	60,613,369	69,591,941
Income reserve	3	25,406,962	17,689,333
Net assets attributable to unit holders		172,500,652	169,418,164
Total due to unit holders and creditors		174,892,788	174,454,799
Unit price			
Net assets attributable to unit holders		172,500,652	169,418,164
Total number of units in issue	4	57,114,854	55,687,404
Offer Price (cent)		305.1	307.3
Bid Price (cent)		302.0	304.2

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Income Statement

For the year ended 31 December 2010

	Notes	2010 €	2009 €
Income			
Net timber revenue		13,465,480	684,727
Other income	7	254,080	76,428
Total Income		13,719,560	761,155
Realisation charge on timber and assets sold		(11,954,279)	(122,059)
Income net of realisation charge		1,765,281	639,096
Expenses			
	1	(790,087)	(760,929)
Surplus/(deficit) of income over expenses		975,194	(121,833)

Statement of Gains

For the year ended 31 December 2010

	Notes	2010 €	2009 €
Surplus/(deficit) of income over expenses		975,194	(121,833)
(Reduction) on revaluation of forest assets	2	(2,236,137)	(17,328,793)
Total realised and unrealised (losses) for the year		(1,260,943)	(17,450,626)
Balance at beginning of year		87,281,274	104,731,900
Balance at end of year		86,020,331	87,281,274
Represented by:			
Income reserve		25,406,962	17,689,333
Forest value increase reserve		60,613,369	69,591,941
		86,020,331	87,281,274

James R. Kehoe
Chairman

Michael Carey
Member of the Committee of Management

14 Statement of Changes in Net Assets

For year ended 31 December 2010

	Notes	2010 €	2009 €
Net capital			
Surplus/(deficit) of income over expenses		975,194	(121,833)
(Reduction) on revaluation of forest assets	2	(2,236,137)	(17,328,793)
Net (decrease)		(1,260,943)	(17,450,626)
Unit transactions			
Net unit subscriptions	4	4,343,431	7,049,195
Total increase/(decrease) in net capital attributable to unit holders		3,082,488	(10,401,431)
Net capital attributable to unit holders at beginning of year		169,418,164	179,819,595
Net capital attributable to unit holders at end of year		172,500,652	169,418,164

James R. Kehoe
Chairman

Michael Carey
Member of the Committee of Management

Notes to the Financial Statements

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1. Expenses

	2010 €	2009
Trustee fees *	34,997	25,156
Fund Administration fees	103,188	107,835
Management Committee fees	40,000	49,350
Forest Administration, salaries and other expenses	432,773	438,133
Forest Valuation fees	83,779	84,083
General insurance	14,656	14,281
Timber sales credit insurance	40,531	7,189
Audit and tax fees	20,350	20,450
Marketing and promotion costs	18,930	13,785
Bank Interest and charges	883	667
	790,087	760,929

In 2009 this was reduced due to prior year (2008) accrual unutilised

2. Forest asset valuation

	Land €	Forest Asset €	2010 Total €	2009 Total €
At 1 January 2010	9,192,623	159,094,207	168,286,830	177,507,401
Additions to forest assets		1,256,995	1,256,995	8,230,281
Gain/(loss) on revaluation of existing forest assets and land	301,622	(2,537,759)	(2,236,137)	(17,328,281)
Realisation charge on timber and assets sold		(11,954,279)	(11,954,279)	(122,059)
At 31 December 2010	9,494,245	145,859,164	155,353,409	168,286,830

IForUT values its forests and land using best international practices and with the input of independent valuers. The net present value of projected flows of income and expenditure are used in the process indexed in line with CPI. The key valuation inputs are the discount rate (5% real per annum), the inventory and growth rates of the forest crops and the price of timber used to generate future revenue streams. In determining the income flows the prices used are based on historical average prices. From the start up of IForUT in 1994 and until the end of 2007 a 15 year average was used in calculating output prices. A decision was made following expert advice and in line with changes in international practice to move to a 10 year average. This change is currently being implemented over a 5 year period and the result of this change together with the effect of current market prices and the effect of negative inflation has had an exaggerated negative effect on the valuation of IForUT's forests. Consequently in 2010 there has been a reduction of 1.33% comprised as follows:

	%	€Million
Inflation index	0.49	0.8
Long term average price fall in 2010	(4.43)	(6.9)
Impact of phasing to a ten year price curve	(2.23)	(3.5)
Biological growth/unwind of discount factor *	4.84	7.4
	(1.33)	(2.2)

The rate of biological growth differs slightly from the 5% discount factor noted above due to two factors: Firstly, the growth in market based valuations for UK forest assets which comprises 2.5% of the total value of the Trusts' forest assets and secondly the impact of additions to the forest assets in the financial period of €1.3 million combined with the removal by clearfelling of €11.95 million of forest crops during the year.

3. Value of units in issue

	Notes	Unit holders net Subscriptions €	Income Reserve €	Forest Value Increase Reserve €	2010 Total €	2009 Total €
At 1 January 2010		82,136,890	17,689,333	69,591,941	169,418,164	179,819,595
Net unit subscriptions during year	4	4,343,431			4,343,431	7,049,195
Surplus/(deficit) of income over expenses			975,194		975,194	(121,833)
Increase/(decrease) in value of forest assets	2			(2,236,137)	(2,236,137)	(17,328,793)
Realised gains previously unrealised *			6,742,435	(6,742,435)		
At 31 December 2010		86,480,321	25,406,962	60,613,369	172,500,652	169,418,164

The transfer of €6,742,435 from the forest value increase reserve to the income reserve relates to the increase in value of forest assets recognised from the date of acquisition to 1 January 2010, for those forest assets realised by clearfelling during 2010.

4. Unit transactions

	Number of units	€
Units in issue at start of year	55,687,404	
Net subscriptions of units during year		
Issue of units during year	1,667,424	5,073,977
Other encashments of units	(239,974)	(730,546)
Total	1,427,450	4,343,431
Number of units in issue at end of year	57,114,854	
Number of units approved for encashment in 2009 but not yet encashed	(641,643)	

5. Debtors

	2010 €	2009 €
Trade debtors	2,361,294	217,356
Receivable from North American Forestry Investment Trust	96,509	254,288
Other debtors and prepayments	81,570	40,305
VAT receivable	(320,153)	1,475,897
	2,219,220	1,987,846

6. Creditors

	2010 €	2009 €
Trade payables and accruals	374,977	325,175
Creditor related to forest assets acquired at year end 2009	0	1,515,733
Unit encashments approved but unpaid at year end	2,017,159	3,195,727
	2,392,136	5,036,635

7. Other income

	2010 €	2009 €
Bank interest	277,901	60,936
Other non-timber forest income	26,179	15,492
	254,080	76,428

8. Approval of Financial Statements

The Committee of Management approved the Financial Statements on 11 May 2011.