PERFORMANCE AND PROSPECTS

Irish Food, Drink and Horticulture

2010-2011







Growing the success of Irish food & horticulture

Bord Bia
Irish Food Board

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€7.88bn The value of Irish food and drink exports increased by 11% in 2010 to reach an estimated €7.88bn

Executive Summary

PERFORMANCE & OUTLOOK

OVERVIEW

- It is estimated that the value **of Irish food and drink exports increased by 11% in 2010 to reach €7.88 billion. This amounts to a rise of just over €800m** and leaves exports almost 8% ahead of the 2000-2009 average.
- The export performance was boosted by a more stable consumer environment, somewhat reduced exchange rate pressures, improved relative competitiveness of Irish manufacturers and higher global prices for most agricultural commodities.
- The strength of this performance is highlighted by the fact that during the first nine months of 2010, food and drink exports accounted for 30% of the growth recorded in total merchandise exports.
- All major categories recorded increased export revenues in 2010 with the strongest growth evident in Dairy, Beverages, Meat and Seafood.
- Looking ahead to 2011 the prospects for food and drink exports remain broadly positive, helped by relatively strong global demand for commodity products and a tight supply situation in a number of key product categories. Some further growth is anticipated in most major categories.
- While 2010 saw the euro weaken against both sterling and the US dollar, there continues to be a high degree of volatility evident. For the year, the euro weakened by 4% against sterling and 5% against the US dollar. Figures for December show the euro running 6% and 10% weaker respectively.

DESTINATIONS FOR IRISH FOOD & DRINK

- The **United Kingdom** remained the principal destination at just over €3.4 billion, which represented a rise of 4% on 2009 levels. All major categories returned higher exports. Despite the rise recorded, the proportion of food and drink exports destined for the UK in 2010 fell by two percentage points to 44%.
- Exports to **other EU markets** showed a rise of 14% at €2.66 billion helped by stronger dairy, prepared foods, beverages and seafood exports. This leaves Continental EU markets accounting for 34% of food and drink exports.
- In terms of exports to **International markets**, it is estimated that 22% of total exports went outside the EU at a value of €1.74 billion. The strongest performing markets were the Middle East, Russia, Asia, Australia and Africa.

MEAT & LIVESTOCK

- The **combined value of meat and livestock exports grew by an estimated 9% to almost €2.44 billion in 2010**. The main growth drivers were increased export revenues for beef, live animals and pigmeat.
- The value of beef exports jumped by 8% or €111m in 2010 as increased export volumes and stable prices helped trade. For the year, beef exports were valued at €1.51 billion.
- A rise of almost 10% in pigmeat export volumes coupled with largely unchanged average prices led to the value of exports rising by 10% to €317m.
- Poultry exports were boosted by higher average prices for fresh/chilled products. This resulted in the value of exports rising by an estimated 9% to €200m.
- The value of sheepmeat exports increased by 4% to reach an estimated €170m. A drop of 12% in sheep supplies was more than offset by a strong price increase, which saw lamb prices jump by 17%.
- The strength of live cattle and pig exports boosted the value of livestock exports, with a rise of 15% recorded at €245m.
- The prospects for the meat & livestock sector in 2011 remain reasonably positive with a tight supply situation both in Ireland and across Europe expected to boost the value of beef exports. Feed price developments will play a critical role in both the pigmeat and poultry sectors while ongoing tight supplies are expected to help maintain the value of sheepmeat exports.

DAIRY PRODUCTS & INGREDIENTS

- It is estimated that the value of **dairy exports increased by 17% to reach almost €2.29 billion**, helped by stronger prices, higher production in Ireland and the release of SMP and butter from storage.
- European prices increased by 7 - 40% with the strongest increases evident in butter and powders, both of which had recorded significant falls in 2008 and early 2009. Cheese prices recorded slower growth but had better withstood previous price falls.
- Milk output in Ireland increased strongly as the year progressed as better prices and good grass growth boosted output. For the year, total milk deliveries are estimated to have increased by more than 6%. In terms of products, there was a shift towards increased cheese production while SMP output declined as did WMP.
- The prospects for Irish dairy exports in 2011 remain generally positive with demand levels in key markets likely to help price levels. However, much will depend on supply levels from other exporters, most notably New Zealand and the United States. Irish producers are

12% The value of beverage exports jumped by 12% in 2010 helped by strong performances by whiskey, cream liqueurs and beers.

better placed than most to withstand higher feed costs, given the predominantly grass based form of production.

- The Irish dairy sector continues to develop a growing portfolio of products and markets. This development will become ever more critical as the ending of dairy quotas approaches and the volume of dairy products available to export increases.

PREPARED FOODS

- Prepared food manufacturers continued to face a competitive market environment in 2010 due to a combination of price pressure from customers and rising input prices.
- **Overall, export values of products covered under the prepared foods category increased by an estimated 8% to almost €1.4 billion**. However, exports of consumer ready products, principally to the UK, recorded a drop of 6%.
- The strongest performing categories during the year were ready meals, ingredients for the sandwich sector, bakery and sugar confectionery.
- A strong focus on product development and expanding the range of customers and markets served helped the sector as the year progressed with a number of new listings reported across the Continent.
- Improved efficiencies evident among Irish manufacturers leaves them in a better position to be competitive in key markets during 2011.
- However, the strong rise in ingredient costs looks set to be maintained in 2011 and will put increased pressure on manufacturers to achieve higher returns from the marketplace. This is likely to be difficult in the current economic environment.

BEVERAGES

- Exports of beverages performed strongly in 2010 following a very challenging trade for much of 2009. The return to more normal trading conditions with higher volumes recorded across most key categories helped trade although there continued to be a strong focus on value propositions.
- **Overall, exports are estimated to have increased by 12 per cent in 2010 to €1.19 billion.**
- The strongest performing categories were whiskey, cream liqueur and beer. Cider exports improved as the year progressed, helped by a better performance in the UK and strong growth in emerging markets.
- Generally, the prospects for beverage exports remain positive for 2011 with stronger demand likely to be maintained while emerging markets continue to increase purchases of Irish beverages.
- However, the sector faces challenges in the form of higher dairy and other raw material prices, and the likely abolition of intermediary excise tax relating to wine based cream liqueurs, which will substantially raise retail prices.

SEAFOOD

- The export market for Irish seafood showed significant improvement in 2010 as lower supplies across most species helped boost prices while the exchange rate environment was more benign. Overall for the year, **the value of seafood exports is estimated to have increased by 18% to an estimated €370 million**.
- The prospects for 2011 remain positive with ongoing tight supplies expected in a number of major species, most notably salmon and oysters.

EDIBLE HORTICULTURE & CEREALS

- **The value of edible horticulture and cereal exports was marginally higher in 2010 at an estimated €200m**. Mushroom exports to the UK put in a robust performance. The value of cereal exports improved strongly as the year progressed while potato exports emerged driven by demand from Eastern Europe towards the end of 2010.
- The outlook for mushroom exports looks reasonably positive in 2011, provided sterling doesn't weaken considerably, which would adversely impact on the competitiveness of Irish exports. A major EU co-funded promotion supported by the Irish industry will take place in the UK during 2011 and continue to the end of 2013 and is expected to boost sales and consequently, Irish exports.

INDUSTRY ISSUES

- The results of the annual Bord Bia industry survey, completed in late December 2010, showed a more positive outlook by food and drink manufacturers across all categories. In total, 70% of exporters that responded viewed the prospects for their business in 2011 as good or very good. When asked to compare their prospects to a year earlier 56% rated them as better.
- In terms of sales prospects, 64% of exporters responded that they had increased their sales forecasts for 2011. When asked the source of new business generated over the last year some 76% increased business with existing customers, 34% won back business with former customers while 18% developed business with new customers.
- Employment levels have generally held up well,

4.2% The IMF expects the global economy to grow by 4.2% in 2011.

although figures vary by sector. Approximately one fifth of respondents have increased full time staff numbers over the last year with a further 61% maintaining employment levels.

- Respondents also highlighted a number of key challenges facing their business. In relation to the UK, the following are the principal challenges outlined:
  - > Difficulty in securing price increases was listed by 75%, which is similar to 2009.
  - > 75% pointed to the increase in the value of the euro against the pound, which compares to 86% in 2009.
  - > Some 62% listed changing consumer purchasing behaviour with a focus on value for money, which is slightly less than the 66% in 2009.
  - > Competition between retailers was maintained at 62%.
  - > Sustainability jumped from 54% to 69%.
- The reaction by manufacturers to these challenges has focused on cost control, efficiencies and a review of their customer portfolio which has seen more than half of respondents increase their expenditure on business development over the last year.
- These developments have left Irish exporters in a better position to deal with the ongoing movements in exchanges rates. The results of the survey suggest that 83% could sustain an exchange rate with the pound of 1€ = 85p in the long run.
- The main policy developments that will shape the future direction of the Irish Agri-food sector continue to focus around WTO and the CAP. While little, if any, movement has been reported in terms of the WTO over the last year, there has been a strong focus on bilateral agreements. The most notable of these has been between the EU and Mercusor. Any such agreement and the subsequent access that it could provide to the EU market for Mercusor could significantly impact on the market returns for beef in particular.
- In terms of the CAP, the work towards the 2013 review continues to gather pace. It is critical that any such review takes fully into account the requirements of Irish producers and the broader food sector, particularly in relation to maintaining our supply base.

ECONOMIC ENVIRONMENT

- The initial strong rebound in the world economy has eased due to the emergence of structural weaknesses in a number of leading economies. The likely consequence is that major economies are facing a period of below-par growth.
- The International Monetary Fund in its World Economic Outlook, October 2010, expects global economic growth to reach 4.8% in 2010, up from -0.6% in 2009, before easing slightly to 4.2% in 2011.
- The UK government has taken decisive action in the form of a five-year austerity programme that will see large cuts to public spending and is expected to dampen recovery. The latest IMF forecasts indicate an expected expansion of 1.7% in 2010 with growth increasing to 2.0% in 2011.
- Having contracted by 4.1% in 2009, the euro zone economy is expected grow by 1.7% in 2010 followed by slightly more moderate growth of 1.5% in 2011.
- The recovery in the US economy has brought output close to pre-crisis levels. However, there are fears that this recovery may not be sustainable, or strong enough to reduce unemployment and prevent deflation.
- Since January 2008, the Irish economy has regained some of its cost competitiveness. In May 2010, Ireland's real harmonised competitiveness indicator had fallen 6.1% below the January 2005 position but remained 16 per cent above the 2000 level.
- The European Commission has identified Ireland as being the only country in the euro area to have recorded a fall in nominal labour costs in 2009, having reduced by 2.7%.
- The future of the Irish economy has become increasingly dependent on the agri-food sector as the leading indigenous industry. The overreliance on unsustainable sectors in recent years has confirmed that if the Irish economy is to achieve sustainable growth, emphasis must be refocused on the export sector, in which the food sector plays a key role.

CONSUMER TRENDS

- The results of the fourth wave of Bord Bia's Feeling the Pinch, completed in late 2010 shows a high degree of uncertainty remains among Irish and British consumers. Perhaps the only certainty that appears to be emerging is that significant change is unlikely to materialise in 2011 as consumers get used to the "new normal".
- Consumer views of the Irish economy show some improvement. However, this follows an extremely pessimistic view in 2009. In September 2010, 38% of Irish consumers agreed that the economy is going very badly, showing an improvement from 52% in November 2009 and 65% in January 2009.
- Irish consumers' have a much improved view of their personal financial situation. In November 2009, the dominant attitude was that their personal financial situation over the next 12 months would get worse. In September 2010 some 45% felt that their financial situation over the next 12 months will be about the same while 12% expected it to improve.
- British consumers feel the British economy has improved also. In September 2010, 15% of British consumers stated the economy is going very badly (versus 38% amongst Irish consumers).

"Consumer attitudes and behaviours have changed and are likely to remain at the "new normal" for some time. Companies must adapt to the new conditions in order to survive and grow."

- Five key characteristics of the "new normal" were identified in the study. These can be summarised by the acronym S.C.A.N.T. Recognising and addressing these characteristics will be critical for food and drink companies. The characteristics can be summarised as follows:

Scepticism - Evidence already suggests that the value of brands has diminished for Irish and British consumers as they place greater emphasis on price rather than brands. Building greater loyalty and trust should be a pressing objective for companies.

Control - Consumers are shopping less on impulse and have started to take more control of their shopping budget by creating shopping lists and sticking to them. Consumers are fighting to resist temptation and are seeking ways to maintain control.

Acceptance - Consumers have accepted the current economic climate and even if their personal financial situations improved, many consumers feel that they would broadly keep the same habits. Companies will have to think more intelligently to maximise value in the marketplace.

New Aspirations - Consumers are learning to do without and redefining their aspirations according to their means. Companies and brands can do a lot to re-ignite dreams and aspirations and help make the seemingly unobtainable feel more within reach.

Treading Carefully - Consumers are researching and comparing products before trying them. Companies and brands need to recognise that ever increasing assurances will be needed to gain new business. Removing the risks to create a positive first encounter, without offering deep discounts or promotions, may be a better way to build stronger relationships even in the short-term.

- Consumer attitudes and behaviours have changed and are likely to remain at the "new normal" level for the foreseeable future. Following the acceptance of the present economic climate, companies must adapt to the new conditions in order to survive and grow.

BORD BIA INITIATIVES

- In May 2010, Professor David E Bell and Mary Shelman of Harvard Business School presented *Pathways for Growth* at Bord Bia's Food and Drink Summit in Farmleigh. In doing so, they delivered a new perspective on pathways for growth over the next three to five years' for the Irish food and drink industry.
- Bord Bia has fully integrated the recommendations of *Pathways for Growth* into its work programmes. This includes a specific focus on the key areas of co-opetition, branding and the customer feedback loop, innovation, entrepreneurship and education.
- While we are still at an early stage, the opportunities to fuel new growth and development are becoming clear. *Pathways for Growth*, as now incorporated into Food Harvest 2020, will formally guide Bord Bia's strategic focus and priorities from 2011, evolving into the necessary milestone plans to achieve specific aims and outcomes by 2020.
- Specific initiatives currently underway and being planned across the key areas identified in *Pathways for Growth* include:

Branding and the customer feedback loop
Brand propositions and sets of values have been developed for consumer and trade testing in six international markets. These propositions occupy different and distinctive territories, linked with the essence of Ireland's reputation, and are credible to support a "we are natural and we can prove it" brand promise.

The research commenced in late 2010 and will continue in our core export markets of the UK, Europe and the USA throughout early 2011. The sustainability /environmental stewardship standards that will be associated with usage of 'Brand Ireland' are also being formulated.

Co-opetition and the issue of scale
Taking a broad and open definition of the concept, Bord Bia has identified 20 projects where strategic cooperation could add value in the supply chain. Further appraisal work has clarified projects where the potential benefits are significant and where there is a willingness among management teams to engage. Five such projects are currently being advanced.

Further projects are expected to emerge as companies continue to engage in the process. Bord Bia will continue to offer a range of supports including advice, mentoring, discussion facilitation and research to projects as they develop.

Innovation & Entrepreneurship
Bord Bia has placed consumer insight at the heart of innovation with our *Consumer Lifestyle Trends* research in 26 countries combining with our *foresight4food* programme to play a unique role in the research and interpretation of deep consumer insights for commercialisation success.

Research is underway in conjunction with Enterprise

80 A total of 80 companies are being assisted with 100 projects as part of the second Bord Bia Fellowship programme.

Ireland to identify the critical factors for successful innovation in Ireland to facilitate greater understanding of the attitudes to innovation and new product development among Irish food manufacturers as well as the role of insight programmes.

Bord Bia has launched the Food Entrepreneurs Network, which formally established a networking environment for food entrepreneurs. The inaugural event was used to facilitate a group of recently formed enterprise owner managers and the CEOs of larger firms to gain insights into the kind of supports they would like to see for food entrepreneurship to thrive.

Education

Bord Bia's marketing Fellowship is a commercially focused programme designed to broaden the Irish food industry's global footprint. It attracts graduates with at least two years experience to focus on delivering strategic market insight and sales for companies as part of an MSc in Marketing Practice with the Smurfit Business School. The second Bord Bia Fellowship Programme commenced in July 2010. In all, 80 companies are being assisted with 100 research assignments in 12 different markets.

The Food Industry Strategic Growth Programme (FISGP): also known as the ' food alumni' programme, commenced in December 2010 and offers a two-year executive training programme in conjunction with Smurfit Business School. Geared specifically towards developing strategic business development skills at senior management level, the programme involves a major assignment to strategically reposition each participant's company.

In conjunction with IBEC, Bord Bia has developed a food industry specific Export Orientation Programme (EOP). It is planned that a pilot of this extended 18 month programme, undertaken with a small number of client companies in 2010, will be rolled out to the broader food industry in 2011.

THE ECONOMIC ENVIROMENT

OVERVIEW

The future of the Irish economy has become increasingly dependent on the agri-food sector as the leading indigenous industry. The overreliance on unsustainable sectors in recent years has confirmed that if the Irish economy is to achieve sustainable growth, emphasis must be refocused on the export sector, in which the food and drink sector plays a key role.

The sector has taken decisive action in response to the challenging market environment with a strong focus on costs combined with investments to broaden the customer and market base served. These developments leave the sector in a stronger position to withstand the pressures created by the ongoing global economic situation and ever volatile exchange rates.

KEY FIGURES

4.2% Global economic growth is forecast by the IMF at 4.2% for 2011 with all major economies showing growth.

18% The FAO World Food Price Index increased by over 18% in 2010 and now stands at more than double its 2000 level.

PROSPECTS FOR 2011

The initial strong rebound in the world economy has eased due to the emergence of structural weaknesses in a number of leading economies. The International Monetary Fund in its World Economic Outlook, October 2010, expects global economic growth to reach 4.8% in 2010, up from -0.6% in 2009, before easing slightly to 4.2% in 2011.

All of the main economic regions are expecting growth in 2011 with the UK and emerging markets expected to show stronger growth than the euro zone.

IMPACT ON THE FOOD SECTOR

To date the food sector has shown itself to be reasonably resilient to the global recession although reduced consumer spending has put significant pressure on the sector in key markets.
However, an improvement in consumer prices across the euro zone during the second half of 2010 would indicate some stabilisation in consumer spending levels.

In addition, the strength of global agricultural commodity prices over recent months seems set to be maintained into 2011, which will help returns for primary food products, most notably meat and dairy. The downside of this development is that it is increases input costs for prepared food and beverage manufacturers.

9.6%

The Chinese economy is forecast by the IMF to grow by 9.6% in 2011.

INTERNATIONAL ECONOMIC PROSPECTS

The initial strong rebound in the world economy has eased due to the emergence of structural weaknesses in a number of leading economies. Debt reduction is now a priority for most economies, while those countries that have stronger fiscal positions are struggling to boost domestic demand. The likely consequence is that major economies are facing a period of below-par growth.

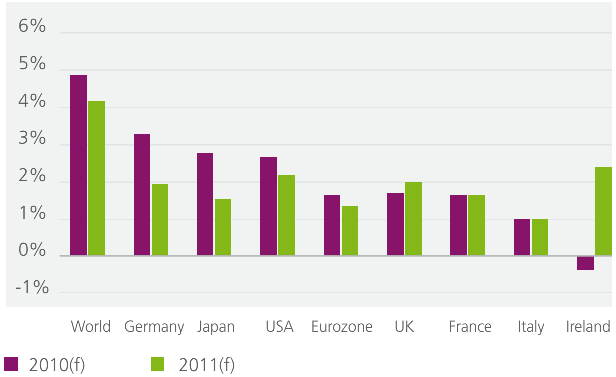
The International Monetary Fund in its World Economic Outlook October 2010, expects global economic growth to reach 4.8% in 2010, up from -0.6% in 2009, before easing slightly to 4.2% in 2011. The following table summarises the IMF's projections for Ireland and the world's major economies. All of the main economic regions are expecting growth this year and in 2011.

GDP Growth in Major Economies and Ireland, 2008-2011

	2008	2009	2010(f)	2011(f)
	%	%	%	%
World	2.8	-0.6	4.8	4.2
USA	0.0	-2.6	2.6	2.3
China	9.6	9.1	10.5	9.6
India	6.4	5.7	9.7	8.4
Russia	5.2	-7.9	4.0	4.3
Japan	-1.2	-5.2	2.8	1.5
Euro-zone	0.5	-4.1	1.7	1.5
UK	0.1	-4.9	1.7	2.0
Germany	1.0	-4.7	3.3	2.0
France	0.1	-2.5	1.6	1.6
Italy	-1.3	-5.0	1.0	1.0
Ireland	-3.4	-7.6	-0.3	2.3

f = forecast
Source: IMF World Economic Outlook October 2010 Update

GDP Growth Rates in Ireland and Selected Major Economies, (2010-2011)



Source: IMF World Economic Outlook October 2010 Update

THE GLOBAL RECOVERY IS FRAGILE AS A RESULT OF STRUCTURAL WEAKNESSES

Following a very turbulent 2009, the global economy turned the corner in 2010 and returned to growth. Although all major economies are expected to recover this year, it appears that the full effects of the financial crisis may not yet have been realised.

US structural deficit remains a concern

From an international recovery perspective, it will be welcomed that the US economy is expected to expand by 2.6% in 2010. However, this may be merely a reflection of the temporary stimulus that was put in place. Under such circumstances, the sustainability of such growth is questionable especially given that the US is running one of the largest structural deficits in the developed world.

Setbacks to financial stability in euro zone

The larger economies in the euro zone, notably Germany, France and the UK have successfully implemented plans to deal with their growing debt over the medium term. Despite projected positive growth for the euro zone however, it is clear that this group has underlying problems which have been brought to the fore by the sovereign debt crisis. The structural imbalance between Germany and less competitive peripheral members has led to uncertainty about the future of the euro. Greece and Ireland have already received a financial bailout but this has not been sufficient to quell fears of contagion spreading to larger economies such as Spain, Portugal and Italy.

Asia reliant on sustained international recovery

The economies of advanced Asia, with the exception of Japan, have enjoyed a strong rebound. Growth in emerging Asia has also strengthened due to robust domestic demand spreading from China and India to other economies in the region. The region has benefitted significantly from stimulus measures that have led to resilient domestic demand. However, more moderate growth in Asia is projected in 2011 in line with the winding down of policy stimulus.

DEVELOPMENTS IN KEY MARKETS FOR IRISH FOOD AND DRINK

United Kingdom

The UK economy did not escape unscathed from the global economic turmoil, which contributed to a contraction of 4.9% in 2009. The government has since undertaken decisive action in the form of a five-year austerity programme that will see large cuts to public spending and is expected to dampen recovery. The latest IMF forecasts indicate an expected expansion of 1.7% in 2010 with growth increasing to 2.0% in 2011.

1.5% The euro zone economy is anticipated to grow by 1.5% in 2011 following growth of 1.7% in 2010.

UK inflation has remained stubbornly high and this is likely due to the steep fall in the value of Sterling. UK VAT is set to increase to 20% in January 2011 and it is expected that this will be passed through in full to prices. This move comes at a time when world food prices have been climbing strongly.

Euro zone
Having contracted by 4.1% in 2009, the euro zone economy is expected grow by 1.7% in 2010 followed by slightly more moderate growth of 1.5% in 2011. Notwithstanding this however, it is clear that the euro area is still appreciably below pre-crisis levels of output and remains dependent on external demand.

Germany
Germany is leading the recovery of the euro zone. While public debt levels continued to grow in the euro area throughout 2009, Germany was the notable exception. At present, its labour market is showing continued resilience, notwithstanding the downturn. Despite robust manufacturing exports in recent months, German growth is expected to moderate in 2011 because of weak growth in its trading partners. However, higher than expected activity in Germany could lift growth in Europe more generally, given the country's substantial trade and production linkages.

United States
The recovery in the US economy has brought output close to pre-crisis levels. Consumption has been growing since the third quarter of 2009, but at low rates in comparison with the initial fall. The US has bounced back from the extreme turbulence in 2009 but there are fears that this recovery may not be sustainable, or strong enough to reduce unemployment and prevent deflation. Having relied excessively on domestic demand, the US has now been forced to depend more on net exports.

EMERGING MARKETS

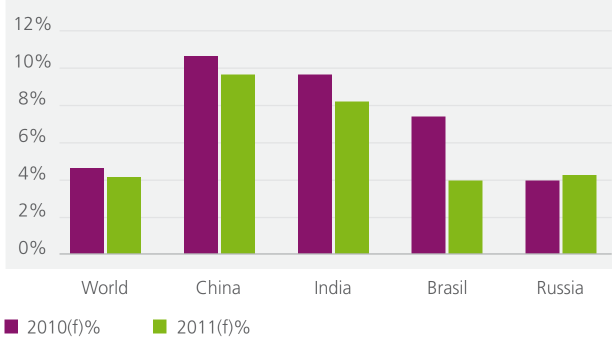
Although many emerging economies are seeing high growth again, they continue to rely significantly on demand from advanced economies.

Brazil
Brazil has been leading the recovery in Latin America where GDP growth has been running close to 10% since the third quarter of 2009 but the economy is now showing signs of overheating. Capacity constraints have put upward pressure on prices in Brazil, leading to gradual increases in inflationary pressure. The IMF expects Brazil to record growth of 7.5% in 2010 with further expansion envisaged in 2011.

China
China has avoided a hard landing following the reductions in stimulus packages and much of this is due to a loosening of credit policy. China's trade surplus is rising again but exports are expected to dampen due to the lacklustre state of global demand. Declining export growth will make it very difficult for Chinese policymakers to deliver an appreciation of their currency, which is much sought after by her main trading partners.

Russian Federation
In Russia, despite relatively high oil prices, the short-term outlook is for a modest recovery. Russia has cut interest rates in response to diminishing price pressures and growing uncertainty in Western Europe. IMF projections for Russia suggest that output growth in 2010 and 2011 will be enough to cancel out the severe contraction of 7.9% in 2009.

GDP Growth Rates for Key Emerging Developed Markets, (2010-2011)



Source: IMF World Economic Outlook October 2010 Update

EUROPEAN PRICE DEVELOPMENTS

European wholesale food prices
Wholesale prices experienced somewhat volatile trends in Europe in recent years. Eurostat data showing an increase of 4.3% over the three years leading to September 2010 doesn't tell the full picture.

This volatility has continued over the past 12 months with considerable price increases evident across a number of commodities, most notably oils & fats and dairy. Modest price falls were recorded for bread & cereals and meat.

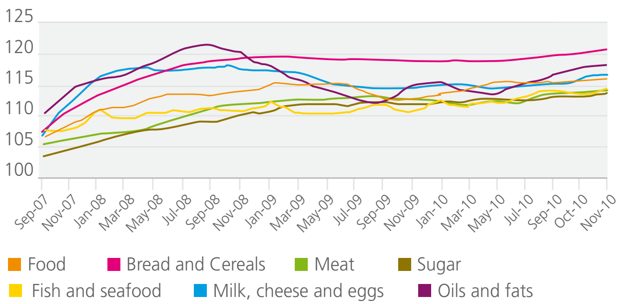
European consumer prices
Consumer prices in the 27 countries of the European Union have increased over recent years. Since this index began in September 2005, food prices have jumped by 16%.

Following a decline from the second half of 2008 growth in food prices across Europe resumed during 2010 with consumer food prices rising by 2.3% in the year to September. Oils & fats recorded the largest price increase

18.2% The FAO Food Price Index increased by 18.2% during 2010 with all commodities showing growth.

in the twelve months to September 2010, with growth of 4.2%.

Consumer Price Index EU27 (2005=100)



Source: Eurostat

Recent trends in world food prices
The FAO World Food Price Index increased by 18.2% in 2010. The jump in the index reflected the rapid increase in international prices of many major food commodities. In December 2010, the world food price index reached 215 points – more than double its 2000 level of 90.

The FAO world Oil/Fat Index recorded the largest jump increasing by 55% during the year. The Meat Price Index measured by the FAO suggests that the world price of meat has jumped by 18% during the course of the year. The FAO World Dairy Index recorded a modest fall in December relative to a year earlier but increased by 42% on a calendar year basis.

Looking ahead, the growth in world food commodity prices is expected to vary. The IMF anticipates the strongest growth in cereals such as wheat, barley and maize.

Overall, prices seem set to remain high by historical standards. This represents a positive outlook for primary products but is likely to lead to higher input costs for prepared food manufacturers.

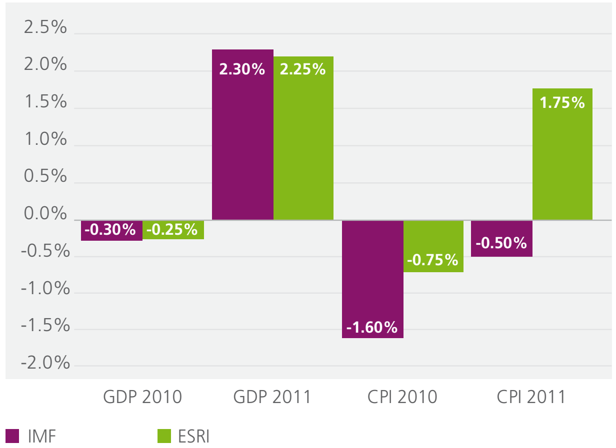
ECONOMIC PROSPECTS FOR IRELAND

During 2009, Ireland's economy underwent a severe contraction in which GDP fell by 7.6% compared with the previous year. Almost all components of growth suffered. Economic growth is expected to record a slight contraction in 2010 and growth is projected to remain sluggish, albeit positive in 2011. These projections are partially driven by consumer confidence which remains weak as well as a tight budget for 2011, which is expected to depress investment.

The general consensus amongst forecasters is that consumer price inflation in Ireland will be negative in 2010. A fall in consumer prices of between 0.75% and 1.60% can be expected, according to separate IMF and ESRI forecasts. The short term outlook is more uncertain for the consumer price index (CPI) however, and while the IMF has projected another year of negative prices in 2011, the ESRI expects CPI to be positive in the region of 1.75%.

The expansion in exports of goods and services is expected to lead the Irish economy into recovery. While Irish exports have not suffered as badly as other advanced economies, the projected strength of this component of growth remains largely dependent on the international market environment.

Projected GDP Growth and CPI Inflation for Ireland in 2010 and 2011 (%)



Source: IMF World Economic Outlook and ESRI Quarterly Economic Commentary

IMPORTANCE OF THE FOOD AND DRINK SECTOR TO THE IRISH ECONOMY

Gross Value Added
The Gross Value Added (GVA) of the Agri-food sector in 2009 is estimated at €8.73 billion, which equates to more than 6% of the total economy. The primary agriculture sector generated GVA of €2.97 billion while preliminary figures from the 2009 Census of Industrial production put the GVA of food and drink processing at €5.76 billion. The rise in exports during 2010 will have further boosted the GVA generated by the sector.

9%

During the January to September 2010 period, food and drink accounted for almost 9% of total merchandise exports compared to 8% a year earlier.

Key Economic Statistics for Agri-food sector, 2009

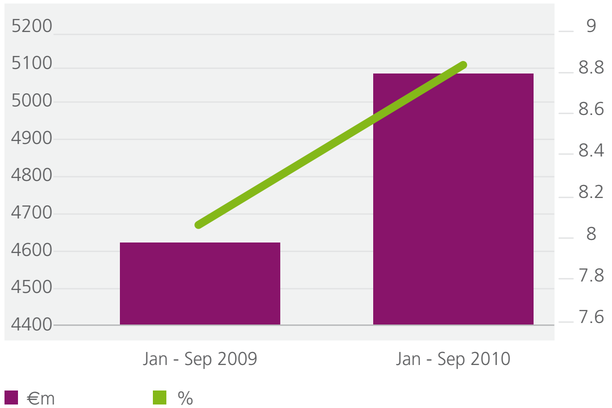
	Agri-food	Total Economy	as % of Total
Gross Value Added at Factor cost, €M	8,730	143,844	6.1%
Total employment '000s	135	1,929	7.0%

Source: Bord Bia based on CSO

EXPORTS

Latest figures from the Central Statistics Office indicate that the total value of food and drink exports from January–September 2010 increased by 11% from the same period in 2009. During the period, the sector accounted for almost 60% of indigenous exports and almost 9% of total merchandise exports.

Food and Drink exports as a % of total exports



Source: Central Statistics Office

KEY COMPETITIVENESS ISSUES FOR THE IRISH FOOD SECTOR

Since January 2008, the Irish economy has regained some of the loss in cost competitiveness that occurred earlier in the decade. Over the last year this improvement has been helped by a weaker euro and domestic inflation remaining below that of our main trading partners. In May 2010, Ireland's real harmonised competitiveness indicator had fallen 6.1% below the January 2005 position but remained 16 per cent above the 2000 level.

Labour costs are hugely influential with regard to overall competitiveness. Ireland had the tenth highest total labour cost level in the OECD-28 in 2009. Removing labour taxes indicates that Ireland has the fifth highest net wage level in the OECD-28 – approximately 50 per cent above the average.

The European Commission has identified Ireland as being the only country in the euro area to have recorded a fall in nominal labour costs in 2009, having reduced by 2.7%.

Food Harvest 2020 outlined critical factors affecting growth and competitiveness in the food sector. With regard to primary processing, some of the critical factors identified include:

Labour
Access to capital
Waste management
Energy
Sterling risk

Some of these factors are subject to rapid change, for example, the recent arrival of the IMF and the associated funds that have been made available to Irish banks should help to alleviate the restricted access to capital. Other factors are in our hands completely such as the issue of labour and human capital in which there must be a focussed effort to attract the best people to the sector.

Finally, some of these identified factors are and will be out of domestic control completely. The value of sterling is one example. Against this challenging backdrop it is essential that the factors within our control are addressed while the ability to adapt to external stimuli is crucial.

ECONOMIC ISSUES FACING THE SECTOR

The global food market is an extremely competitive one in which Ireland has participated very successfully for decades. Of late, many advanced economies reached an economic nadir in terms of their country's growth. The international market has become increasingly competitive and the uncertainty surrounding the world currencies is a complicating factor. Outlined below is a brief summary of the economic challenges facing the Irish food and drink sector.

Difficult economic circumstances
Few of Ireland's trading partners have been unaffected by the economic downturn, with the result that most major economies are currently operating below par. The current economic outlook has been framed amidst huge economic uncertainty both at home and abroad. It is essential however, that the food and drink sector weathers the current recessionary trading environment and above all, prepares for the impending upturn.

Currency fluctuation
The uncertainty surrounding the future of the euro is worrying from an Irish perspective, particularly in sectors that are export dependent. There are risks on both sides. Contagion fears and the European banking woes have resulted in a weakened euro. On the other hand, the

"The future of the Irish economy has become increasingly dependent on the agri-food sector as the leading indigenous industry."

European Central Bank runs the risk of an appreciating currency if they refuse to match the expansionary monetary policy being implemented elsewhere. It is important that the ECB deals with the matter as the latter scenario would place an inevitable drag on exports.

Common Agricultural Policy

In November 2010, the European Agricultural Commissioner published an outline of the reforms to the Common Agricultural Policy after 2013. Essentially, this release was the beginning of a formal debate that will lead to conclusions in the EU Council of Agriculture Ministers on the general orientation of future CAP policy. It will be important to the food sector that payments to Irish farmers are protected and to undermine such receipts would place an increased burden on output.

OVERALL ASSESSMENT

The future of the Irish economy has become increasingly dependent on the agri-food sector as our leading indigenous industry. The overreliance on unsustainable sectors in recent years has confirmed that if the Irish economy is to achieve sustainable growth and prosper once again, emphasis must be refocused on the export sector, in which the food sector plays a key role.

THE MARKETING ENVIRONMENT

OVERVIEW

It is clear that the consumer outlook in Ireland is strongly affected by the wider global economic situation as well as the situation and prospects of those economies close to them. The outlook for both these factors does not suggest rapid improvement is likely in the next one to two years.

Consumer attitudes and behaviours have changed and are likely to remain at the “new normal” level for the foreseeable future. Following the acceptance of the present economic climate, companies must adapt to the new conditions which will be key to their survival and possibly give them a chance to thrive in the short to medium term future.

KEY FIGURES

38% Some 38% of Irish consumers agreed that economy is going very badly compared to 52% in November 2009.

PROSPECTS FOR 2011

Irish consumers have an improve d view of their own personal financial situation. In November 2009, the dominant attitude was that their personal financial situation over the next 12 months would get worse. In September 2010, some 45% of consumers felt that their financial situation over the next 12 months will be about the same while 12% felt that they would be better off.

British consumers feel the British economy has improved also. Consumers' views show improvement into 2010, though this sense of improved outlook had already begun to show through in the November 2009 survey. In September 2010, just 15% of British consumers stated the economy is going very badly.

DEALING WITH THE "NEW NORMAL"

There are five key characteristics of the "new normal" consumer environment. These can be summarised by the acronym S.C.A.N.T. – Scepticism, Control, Acceptance, New Aspirations and Treading Carefully.

Recognising and addressing these characteristics will be critical for food and drink companies. The characteristics can be summarised as follows:

SCEPTICISM - "Get back to building trust and recognise need for new mechanisms"
CONTROL - "Help your consumers gain or maintain control"
ACCEPTANCE - "Make sure your products are fit for purpose, not just trying to fit in"
NEW ASPIRATIONS - "Make sure you are marketing to the right need"
TREADING CAREFULLY - "Help mitigate the risk of buying or trying your products"

57%

Around 57% of Irish consumers expect their personal financial situation to be the same or better over the next 12 months.

The fourth wave of Bord Bia's Feeling the Pinch, which explores how consumers are feeling and behaving in the current economic crisis took place during the autumn of 2010. This wave examines the consumer outlook for 2011 and most importantly, the strategies and tactics that could serve companies well to be successful throughout these turbulent times.

Perhaps the only certainty that appears to be emerging is that significant change is unlikely to materialise in 2011. Moderate improvement is the best that can be expected and moderate decline perhaps the worst case outcome. The business and consumer landscape of today represents the 'new normal' - a reality that will last for some time to come.

THE CONSUMER LANDSCAPE

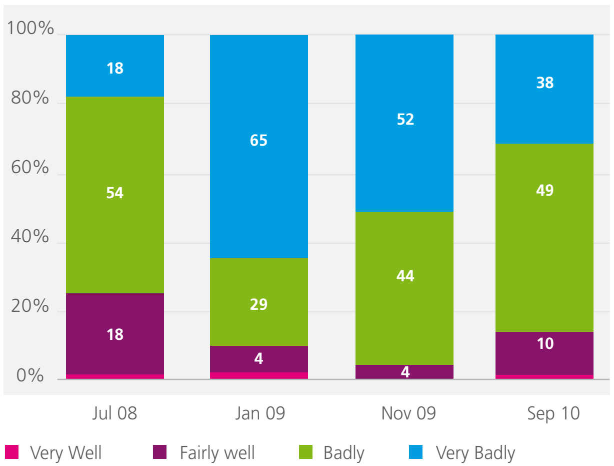
Irish consumers feel that the state of the Irish economy has improved
Consumer views of the Irish economy show improvement into 2010. However, this follows an extremely pessimistic view in 2009. In September 2010, 38% of Irish consumers agreed that the economy is going very badly, showing an improvement from 52% in November 2009 and 65% in January 2009. Despite this improvement, the current view of the state of the Irish economy is still bleak and nearly half of all the consumers stated that they thought the economy was going badly.

Consumers are less pessimistic about 2011
Irish consumers' have a much improved view of their own personal financial situation. In November 2009, the dominant attitude was that their own personal financial situation over the next 12 months would get worse (67% of consumers). In September 2010, the view is that their own personal financial situation over the next 12 months will be about the same as the previous 12 months (45% of consumers).

Equally, 12% of consumers felt that they would be better off in the next 12 months. This improving personal outlook seems somewhat disconnected from their view about the state of the Irish economy as a whole and views of their own situations seem more favourable.

British consumers feel the British economy has improved also. Consumers' views show improvement into 2010, though this sense of improved outlook had already begun to show through in our Nov 2009 survey. In September 2010, 15% of British consumers stated the economy is going very badly (versus 38% amongst Irish consumers).

How do you think things are going for the Irish Economy these days?



Longer-term view dictated by employment prospects of the people they know.
The dramatic rise of unemployment through the recession has been alarming for many consumers and it has not just been about these absolute rates. The effects of unemployment are clearly evident: 82% of consumers know someone made redundant from their job in the past 12 months. Once the economic cycle shows an uplift, unemployment still takes time to reduce.

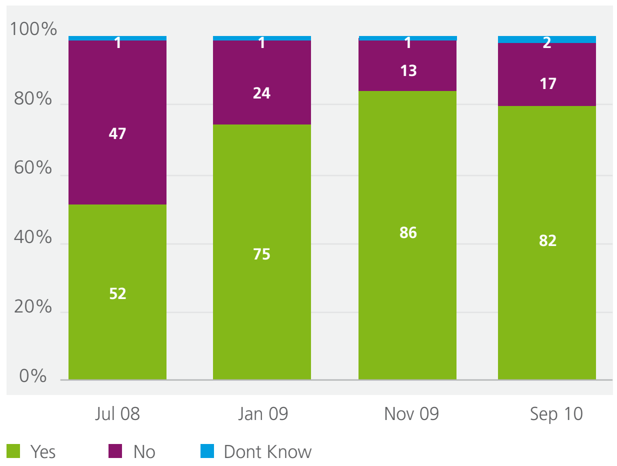
The fear and challenges created by such high unemployment are likely to curtail consumer confidence and stifle any thought of a quick return to the buoyant boom years of the early 2000s. Real recovery from a consumer perspective may only come when the situation of those closest to them has vastly improved.

Uncertainty and unemployment is still driving caution in Britain. As in RoI, unemployment is likely to be a key factor shaping the outlook of the British consumer. According to ONS data, unemployment is far lower in Britain, standing at 7.7% in August 2010. However, the halo effects are still significant with 48% saying they know some else who has been made redundant from their job in the past 12 months. Equally, the announcement made since the survey was conducted that around 500,000 jobs will go in the public sector is only likely to have fueled concerns around the future.

This suggests Britain may present some opportunities for businesses over the next one to two years but not necessarily a place of greater growth through rising consumer spending.

45% Around 45% of consumers fall into the "Choppy Waters" group that is getting by although some cutbacks have been inevitable.

Do you know anyone else who has been made redundant from their job in the past 12 months in Ireland?



THREE DISTINCT TYPES OF CONSUMERS APPEAR TO EXIST

The reality of all recessions is that consumers are unequal - not everyone is affected in the same way or to the same degree as some consumers face financial hardship and others remain broadly unaffected. Deeper analysis of our quantitative survey reveals three distinct groups

- 30% - The 'Plain Sailing' group has been the least affected in real financial terms. Lower debts and steady income means the impacts are largely psychological.
- 45% - The 'Choppy Waters' group are getting by and cut-backs have been inevitable. Bigger ticket items like foreign holidays have gone but other luxuries are still accessible with careful money management.
- 25% - The 'All Hands on Deck' group are fighting to keep their heads above water. Only the most valued parts of their spending remain protected – often those to do with their children.

Defining difference is debt levels and the marketplace actions it motivates

- For the 'All Hands on Deck' group, many of their behaviours are born from a need to survive. Cut-backs and deals are on the only way they get by and for this reason; their loyalty is likely to shift to the cheapest acceptable offer.
- For the 'Choppy Waters' group, there is still a sense of balance; lots of spending patterns have had to be changed, but this is about keeping control and making trade-offs.
- For the 'Plain Sailing' group, it is more a function of being a smart shopper – individuals in this group have a natural desire to be savvy, rather than being driven by finances. Promotions that play to this mindset may be appealing to this group and not alienate the other two groups.

"The need to reduce costs and maintain revenues has led companies to look at everything they do as a business."

THE BUSINESS LANDSCAPE

Whilst many food and drink companies have suffered declines or at best remained stable, a good proportion have highlighted that they have grown. Often they have benefited from structural shifts in the market, such as the demise of competitors or the fact that their products now represent a better value alternative, e.g. an alternative to eating out or cheaper cuts of meat. However, revenue has not always matched these patterns. Margin erosion is a common story due to retail pressures and the need to offer deeper discounts on promotions.

Around half of the companies surveyed felt that the Irish economy would continue to contract in the next couple of years, with a significant number expecting a strong contraction. Around one third felt that the economy would stagnate with sustained periods of neither growth nor decline. Some, admittedly the minority, felt the economy would show moderate growth. Views of the economy seem largely unrelated to the view the companies hold for their own business prospects over the next couple of years.

Which of the following, if any, do you see as the biggest challenges facing your company in the next 1-2 years?

Rank	Action	Incidence
1	Avoiding further pressure on margins by the trade	Above 60%
2	Developing new products and brands that meet the needs of today's consumer	Above 50%
3	Continuing to reduce production and distribution costs	Above 50%
4=	Finding budget to invest in current brands	Above 50%
4=	Finding new export markets	Above 50%
5	Staying up to date with the changing needs of Irish consumers	Above 40%
6	Reducing debt	Below 30%

Growth in business levels anticipated

Around half of the companies surveyed stated that they felt that their sales and revenues would grow in the coming years. A large proportion also felt that sales and revenues would be largely unchanged. These views seem counter to their broader view of the economy but may reflect the confidence that has come with surviving and the ability to adapt to recent challenges.

Companies have looked to all aspects of their businesses for change

The need to reduce costs and maintain revenues has led all companies to look at everything they do as a business. Companies have proactively sought new sales opportunities ahead of cost cutting. The top two actions have been to launch new ranges aimed at a more value-driven consumer and to find new routes to market to reach a new customer base. These have taken precedence over cutting production and staff costs.

Tactical brand promotion rather than strategic

Many companies highlighted the fact that the way they promote products and brands has changed. Interestingly, a greater proportion had increased their spending rather than reducing it in the last one to two years - a pattern that has perhaps materialised more out of market demand than desire. Many companies have become increasingly worried that the actions of the last couple of years have led to an increasingly promotional and price driven consumer and nearly all the companies agreed with the statement 'Consumers have become more responsive to promotions'.

The competitive nature of the marketplace and the continued desire of retailers to drive sales through deals is creating a Catch 22 situation: promotion is needed to maintain listings and sales but at the same time is eroding brand equity. Changing this trading environment is potentially one of the biggest challenges facing brand owners in order to maintain viability in the longer term.

The retailer landscape remains challenging

The vast majority of companies feel that the trade has become more focused on trade margins than on what their consumers want.The top concern highlighted by around two thirds of companies was avoiding further

"The consumer and business landscape is unlikely to change significantly in 2011. This 'new normal' is likely to shape consumer behaviour for the foreseeable future."

pressure on margins, although they expect the price sensitive market environment to persist.

Companies want to get back to innovating, building brands and finding new markets
Developing new products and brands that meet the needs of today's consumer was the second biggest challenge that companies felt they faced in the next one to two years. Many companies highlighted their desire to get back to building value in their brands. Significantly, over half the companies surveyed felt that one of their biggest challenges was finding new export markets as they expect the competitive environment on the domestic market to persist.

Consumer and business landscape unlikely to significantly change in 2011
It is clear that the consumer outlook in Ireland is strongly affected by the wider global economic situation as well as the situation and prospects of those economies close to them. The outlook for both these factors does not suggest rapid improvement is likely in the next one to two years, though neither is there is strong indication of significant decline. Consequently, today's landscape can be defined as the 'new normal' - the characteristics of which are likely to shape consumer attitudes and behaviours for the foreseeable future.

The 'New Normal' & S.C.A.N.T.
Five key characteristics of the "new normal" were identified in the study. These can be summarised by the acronym S.C.A.N.T. – Scepticism, Control, Acceptance, New Aspirations and Treading Carefully. Recognising and addressing these characteristics will be critical for food and drink companies.
The characteristics can be summarised as follows:

SCEPTICISM - Get back to building trust and recognise need for new mechanisms

Evidence already suggests that the value of brands has diminished for the Irish and British consumer as they place greater emphasis on price rather than brands. Building greater loyalty and trust should be a pressing objective for those companies wishing to thrive in the future.

An example of a company overcoming scepticism is Domino's Pizza - they launched an ad / contest promising to never manipulate the appearance of their food in advertising following harsh criticism.

CONTROL – Help your consumers gain or maintain control

Before the recession, consumers almost always wanted to save time and were happy to pay to do so. Now consumers are happy to give time to save money. Consumers are shopping less on impulse and have started to take more control of their shopping budget by creating shopping lists and sticking to them. Consumers are fighting to resist temptation and are seeking ways to maintain control and to stick to their plan.

Each week, Carrefour offers its customers the chance to select their own PromoLibre products among the many departments with the PromoLibre label. Having chosen their three favourite products, the lowest priced is refunded or discounted.

ACCEPTANCE - Make sure you are fit for purpose not just trying to fit in

Consumers have accepted the current economic climate and even if their personal financial situations improved, many consumers feel that they would broadly keep the same habits, taking advantage of the extra money in their pockets to reduce debts and put money aside. Companies will have to think more intelligently to maximise value in the marketplace and consider if their brands and businesses are best placed to survive.

Essential Waitrose has proved to be a formidable weapon in the supermarket's armoury. Far from simply being a means of stopping customers going elsewhere, it has actually boosted Waitrose's market share, making it the fastest-growing of the multiples in Britain.

NEW ASPIRATIONS – Make sure you are marketing to the right need

Consumers are learning to do without and redefining their aspirations according to their means. The holiday in

"Consumers are increasingly researching and comparing products before actually trying them."

the sun is largely out of reach and a short break is becoming more aspirational. Companies and brands can do a lot to re-ignite dreams and aspirations and help make the seemingly unobtainable feel more within reach.

"We are what we do" is the tagline of "Less is more" (menos es más), a new drink by Coca Cola in Spain. Menos es más can be mixed with water and from one little bottle you get at least seven big glasses of this refreshing instant drink.

The product website is called "we are what we do" and wants to inspire consumers to contribute with everyday actions to do good for the planet. The idea has taken the simple concept of a juice cordial and given it added meaning at a time when people want to save money and the planet.

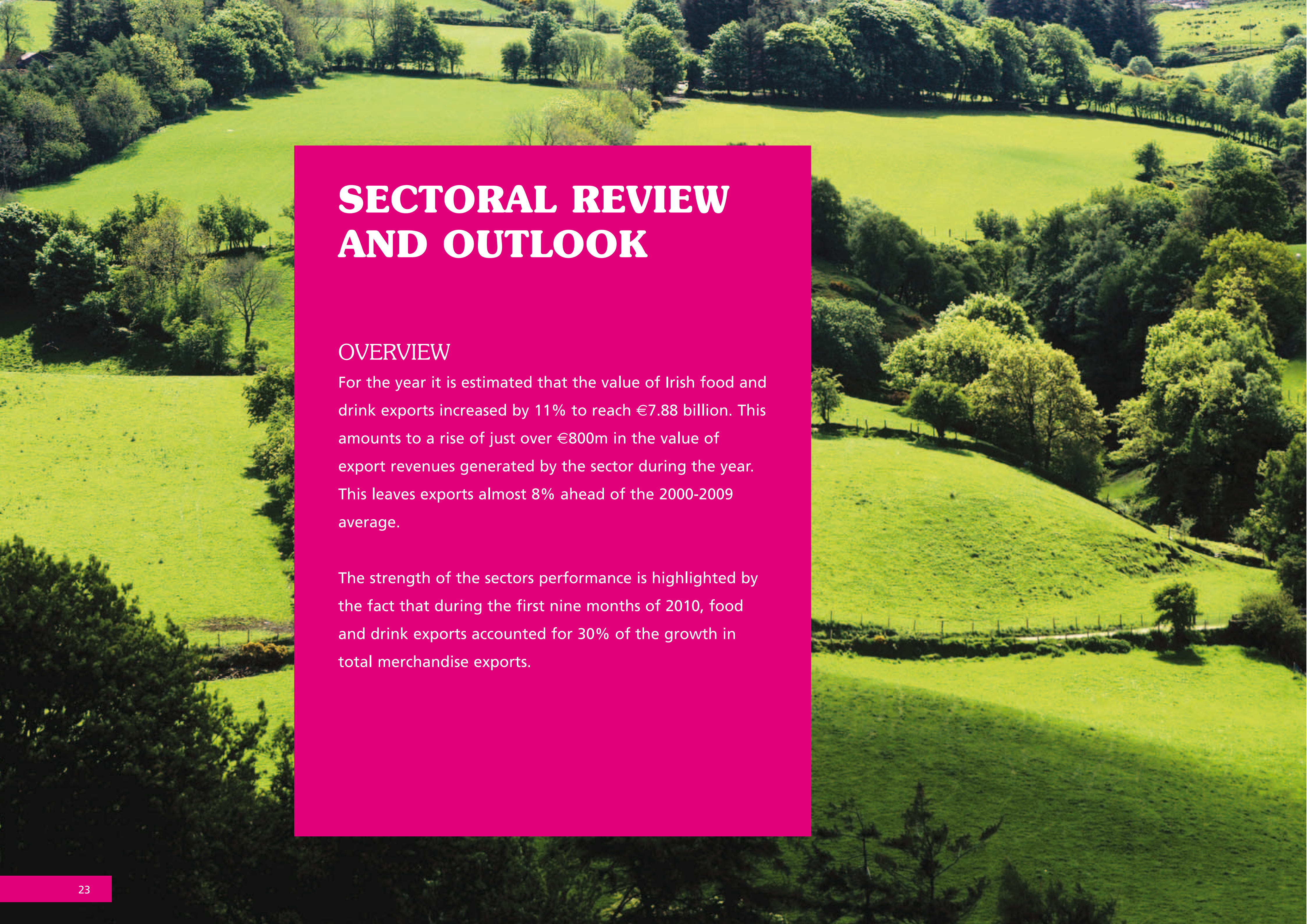
TREADING CAREFULLY – help mitigate the risk of buying or trying your products

Consumers are both researching and comparing products before actually trying them. Companies and brands need to recognise that ever increasing assurances will be needed to gain new business. Consumers increasingly want 'no risk' choices and guarantees that products can be returned if they do not like them (not just that they are faulty or poor quality). Removing the risks to create a positive first encounter, without offering deep discounts or promotions, may be a better way to build stronger relationships even in the short-term.

Image Copyright IGD 2010

So confident is Morrisons about its premium brand The Best, that it was prepared to put the range to a cash-on-the-table test. During the first nine-and-a-half weeks of the brand's launch, the chain threw down a challenge to shoppers to try its posh grub. If you don't like it, Morrisons promise to give you your money back.

Consumer attitudes and behaviours have changed and are likely to remain at the "new normal" level for the foreseeable future. Following the acceptance of the present economic climate, companies must adapt to the new conditions which will be key to their survival and possibly give them a chance to thrive in the short to medium term future.



SECTORAL REVIEW AND OUTLOOK

OVERVIEW

For the year it is estimated that the value of Irish food and drink exports increased by 11% to reach €7.88 billion. This amounts to a rise of just over €800m in the value of export revenues generated by the sector during the year. This leaves exports almost 8% ahead of the 2000-2009 average.

The strength of the sectors performance is highlighted by the fact that during the first nine months of 2010, food and drink exports accounted for 30% of the growth in total merchandise exports.

KEY FIGURES

30% Food and drink exports accounted for 30% of the growth in Irish merchandise exports during the first nine months of 2010.

€7.88bn The value of Irish food and drink exports increased by 11% in 2010 to reach €7.88 billion. This equates to a rise of just over €800m.

KEY DRIVERS OF EXPORT PERFORMANCE

The export performance was boosted by higher global prices for most agricultural commodities, a more stable consumer spending environment, somewhat reduced exchange rate pressures and improved relative competitiveness of Irish manufacturers. All major categories recorded increased export revenues with strongest growth evident in Dairy, Beverages, Meat and Seafood.

While 2010 saw the euro weaken against both sterling and the US dollar, there continues to be a high degree of volatility evident. During 2010 the euro weakened by 4% against sterling and 5% against the US dollar. Figures for December show the euro running 6% and 10% weaker respectively.

While the UK accounted for 44% of exports the largest increase was recorded to other European and International markets as the sector continues to broaden its customer and market reach.

PROSPECTS FOR 2011

Looking ahead to 2011, the prospects for food and drink exports remain broadly positive, helped by strong global demand for commodity products and a relatively tight supply situation in a number of key product categories. Some further growth is anticipated in most major categories.

Export revenues are anticipated to rise in the meat sector while the prospects for dairy remain broadly positive. Following a good year of recovery in 2010, Irish beverage exports are likely to be helped by a resilient travel retail sector and increased sales to emerging markets.

€800m The value of food and drink exports increased by an estimated €800m in 2010.

OVERVIEW

The market environment for Irish food and drink exports improved during 2010, helped by higher global prices for most agricultural commodities, a somewhat more stable consumer environment, reduced exchange rate pressures and improved relative competitiveness of Irish manufacturers.

However, considerable challenges remained around the ongoing focus on value by both retail and foodservice customers, export credit insurance and availability of credit.

For the year it is estimated that the value of Irish food and drink exports increased by 11% to reach €7.88 billion. This amounts to a rise of just over €800m in the value of export revenues.

All major categories recorded increased export revenues with the strongest growth evident in Dairy, Beverages, Meat and Seafood.

Irish food and drink exports

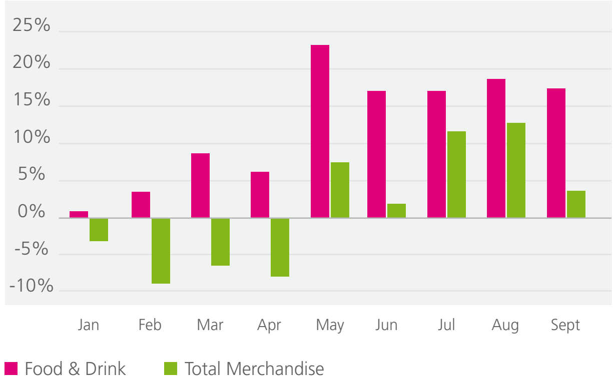
	2009 €m	2010 (e) €m	2010/2009 % +/-
Dairy Products & Ingredients*	1,960	2,285	+17
Beef*	1,397	1,510	+8
Prepared Foods	1,296	1,395	+8
Beverages	1,060	1,190	+12
Pigmeat	289	317	+10
Seafood	315	370	+18
Edible Horticulture & Cereals	198	200	+1
Poultry	183	200	+9
Sheepmeat	164	170	+4
Live Animals	213	245	+15
TOTAL FOOD & DRINKS	**7,075**	**7,882**	**+11**

*includes export refunds. Source: Bord Bia Estimates

The strong performance of the sector is highlighted by the fact that during the first nine months of 2010, total merchandise exports from Ireland recorded a rise of 3% compared to almost 11% growth in food and drink exports. During the period, food and drink exports accounted for 30% of the growth in merchandise exports.

The recovery in food and drink exports commenced more quickly than other merchandise sectors and continued strongly during 2010 while it was mid 2010 before total merchandise exports recorded growth compared to a year earlier.

Monthly trend in manufacturing exports (% change on 2009)



Source: CSO

Looking ahead to 2011, the prospects for food and drink exports remain broadly positive, helped by relatively good global demand for commodity products and a relatively tight supply situation in a number of key product categories.

Export revenues are anticipated to rise in the meat sector while the prospects for dairy remain broadly positive. Following a good year of recovery in 2010, Irish beverage exports will be helped by a resilient travel retail sector. In terms of Prepared Foods, the sector is now in a stronger competitive position, which should leave it better placed to compete both in the UK and on the Continent.

34%

The proportion of exports going to Continental EU markets continues to grow as exporters seek to broaden their export reach.

DESTINATIONS OF FOOD & DRINK EXPORTS

In terms of the destination of Irish food and drink exports in 2010, the **United Kingdom** remained the principal market with sales of just over €3.4 billion, which represented a rise of 4% on 2009 levels. While the relative weakness of sterling remained an issue, exporters appear better equipped to deal with it due to a strong focus on reducing operating costs over the last 18 months.

For the year, the euro was 4% weaker against sterling and some 6% weaker in December, which has offered some relief to exporters following a 30% strengthening during the 2008-2009 period. The weakening in the euro is estimated to have boosted the value of exports to the UK by around €135 million in 2010.

All major categories returned higher exports to the UK with trade being driven by increased beef, dairy and alcoholic beverage returns with prepared foods recording slower returns.

Despite the rise recorded, the proportion of food and drink exports destined for the UK in 2010 fell by two percentage points to 44%.

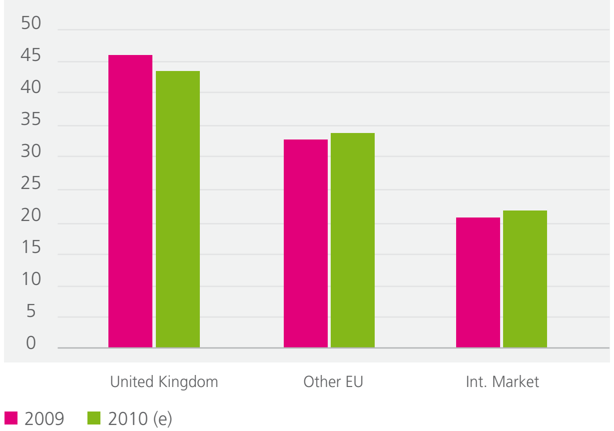
The share of exports destined for **other EU markets** showed a further rise in 2010 helped by stronger dairy, prepared foods, beverage and seafood exports. In total, exports to the region are estimated to have exceeded €2.68 billion, a rise of 14% on 2009 levels. This leaves Continental EU markets accounting for 34% of food and drink exports.

More than half of beef exports in value terms are destined for the Continent while the share of dairy exports going to region increased by four percentage points to 28%. Prepared food manufacturers are increasingly focusing on the region with an increased number of listings secured while the strong performance of Irish whiskey also helped export revenues.

The strongest performing markets on the Continent during the year were Germany, Scandinavia, Spain, the Netherlands and Belgium.

In terms of **International markets**, it is estimated that they accounted for 22% of total exports in 2010 at €1.75 billion. Trade was helped by strong performances in beverages, pigmeat, seafood and dairy. The strongest performing markets were the Middle East, Russia, Asia, Australia and Africa.

Market distribution of Irish food & drink exports (%)



KEY DRIVERS OF EXPORT PERFORMANCE

Currency uncertainty

While 2010 saw the euro weaken against both sterling and the US dollar, there continues to be a high degree of volatility evident, which continues to create challenges for exporters in terms of planning and business development. The level of volatility evident throughout the year is clear when you examine the range of rates recorded:

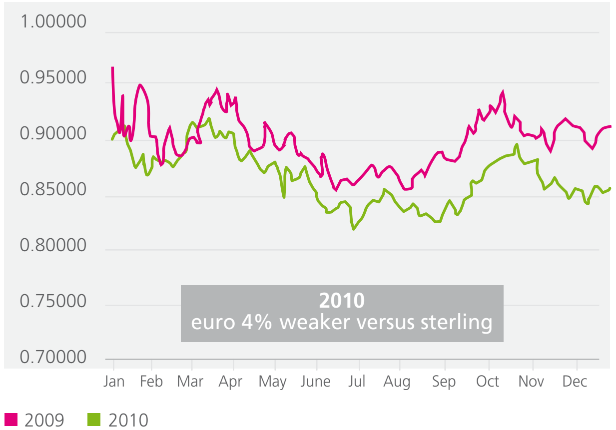
	Euro/Sterling (1€=£)	Euro/US Dollar (1€=$)
December 2009	0.90	1.44
June 2010	0.83	1.22
October 2010	0.88	1.39
December 2010	0.84	1.32

Source: Central Bank of Ireland

The general trend was a weakening in the euro against both sterling and the US dollar. For the year, the euro weakened by 4% against sterling and 5% against the US dollar.

26% The FAO Food Price Index increased by 26% during the June to November 2010 period.

Sterling/Euro Exchange Rates (1€ = £)



Source: Central Bank of Ireland

CONSUMER SPENDING

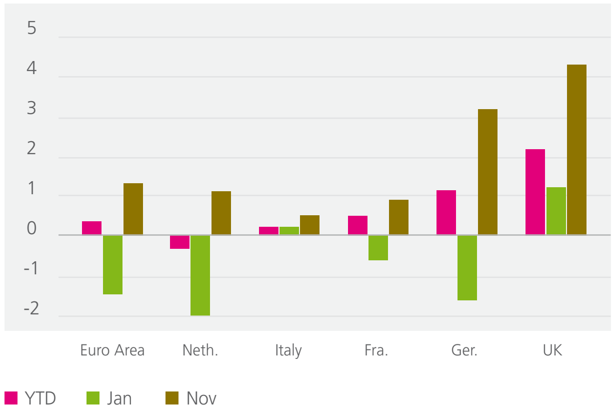
The ongoing recession both in Europe and internationally continues to impact on consumer spending levels in relation to food and has been particularly evident in the ongoing shift to “value” offerings.

However, during the latter months of 2010, a number of major markets started to see the first signs of a return to growth in their consumer food price indices. The consumer price index for the euro area during the first 10 months of 2010 was largely unchanged relative to a year earlier when it fell by more than 2%. The index for the euro area started the year down around 1.3% on the same month in 2009 but by October was running 1.3% higher.

A similar trend is evident across a number of the key markets with the index in October running 0.6% to 5% higher than a year earlier across France, Italy, the Netherlands, Germany and the United Kingdom. The UK market has shown the strongest price inflation with the index rising by 2.4% for the first 10 months of 2010 and was 5% higher in October.

While any turnaround in consumer food prices is welcome, the ongoing promotional pressures on manufacturers as retailers seek to maintain market share continued to impact on average returns across most categories during 2010. With global food commodity prices increasing strongly over recent months, it is expected that consumer prices are likely to come under renewed pressure to increase in early 2011.

European consumer food price index developments (% change on a year earlier)



Source: Eurostat

RISING GLOBAL COMMODITY PRICES

During the course of 2010, global agricultural commodity prices have increased strongly reflecting relatively tight supplies in a number of categories, export restrictions and recovering demand in emerging markets.

The FAO food price index increased by 18% in 2010. The December index showed a rise of 25% relative to December 2009. The rate of increase accelerated from early summer with the index in December some 32% higher than June 2010.

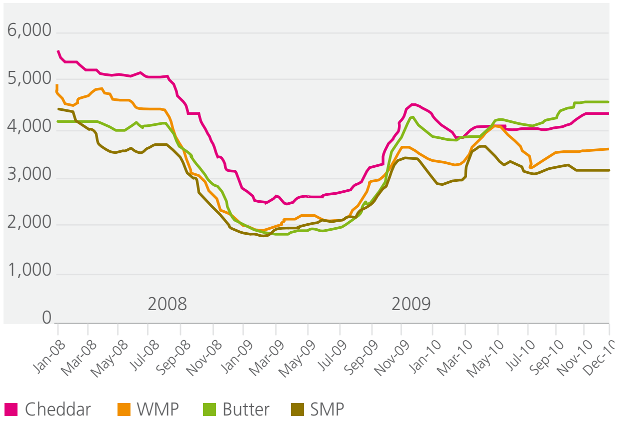
Looking at the major commodities, the largest increases on a calendar year basis were evident in dairy, oils and sugar with increases of 42%, 29% and 17% respectively. The recovery in global dairy prices, which started in the second half of 2009, accelerated in the early part of 2010 before stabilising as the year progressed. This was largely driven by recovering demand in key markets and relatively low supplies among major exporters.

This improved market environment has been evident in prices for dairy products. Oceania dairy prices recorded increases of 40-80% during 2010 with butter prices showing the largest increase in US dollar terms. There was some easing evident in prices towards the end of the year with cheddar and powder prices showing declines relative to the same month in 2009.

€2.44bn

The combined value of meat and livestock exports increased by 9% in 2010 to reach €2.44bn.

Oceania dairy prices (US$/tonne)



Source: Marketinfo Milch

The FAO meat price in December was 18% higher than corresponding month in 2009. This rise has been evident across all meats with the largest increases recorded in beef and pigmeat. The jump in beef prices is demonstrated by the strength of global cattle prices in 2010 with Brazilian cattle prices rising by 25% in euro terms with US cattle prices increasing by some 18%.

While stronger prices are very welcome for primary products, it is impacting strongly on production costs for prepared food manufacturers. To date, these price increases haven't been recovered from the marketplace.

Higher output of key products

During 2010, the output of major Irish food products increased strongly, most notably dairy and beef. It is estimated that the volume of milk produced in Ireland during 2010 increased by more than 6% reflecting renewed producer confidence following a recovery in milk prices and favourable grass growth for much of the year. As a result, the volume of dairy products available to export increased strongly, particularly cheese.

Beef output increased by 7%, reflecting the lower level of live exports of calves and weanlings in 2008, which boosted finished cattle availability in 2010. Pigmeat output also recovered strongly following the return of the breeding herd removed in late 2008 following the product recall.

In the beverage sector, cream liqueur volumes recovered but still remain well below levels recorded in 2008 while whiskey output continues to grow.

Availability of export credit insurance

An ongoing issue for exporters is that of export credit insurance, particularly for a number of emerging markets where opportunities exist for Irish exporters, most notably Russia, Ukraine and Central & Eastern European markets. This is increasing the risk exposure of exporters across a number of categories.

SECTORAL PERFORMANCE

Meat & Livestock

The combined value of meat and livestock exports grew by an estimated 9% to €2.44 billion in 2010. The main drivers of this growth were increased export revenues for beef, live animals and pigmeat.

The value of beef exports jumped by an estimated 8% or €111m in 2010 as increased export volumes and stable prices helped trade. For the year, beef exports were valued at €1.51 billion.

A rise of almost 10% in pigmeat export volumes coupled with largely unchanged average prices led to the value of exports rising by 10% to €317m. The rise in volumes reflects the return of herds depopulated following the removal of 10,000 sows in the aftermath of the product recall in late 2008.

Poultry exports were boosted by higher average prices for fresh/chilled products during 2010 resulting in the value of exports rising by an estimated 9% to €200m.

The drop of over 12% in sheep supplies during 2010 was more than offset by a strong price increase, which saw lamb prices jump by 17%. As a result, the value of sheepmeat exports increased by 4% to reach an estimated €170m.

The strength of live cattle and pig exports boosted the value of livestock exports, with a rise of 15% recorded at €245m.

Irish Meat & Livestock Exports

Species	2009 €m	2010(e) €m	2010/2009 % +/-
Beef	1,397	1,510	+8
Pigmeat	289	317	+10
Poultry	183	200	+9
Sheepmeat	164	170	+4
Live Animals	213	245	+15
TOTAL	**2,247**	**2,442**	**+9**

Source: Bord Bia Estimates

497,000 The volume of Irish beef exports was 8% higher in 2010 at an estimated 497,000 tonnes.

BEEF

Following difficult trading conditions due to weak market demand for much of 2009 and early 2010, particularly for higher value cuts, the European beef market stabilised during the course of 2010. A combination of tighter availability, a more positive currency situation and increased demand for European beef from markets such as Russia and Turkey helped trade.

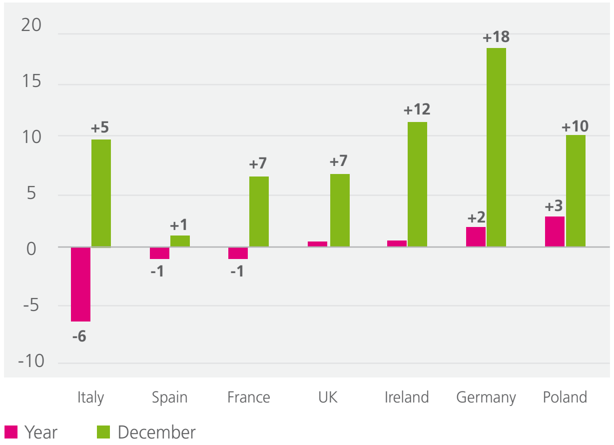
Latest household purchase data from the UK shows that for the quarter ending the 31st October, the volume of beef purchased by UK households rose by more than 2%. Figures for France show a recovery of more than 3% in retail beef sales as the year progressed.

Consumer decisions will be closely related to economic developments and with most of our main European markets forecasting some recovery in 2011, there is reason to expect some improvement in beef consumption.

Mixed trends were evident in beef production across the EU in 2010 with a fall of less than 1% anticipated in total EU output. A fall was evident in fresh/frozen imports during 2010 with shipments estimated to have eased by around 8%. Imports remained almost 20% below the levels recorded as recently as 2007.

Cattle prices across Europe were sluggish for much of 2010 as consumers continued their search for value. The weighted EU-15 R3 male cattle price was 2% lower at €3.11/kg. However, some recovery was evident in the second half of the year with prices in early December running 5% to 14% ahead of corresponding 2009 levels with the largest rise evident in Germany.

European cattle price trends (% change)*



Source: EU Commission

*All prices refer to R3 young bulls with exception of Ireland and UK which refer to R3 steers

Irish finished cattle supplies at meat plants are estimated to have increased by almost 8% to around 1.64 million head with higher disposals evident across all categories. The main drivers of the increase were a carryover of animals from 2009, higher finished cattle availability due to slower live exports in 2008 and some earlier marketing by producers in response to higher feed costs. Average carcase weights are estimated to have been largely unchanged.

The volume of Irish beef exports was 8% higher in 2010 at 497,000 tonnes cwe. This combined with broadly stable cattle prices led to the **value of Irish beef exports rising by an estimated 8% to €1.51 billion**.

Beef Exports (€m)

2009 €m	2010(e) €m	2010/2009 % +/-
1,397	**1,510**	**+8**

Some 98% of beef exports were destined for EU markets in 2010. Across Europe Irish beef is stocked in 3 or more of the top 10 retailers in each major market and in over 70 retailers in total. More than 200,000 tonnes were destined for the higher value standard and premium retail and premium foodservice markets, with a further 75,000 tonnes of quality assured beef destined for the high quality high volume quick service restaurant sector.

The UK market continued to account for half of Ireland's beef exports, although the emphasis on other European markets continues to grow. In 2010, almost 48% of exports were destined for Continental Europe. Key markets include France, Italy, the Netherlands and Scandinavia, which between them account for more than 80% of shipments.

Bord Bia's Marketing Strategy for Irish beef aims at repositioning and differentiation and thereby building a position at the top end of the European beef market. A great deal has been achieved by the Irish beef sector in developing high value markets over the past 3 years and this has seen growth of approximately 9,000t cwe (5%) to standard retail, 6,800t (64%) to premium retail and 4,800t (36%) to premium foodservice, between 2007 and 2010.

As a result of lower imports of steaks from Argentina, there are further opportunities to build our premium markets. With our volume availability set to decline considerably in 2011 and 2012, we now have the opportunity to prioritise and target customers returning

95% By December 2010 the Brazilian steer price stood at almost 95% of the EU-15 male cattle price compared to 60% in January.

highest prices on a consistent basis and increase returns across the sector.

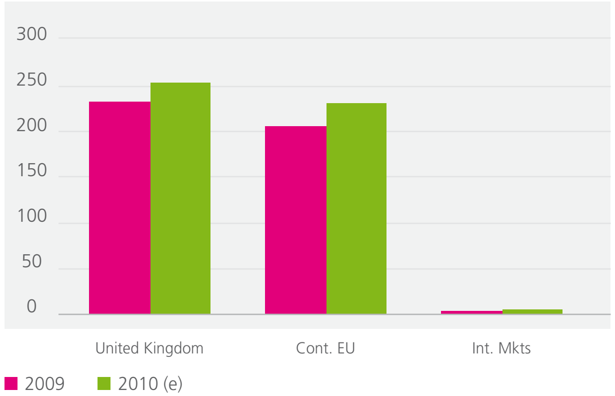
MARKETS FOR IRISH BEEF

Higher finished cattle availability, recovering retail sales and a better currency situation helped shipments of Irish beef to the **United Kingdom** during 2010. Export volumes increased by 4% to reach 254,000 tonnes and were valued at some €685 million. This represents a rise of more than €25 million in the value of exports.

Export volumes to **Continental EU markets** increased by 11% during 2010 to reach 237,000 tonnes with trade valued at €817 million. Trade was helped by stronger availability and improving market demand as the year progressed. Shipments were boosted by increasing exports from other EU suppliers to Russia and Turkey. The strongest growth in exports was evident in France, Italy and the Netherlands.

Having started the year at very slow levels, exports of Irish beef to **International markets** picked up considerably during the latter part of 2010, helped largely by increased demand from Russia as other EU suppliers diverted increasing volumes to Turkey. For the year, it is estimated that exports reached around 6,000 tonnes.

Market Distribution of Irish beef ('000 tonnes cwe)



Source: Bord Bia estimates

OUTLOOK FOR 2011

The prospects for 2011 point to a relatively tight supply situation across Europe while Irish finished cattle supplies are set to tighten considerably. This combined with the strong rise in cattle price among leading global exporters and a more stable consumer demand all suggest a stronger market environment for Irish beef.

EU-15 beef production is to fall by around 2% to 7.1 million tonnes. Most of the decline in output is evident amongst the key principal suppliers, namely France, Germany and the UK. In addition, a number of Member States expect a stronger trade to International markets. German exports to international markets are forecast to double to 38,000 tonnes while Spain and Italy are also expected to record higher shipments outside of Europe. This will impact on availability within Europe, particularly for forequarter beef.

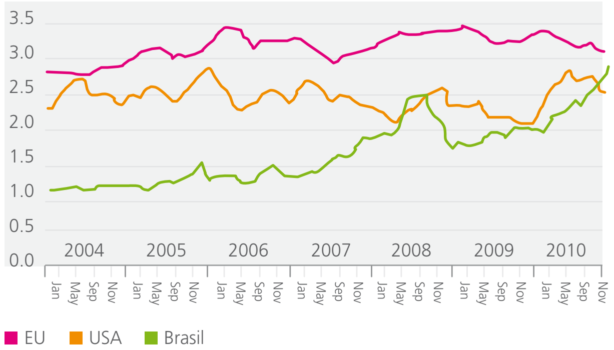
South American export availability in 2011 looks set to remain constrained by the ongoing decline in shipments from Argentina, which fell by an estimated 50% in 2010. In 2011, it is expected that the combined exports of Brazil, Argentina and Uruguay - which between them accounted for almost 85% of EU imports in 2009 -will be around 500,000 tonnes below 2007 levels at 2.9 million tonnes. Despite Brazilian exports rising by around 5% in 2010, shipments to the EU were unchanged with all of the growth taking place in the Middle East and to a lesser extent Asia.

Imports of fresh and frozen beef from Brazil into the EU continue to run at just over one fifth of 2007 levels. The number of Brazilian farms approved to supply the EU has been slow to increase and in December 2010 stood at just over 2,200. While some further recovery is expected in Brazilian beef exports in 2011, volumes shipped to Europe are unlikely to increase strongly, unless EU prices strengthen considerably.

During 2010 there was a considerable convergence evident in world and EU cattle prices reflecting tight global supplies and an improved demand in key import regions such as the Middle East and Asia. By December 2010 Brazilian steer prices stood at almost 95% of the EU-15 average male cattle price, which compared to just 60% at the start of 2010. This reduces the relative competitiveness of Brazilian beef on the European market.

10% The value of Irish pigmeat exports increased by an estimated 10% in 2010 helped by a similar rise in volumes.

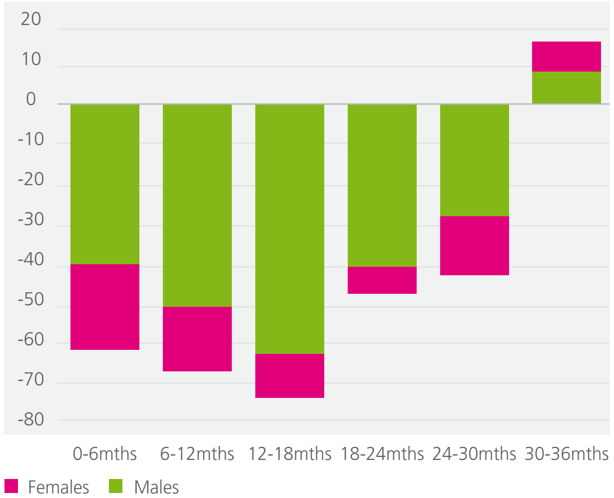
World Male Cattle Prices, 2004 to 2010 (c/kg dw)



A significant tightening in Irish finished cattle supplies is anticipated for the 2011 – 2012 period as the strength of live cattle exports over recent years impacts on availability. Figures from the Department of Agriculture, Fisheries and Food's AIM database for the 1st September 2010 confirm the decline in younger cattle numbers with a drop of 272,000 recorded in the number of cattle less than 36 months. Some 246,000 of this is evident in animals less than 24 months of age.

Trends in Irish cattle numbers by age, September 1st 2010

(Change in '000 head on September 2009)



Source: DAFF

The figures for 24 – 36 month old animals showed a fall of 19,000 in male cattle with females 8,000 head lower than September 2009. With steer and older bull disposals more than 5,000 head higher during the September to December period and heifer supplies up by 2,000 head it would suggest a tightening in finished cattle availability from early 2011.

With live exports of finished cattle likely to be largely maintained in 2011, and assuming stable cow disposals, total finished cattle supplies at export meat plant are expected to fall by around 100,000 head.

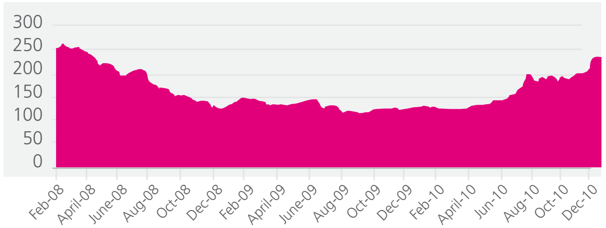
PIGMEAT

European pigmeat output was stable in 2010 with GIP production standing at 255 million head. However, a sluggish European demand led to average EU pig prices falling by around 2%.

European exports are estimated to have increased by around 14% in 2010 reaching 2.7 million tonnes. All major destinations showed higher shipments with Russia, Japan and China showing the strongest increases.

The dramatic increase in feed costs as the year progressed is significantly adding to production costs, particularly in Ireland where feed tends to represent a higher proportion of total costs. In early December feed wheat costs across Europe were running around 65% or €80 per tonne ahead of the same period in 2009. With little softening in feed costs expected over the coming months, lower EU output is likely as 2011 progresses.

Feed Wheat Prices (Hamburg, €/t)



Source: HGCA

3% Global pigmeat production is forecast to rise by 3% in 2011.

Given the prevailing market environment, Irish pigmeat exports performed reasonably well throughout 2010. An increase of almost 10% in pig supplies at export meat plant as depopulated herds returned to full production helped boost export volumes to 134,000 tonnes.

Following a slow start to the year, Irish pig prices moved ahead of year earlier levels from mid year and for the year as a whole were largely unchanged. Prices in December were running around 8% ahead of the corresponding month in 2009.

Overall, the international market environment for Irish pigmeat improved in 2010 following a difficult trading year in 2009. Improved domestic demand in major importing nations such as Russia, China and Japan, a weakening of the euro versus the US dollar combined with more expensive North American product led to European exports being more competitive on International markets.

The combination of stronger supplies and reasonably stable prices led to the **value of Irish pigmeat exports in 2010 rising by 10% to an estimated €317 million**.

Pigmeat Exports (€m)

2009 €m	2010(e) €m	2010/2009 % +/-
289	**317**	**+10**

MARKETS FOR IRISH PIGMEAT

Exports to the **United Kingdom** were affected by a drop of around 3% in UK imports, stronger supplies of competitively priced Dutch pigmeat on the market and a stronger focus by Irish exporters on International markets. For the year, it is estimated that exports to the UK fell by around 10% to an estimated 63,000 tonnes product weight with trade worth some €195 million. The UK market accounts for around half of total exports in volume terms and given the relative value of exports, around two thirds of total value.

There was a marginal increase in shipments to the **Continent** with an estimated 38,000 tonnes exported at a value of €65 million. Lower shipments to Germany and France were largely offset by stronger demand from Northern European markets and Eastern Europe, namely the Czech Republic, Poland and Estonia.

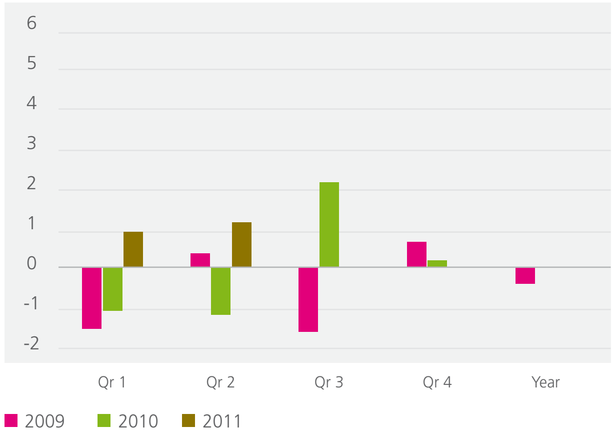
Irish exports to **International markets** performed strongly in 2010 following suspensions on Irish pigmeat exports during the product recall in later 2008. Exports to Russia are estimated to have reached 7,000 tonnes while China accounted for a further 4,000 tonnes. This combined with a strong rise in exports to Japan led to exports increasing by around 17,000 tonnes to reach 27,000 tonnes. The trade was valued at an estimated €50 million.

OUTLOOK FOR 2011

The output from the October 2010 EU pigmeat working group point to a rise of around 1% in pig supplies during the first half of 2011. Stronger output anticipated in Germany, Poland, the Netherlands and Italy is expected to more than offset declines in countries such as Denmark, France and the UK.

Developments for the second half of 2011 are likely to be increasingly driven by feed prices and trends in finished pig prices. Given the global grain supply situation anticipated over the coming season, high market prices will be needed if production is to remain viable.

Quarterly finished pig supplies, EU25/27 (% Change on previous year)



Source: EU Pig Forecasting Working Group

Global pig production is forecast to increase by 3% in 2011, with growth forecast in China, Russia, Brazil and the US.

International demand for European pigmeat is expected to remain reasonable, although other exporters are forecast to remain competitive in key markets. Global export supplies of pigmeat are expected to show little change, although varied trends are anticipated. Stronger US and Brazilian exports are forecast with Asia likely to be the main focus. In terms of import demand, higher volumes are anticipated in South Korea, China and Japan. The Russian market, despite a continued drive to become self sufficient is expected to import similar volumes to 2010 levels.

In Ireland, some further modest increase in pig supplies is anticipated for early 2011. Thereafter, producer decisions in response to rising feed costs will dictate production levels.

17% Irish lamb prices increased by 17% or almost 65c/kg in 2010.

SHEEPMEAT

The market environment for sheepmeat improved considerably during 2010 as lower supplies from the UK, New Zealand and Ireland helped boost prices.

Supplies at export meat plants fell by an estimated 12% in 2010 reflecting a lack of carryover from 2009, a further reduction of 7% in the breeding flock and reduced productivity in some parts of the country due to poor weather at lambing. This decline occurred despite a rise of more than 50,000 in the level of live imports and a fall of 40% in live exports.

Domestic consumption remained under pressure with retail sales of lamb falling by more than 10% in the year to November. However, reduced import volumes meant it didn't impact on the volumes available to export.

The volume of Irish sheepmeat exports is estimated to have fallen by just over 10% to stand at 36,500 tonnes. Lamb prices showed a rise of 17% or almost 65c/kg during the year to reach €4.39/kg.

The proportion of Irish exports that are in cut form continued to grow with just over 40% of exports in boneless form up to the end of August compared to 37% during the corresponding period in 2009.

The market diversification evident over recent years was largely maintained with a quarter of shipments destined for markets other than France and the UK in 2010.

For the year, it is estimated that, despite the drop in volume, **the value of sheepmeat exports increased by 4% to €170 million**.

Sheepmeat Exports (€m)

2009 €m	2010(e) €m	2010/2009 % +/-
165	**170**	**+4**

MARKETS FOR IRISH SHEEPMEAT

The French market continued to account for half of Irish sheepmeat exports in 2010. For the year shipments are estimated to have reached 18,500 tonnes and were valued at €95 million.

Despite the relative strengthening of sterling, UK lamb remained reasonably competitive on the market while New Zealand prices increased due to exchange rate movements and the relative lack of availability.

The primary focus of Bord Bia's marketing efforts in the market centred around the generic Agneau Presto Lamb campaign, which has been extended for a further three years.

Exports to the **UK** held up well despite the lower export availability. For the year, it is estimated that exports reached around 9,500 tonnes, with a higher proportion of shipments consisting of lamb.

Shipments to **other EU markets** held up somewhat better with volumes to Belgium and Northern Europe reasonably maintained. Shipments of light lamb to Mediterranean markets improved towards the end of the year due to a better demand from Portugal. In addition, markets such as Switzerland and Tunisia are of increasing interest to Irish exporters.

OUTLOOK FOR 2011

The market prospects for 2011 remain positive with lower New Zealand supplies expected to help maintain demand on the European market. Overall, EU sheepmeat production is forecast to fall by more than 1%.

In the UK, improved producer confidence following better market conditions throughout 2010 have led to a stabilisation of the breeding flock. This combined with slower culling rates and improved fertility is expected to leave UK output largely unchanged in 2011 at 268,000 tonnes. Little change in UK sheepmeat trade is expected to materialise, although any weakening in domestic demand could benefit exports if the pound remains weak against the euro.

Cold wet conditions during their spring have hit the 2010/11 New Zealand lamb crop with numbers estimated to be back by 10%. As a result, Beef and Lamb New Zealand expect the number of lambs available to fall by almost 7% in the year to 30th September 2011. While carcase weights are expected to rise slightly, the volume of lamb available to export is likely to be around 6% lower.

In terms of export to the EU, figures for January to October 2010 show a drop of 11% in shipments from New Zealand, although within this chilled volumes were 9% higher at 48,000 tonnes. The prospects for 2011 suggest a further tightening in NZ supplies on the EU market.

In France, sheepmeat output is expected to drop by around 1% while consumption is forecast to recover by 2%. This is forecast to lead to rise of 4% in imports.

The prospects for Irish sheep supplies in 2011 point to a more stable situation with renewed producer confidence and stronger demand for breeding stock helping

15% The value of Irish livestock exports increased by 15% in 2010, helped by stronger shipments of cattle and pigs.

availability. For the year, a further decline of around 2% is anticipated in Irish sheep supplies. This would bring export volumes to 36,000 tonnes, assuming stable sales on the domestic market. However, weather conditions during the lambing period could impact on lamb numbers, particularly if the recent cold weather persists.

POULTRY

Irish poultry exports had a better year in 2010 with stronger prices for fresh/chilled poultrymeat helping the value of trade.

Some recovery in domestic production as the year progressed helped to offset reduced import volumes due to lower shipments of frozen and processed poultry to Ireland.

After a slow start to the year, European broiler prices picked up as the year progressed and for the year as a whole were just marginally below 2009 levels. However, prices in November were around 7% above year earlier levels. The increase in prices has helped to partly offset the strong rise in feed prices during the second half of 2010.

Demand across Europe was reasonable during the year. Estimates from the EU Commission suggest that EU-27 consumption was unchanged at 11.6 million tonnes. Overall EU poultry production was around 2% higher while imports are estimated to have fallen by 14% due to new regulations regarding the use of frozen poultry. Most of the drop was evident in shipments from Brazil and Chile, which were 15% lower during the first nine months of 2010.

Up to the end of August the volume of Irish poultrymeat exports were running almost 10% lower due to a drop in shipments of both chilled and processed poultry. The value of trade was 8% higher during the period.

For the year as a whole, **the value of Irish poultrymeat exports is estimated to have increased by 9% to €200m**.

Poultrymeat Exports (€m)

2009 €m	2010(e) €m	2010/2009 % +/-
183	**200**	+9

Despite a 10% fall in the volume of exports, stronger demand on the Continent and International markets helped offset a difficult trade to the UK. Most of the fall in exports to the UK was evident in processed products, which faced a very competitive market environment.

An increase in prices on the Continent due to better consumer demand and lower EU imports from International markets led to an increase in wholesale prices. Even with lower volumes the value of exports increased significantly. Shipments to international markets increased strongly, albeit from a small base, due to increased demand for offals and by-products.

OUTLOOK FOR 2011

Global poultry production is forecast by the USDA to grow by 2% in 2011 to 76.2 million tonnes. Strong domestic demand and, to a lesser extent, rising exports, will fuel production growth in many countries. However, the USDA suggests that as 2011 progresses, rising grain prices may adversely impact production. Higher exports are anticipated from Brazil, Thailand and China.

Little change is anticipated in EU poultry production while consumption levels are forecast to rise marginally across a number of markets. However, much is likely to depend on how the sector deals with the higher feed cost environment anticipated for much of the year.

Irish poultry production is forecast to remain stable, which will help to maintain export volumes. However, as with other countries, feed price developments will largely dictate output as the year progresses.

LIVE ANIMALS

The value of Irish livestock exports remained strong during 2010, helped by further increases in both live cattle and pig exports, which more than offset a 40% decline in sheep shipments.

Overall, **the value of Irish livestock exports increased by 15% in 2010 to an estimated €245m**.

Livestock Exports (€m)

	2009 €m	2010(e) €m	2010/2009 % +/-
TOTAL	**213**	**245**	**+15**
Cattle	158	183	+16
Pigs	48	57	+19
Sheep	7	5	-25

Live cattle exports
Live cattle exports are estimated to have reached around 340,000 in 2010, which represented an increase of more than 50,000 on 2009. This leaves exports about 200,000 head above 2008 levels. The value of trade was 15% higher at €183 million.

The principal factors driving increased exports were strong demand for Irish calves within the European veal sector

6% The volume of milk output in Ireland increased by more than 6% in 2010.

and higher shipments of weanlings/stores to Italy and Spain.

Calf exports accounted for two thirds of the increase with the Netherlands, Belgium and Spain being the major markets. For the year, calf exports are estimated to have reached around 160,000 head, which represents a growth of more than 35,000 on 2009 levels.

Exports of weanlings and store cattle also performed strongly, rising by around 10,000 to 120,000 head. Higher shipments were recorded to both Italy and Spain.

Exports to the UK remained strong at around 102,000 head helped by stronger finished and store exports to Northern Ireland. Within the total, finished cattle exports stood at around 55,000 head.

Other livestock

Shipments of live pigs to Northern Ireland remained strong, reaching an estimated 570,000 head, which represents an increase of almost 20% on 2009 levels.

Following a strong year in 2009, live sheep exports eased by 40% during 2010 reflecting the tight supply situation and the stronger prices prevailing in Ireland. The UK remains the key destination.

OUTLOOK FOR 2011

The outlook for Irish live cattle exports remains broadly positive for 2011 with demand from key markets such as the Netherlands, Italy and Spain set to be maintained.

The veal market has held up well considering the economic downturn evident across Europe, although the rising price of milk replacer may impact on supplies as 2011 progresses. However, supplies from other key suppliers such as France, Germany and to a lesser extent Poland are unlikely to increase, which should help Irish export levels. Much will depend on price levels both in Ireland and key markets.
In terms of the trade for weanlings and stores, feed costs are likely to play a key role in determining demand levels in markets such as Italy and Spain.

In terms of the UK, and particularly Northern Ireland, an ongoing strong trade for both finished cattle and weanling/stores is anticipated given the relative tightness in NI supplies anticipated over the course of 2011.

The prospects for live pig exports remain strong, although overall availability will dictate shipments.

Given the tight supply situation little change is expected in live sheep exports for 2011.

DAIRY PRODUCTS & INGREDIENTS

This category encompasses both primary dairy products such as butter, cheese and milk powders and value added dairy products and ingredients such as infant formula, casein and chocolate crumb.

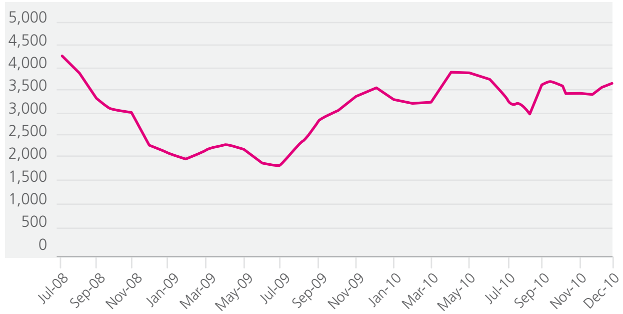
The improvement in global dairy markets during late 2009 continued for much of 2010 with significantly higher prices prevailing.

For most products, European prices increased by 7 - 40% with the strongest increases evident in butter and powders, both of which had recorded significant declines in 2008 and the first part of 2009. Cheese prices recorded slower growth, but like infant formula, had withstood a lot of the price falls over previous years.

EU milk output was marginally higher in 2010 with increased volumes going into cheese production. However, this was largely offset by lower WMP, SMP and butter production.

Global prices also performed very strongly in 2010 with Oceania prices showing increases of 40 – 50% for cheese and powders in US dollar terms. Similarly, the Fonterra auction price for WMP increased by over 40% in 2010. Prices peaked in April/May at just over $3,900 per tonne before easing slightly, with the last auction in December averaging $3,620 per tonne.

Fonterra average auction price, Whole Milk Powder (US$/tonne)



Source: Fonterra

Milk output in Ireland increased strongly as the year progressed following a slow start as better prices and good grass growth boosted output. For the year, total milk deliveries are estimated to have increased by more than 6%. In terms of production, there was a shift towards increased cheese production while SMP output declined as did WMP.

2010 also saw the removal of a considerable volume of SMP and butter from storage across Europe with Ireland alone releasing 20,000 tonnes of SMP and 5,000 tonnes of butter.

€2.29bn

The value of Irish dairy exports jumped by 17% in 2010 to reach an estimated €2.29bn.

Overall, it is estimated that the value of **exports for the year increased by 17% to reach almost €2.29 billion**.

Dairy & Ingredient Exports (€m)

2009 €m	2010(e) €m	2010/2009 % +/-
1,960	**2,285**	**+17**

* includes export refunds

An improved global demand, stronger prices and the release of product from intervention all helped to boost export values.

The strongest performing categories during the year were cheese, powders and butter. The volume of infant formula exported showed some decline after a relatively strong year in 2009 as some Asian markets increased domestic output, which led to reduced import demand.

In terms of markets, increased sales were recorded to Continental Europe, particularly Germany while exports to emerging markets in Africa and parts of the Middle East also showed strong growth.

The volume of cheese exports performed well. The UK remained the key destination, accounting for two thirds of exports while shipments to other EU destinations and outside of Europe continued to make progress. The UK cheese market has performed well with volumes through retail continuing to increase and average prices also rising slightly.

OUTLOOK FOR 2011

Rabobank anticipates a tightly supplied global dairy market in 2011 due to higher feed costs and limited growth in Southern Hemsiphere supplies other than New Zealand. On the other hand, consumption levels look set to remain strong helped by improving labour markets in western economies, strong economic growth in import regions and strong demand from China.

In more advanced economies like the EU and the US, consumption is expected to gradually recover through the latter stages of 2011. In key milk deficit regions, such as China, Latin America and ASEAN, strong GDP growth rates are expected to bolster import demand. Demand from Russia is also expected to remain strong.

Factors which could impact on market prices in 2011 include adverse weather conditions (particularly in NZ) and some further increase in grain prices, which could dampen global output. On the other hand, higher US exports coupled with imports failing to materialise from either China or Russia could cause some downward pressure. However, overall they expect dairy prices to be broadly stable while not reaching the peaks of 2010.

Rabobank suggest that the growing influence of China and India on the global dairy market will continue to drive global demand against constrained global milk supplies over the medium term. However, despite the growing demand they expect price volatility to remain.

The prospects for Irish dairy exports in 2011 remain generally positive with better demand in key markets likely to help price levels. However, much will depend on supply levels from other exporters. Irish milk supplies are likely to grow in line with the increase of 1% in quota from April 2011. Irish producers are better placed than most to withstand higher feed costs, given the predominantly grass based form of production.

The Irish dairy sector continues to develop a growing portfolio of products and markets, which provide more options for exporters and help optimise market returns for the sector. This development will become ever more critical as the ending of dairy quotas approaches and the sector increases the volume of dairy products available to be exported.

PREPARED FOODS

This category includes a wide range of primary products, which have been further processed and includes ready to eat foods, confectionery and bakery products.

Prepared food manufacturers continued to face a competitive market environment in 2010 due to a combination of price pressure from customers and rising input prices. While less challenging than 2009, exchange rate movements also remained an issue as did ongoing challenges regarding export credit insurance and the relative cost of production.

However, a strong focus on product development and expanding the range of customers and markets served helped the sector as the year progressed. The challenge facing the sector continues to be competing on a consistent basis with other suppliers and being able to supply a portfolio of products that meets the evolving needs of both customers and consumers. The strong focus on cost reduction and efficiencies over the last two years has helped exporters become leaner and better able to compete than previously.

Given the backdrop, prepared food exports, performed reasonably well. **Overall, exports of products covered under the prepared foods category increased by an estimated 8% to almost €1.4 billion**. If value added meats and poultry are included, exports were in the region of €1.7 billion. However, exports of consumer ready products, principally to the UK, fell by an estimated 6%.

€1.4bn

Prepared food exports increased by 8% in 2010 to reach almost €1.4bn.

The strongest performing categories during the year were ready meals, ingredients for the sandwich sector, bakery and sugar confectionery. These helped to partly offset a difficult environment for other categories.

Prepared Food Exports (€m)

2009 €m	2010(e) €m	2010/2009 % +/-
1,296	**1,395**	**+8**

The UK market remains the principal destination for most manufacturers. However, the proportion of exports destined for the market have declined over the last year with figures for the January to August 2010 showing 43% of prepared food exports going to the UK compared to 48% in 2009. This largely reflects the currency related pressure facing manufacturers over recent years, which has led them to look towards other markets in order to diversify their export base.

The proportion of prepared food exports going to other European markets jumped by three percentage points during the first eight months of 2010 to reach 34%. This follows ongoing investment by manufacturers in exploring potential market opportunities on the Continent. As a result, increased sales across a range of categories have been reported with the strongest market growth evident to markets such as the Netherlands, Germany and France.

One of the major exports to the UK is ready meals with a focus on frozen products. The frozen ready meal sector has benefited from cost-conscious shoppers trading down while the perception of frozen products among consumers has also improved. This has helped exports from Ireland over the last year with a strong single digit increase recorded.

The pizza market continues to be one of the most competitive in the UK with a number of suppliers having a very strong presence in what is a very price competitive market segment. The decision in 2009 by a leading supplier to invest in a UK manufacturing operation has increased competition even further.

Exports of chocolate confectionery showed mixed trends in 2010 with a slower performance recorded to the UK for many exporters reflecting ongoing currency movements and increased promotional pressure from retailers. However, a number of smaller exporters had a more positive year in the UK due to a combination of increased sales to existing customers and new customers. An increase in the number of markets served by some smaller manufacturers combined with consumers looking to products such as chocolate to provide a treat, has helped exports. The strongest performing area was that of luxury chocolates with increased market diversification evident by a number of manufacturers. Strongest sales growth was evident in the Middle East, Southern Asia and Australia.

Sugar confectionery has proven to be more recession proof than most products with exports performing well to the UK while new business was also developed across Europe and the Middle East.

Bakery products put in another strong export performance in 2010 helped by a more positive market environment as the year progressed. New product development and delivering added value product solutions have been the main drivers in delivering new sales in this category. The export reach of some smaller bakery companies broadened as sales to the Continent increased, albeit from a very small base. Companies have reacted to changing consumer behaviour in the category although the drive to reduce waste has impacted on volumes. The UK continues to dominate trade at almost 80% of the total.

OUTLOOK FOR 2011

The improved efficiencies evident among Irish manufacturers leaves them in a better position to compete in key markets. However, ongoing volatility in sterling remains an issue, albeit not as significant as previously. The performance of most major categories improved as 2010 progressed, which should leave exporters better placed as they move into 2011.

In addition, the strong drive by manufacturers to adapt existing products and develop new ones to meet changed consumer shopping requirements and diversification to a broader range of markets should help export values.

The strong rise in ingredient costs reported over recent months looks set to continue into 2011. This will put increased pressure on manufacturers to achieve higher returns from the marketplace, which is likely to be difficult in the current economic environment. Supplies of some inputs, most notably sugar, are reportedly very tight, which is making it increasingly difficult to secure adequate supplies. This could have significant consequences for production of some products.

The key to continued export growth for prepared food manufacturers remains product innovation in relation to health, convenience and value for money as well as targeting products for specific markets.

€1.19bn

A strong performance by the beverage sector saw exports increase by 12% to reach €1.19bn.

BEVERAGES

Exports of beverages performed strongly in 2010 following a very challenging year in 2009 due to weaker consumer demand and destocking across key markets. However, 2010 saw a return to more normal trading conditions with higher volumes recorded across most key categories although the strong focus on value propositions remained.

Despite all the volatility associated with the travel retail market, including ash cloud and the current recession, the market has proven to be one of the most resilient and continues to be of strong interest to exporters. The Chinese and Indian duty free markets are booming as is Latin America, while the Middle East remains strong and North America and Europe are showing signs of recovery. Many international airports are increasingly developing specialist whiskey/whisky shops. Liquor ranks as the second-largest category after cosmetics and fragrances and represents an ideal 'shop window' for Irish companies interested in targeting travel retail/duty free and international customers.

As with other sectors, beverages had to deal with ongoing currency movements both in terms of the US dollar and sterling. Price pressure in the sector remained strong, which impacted on average returns. However, stronger volumes helped to more than offset this pressure in most markets.

Overall, exports are estimated to have increased by 12 per cent in 2010 to €1.19 billion.

The strongest performing categories were whiskey, cream liqueurs and beer. Cider exports improved as the year progressed, helped by a better performance in the UK and emerging markets growing strongly.

In terms of non-alcoholic beverages exports, sales of water, tea and coffee all recorded improved performances in 2010 while juices and smoothies continued to be affected by a declining UK market.

Beverage Exports (€m)

2009 €m	2010(e) €m	2010/2009 % +/-
1,060	**1,190**	**+12**

Whiskey exports continue to perform strongly with increased sales to the United States, Europe and emerging markets such as Russia, South America and Australia. The improved performance of the travel retail sector has also boosted demand for Irish whiskey. The category appears to have withstood the downward price pressure better than most.

Following a very difficult year in 2009, the global market for cream liqueurs picked up in 2010, which boosted volumes considerably. However, increasing pressure on prices, currency and higher raw material costs meant that the rate of increase in export values was lower. The best performing markets were the United States, Germany and Latin America.

Beer exports also recorded growth, helped by a better performance at retail level in the UK, France, Germany and Benelux, which helped to offset a weaker on-trade. Asia and Africa also showed stronger potential.

In 2010, exports of Irish cider improved as the year progressed with a stronger performance in the UK combined with increased sales to North America and Australia helping trade.

In terms of non-alcoholic beverages, exports of mineral water improved strongly, despite ongoing issues with sterling. Sales are being driven by innovation with new and existing customers. Growth was also evident on the Continent, particularly in Holland.

Sales of juices and smoothies continued to be negatively affected by developments in the UK market, which recorded a 33% drop in value during the 2007-2009 period. Exports of juices declined as higher input prices affected volumes. Deflation at the top end of the market combined with inflation at the lower end has resulted in a blurring of market segments.

Exports of teas/coffees recorded growth in 2010. Demand for hot beverages is outstripping supply due to a rise in global consumption and production falls due to adverse weather conditions. This is leading to significantly higher input prices. Growth is being driven by premium and speciality variants.

OUTLOOK FOR 2011

Generally, the prospects for beverage exports remain positive for 2011 with the improved market demand expected to be maintained while emerging markets continue to increase the value of imported Irish beverages.

However, the sector also faces challenges in the form of higher dairy and other raw material prices. The likely abolition of intermediary excise tax relating to wine based cream liqueurs will substantially raise retail prices meaning products could be replaced by lower cost mainland European cream products. In addition, currency movements and a price focused retail environment continue to present challenges.

18% The value of Irish seafood exports increased by 18% in 2010, helped by strong prices for most species. Total exports were valued at €370m.

More promising economic data from the United States over recent months provides more positive indications for exports in 2011. Similarly, demand from emerging markets seems set to be maintained and help offset some of the difficulties encountered by major categories on the European market.

Exports of cream liqueurs are expected to show further growth helped by a global brand campaign by the leading producer. Best prospects for growth are the United States, South America and Asia.

Further growth is expected in the whiskey category, particularly to the United States and emerging markets such as Russia as the customer base for Irish whiskey continues to grow.

The ongoing international development of cider sales is expected to boost exports in 2011 combined with an improved performance of exports to UK that commenced during 2010.

In relation to non-alcoholic beverages, the best export potential appears in innovative products that offer increased functionality while continuing to deliver a competitive price point. Raw material costs are likely to play a key role in determining the competitiveness of the sector throughout 2011.

SEAFOOD

The export market for Irish seafood showed significant improvement during 2010 as lower supplies across most species helped boost prices while the exchange rate environment was more benign.

Overall for the year, **the value of seafood exports is estimated to have increased by 18% to an estimated €370 million**.

Seafood Exports (€m)

2009 €m	2010(e) €m	2010/2009 % +/-
315	**370**	**+18**

France remains the largest export market in value terms, accounting for around a quarter of the total. During the first eight months of 2010 the value of trade to France jumped by 30%. Increased volumes of organic Irish salmon are now being sold through all channels, including the French discount sector.

Spain is the second largest market followed by the United Kingdom and Russia with all markets showing higher exports. Generally, there was some swing to euro zone markets following the severe exchange rate volatility with sterling over recent years.

Strong demand for organic salmon across Europe helped Irish exports in 2010 as around 70% of our production is organic. This combined with poor growth rates globally during 2009 and a severe decline in Chilean salmon production left a supply gap in the market. A strong Norwegian Kroner reduced the competitiveness of the leading market supplier and led a strong jump in prices, which seems set to be maintained into 2011.

Strong sales of whitefish on the French market and a consumer preference for fresh product benefited Irish exports. Reports suggest reduced availability of white fish on the European market also helped price levels for much of the year.

The shellfish market also improved as increased demand for crustaceans in emerging markets, particularly Asia, and poor weather conditions in the early part of the year led to a tighter supply situation. Both oyster and mussel production fell in 2010, which boosted prices, particularly in the final quarter.

OUTLOOK FOR 2011

The prospects for seafood exports in 2011 remain positive with ongoing tight supplies expected in a number of major species, most notably salmon and oysters.

Limited increase is anticipated in Norwegian salmon production for 2011 while Chilean output is likely to take some time to recover. However, there are some concerns that the strong rise in salmon prices may lead to some displacement by other species.

Production prices for gigas oysters are anticipated to reach historical highs during the 2010/2011 season as oyster mortalities during the summer of 2008 and 2009 take full effect. The French Shellfish Association, CNC, has already forecast a drop of 40-60% in the volume of commercial sales at end of year 2010. This scenario seems set to impact on the market environment over the next couple of years.

The decision by the European Coastal States to reduce the blue whiting quota by 90% for 2011 is likely to have a serious impact on the Irish pelagic sector given that this species accounts for an estimated 25% of annual production. Demand for pelagic species is expected to remain good in the short term.

€200m The value of edible horticulture and cereal exports increased by 1% in 2010 to an estimated €200m.

EDIBLE HORTICULTURE & CEREALS

The value of edible horticulture and cereal exports was 1% higher in 2010 at an estimated €200m. Mushroom exports to the UK put in a robust performance as increased volumes and a somewhat better exchange rate environment helped to offset ongoing price pressure in the sector.

The value of cereal exports improved strongly during the second half of the year, reflecting the strength of international grain prices while strong potato exports were also reported to Russia, Ukraine and Eastern Europe.

Edible Horticulture & Cereals Exports (€m)

2009 €m	2010(e) €m	2010/2009 % +/-
198	**200**	**+1**

The UK mushroom market remains critically important to Irish producers who continue to supply more than a quarter of the total market with the retail segment being most important.

The UK retail mushroom market was valued by Kantar Worldpanel at £353m in the year ending 31st October 2010. The market increased by just over 3% in value terms with volumes growing by just less than 2%. Within the market, button/closed cup mushrooms account for just over 67% of the market followed by value, flat/open and brown mushrooms. Over the last year both flat/open and brown mushrooms have grown to a combined share in value terms of 16% compared to 14% a year earlier while value lines have lost share, reflecting a 10% rise in price.

Demand levels in 2010 were characterised by extremely cold weather both at the beginning and end of the year, which helped mushroom sales. Exports of Irish mushrooms were also helped by a Bord Bia supported generic industry mushroom promotion, which positively influenced market demand during the year.

2010 was an unusual potato marketing season in Ireland, as exports of Irish potatoes became a feature, in line with huge market demand in non-traditional markets such as Russia, the Ukraine and other Eastern European States. This demand occurred largely as a direct result of diminished yields and crop failures experienced particularly in Russia and the Ukraine, which was brought on by severe drought conditions. In response to a strong demand it is estimated that in the region of 30,000 tonnes of Irish potatoes has been exported into these markets. In line with emerging market opportunities, Bord Bia compiled a key contact report into the potato market in Russia, Hungary, Czech Republic, Slovakia, Slovenia and Poland. It is anticipated that this trade will continue into the early part of 2011.

OUTLOOK FOR 2011

The outlook for mushroom exports looks reasonably positive, provided sterling does not weaken considerably, which would adversely impact on the competitiveness of Irish exports. A major EU co-funded promotion supported by the Irish industry will take place in the UK during 2011 and continue to the end of 2013 and is expected to boost sales and consequently, Irish exports.

Substantial recent investments made by the Irish industry in compost production and mushroom production facilities leave the industry well placed to gain its share of any growth in the UK market.

The prospects for cereal exports remain positive given the anticipated global tight supply situation due to ongoing weather related issues and the suspension of Russian exports. The strong potato trade is likely to continue into the early part of 2011.

AMENITY EXPORTS

Currently exports of Amenity Horticulture crops & products are valued at approx €10.5m per annum and €5m of this is made up of garden plants sold mostly to the UK. Amenity Horticulture crops and products that are exported also include Christmas trees and small quantities of cut foliage (used in flower arranging) and daffodil bulbs/cut flowers. These are mostly exported to the UK and Europe but small quantities are exported to the USA (daffodils) and Asia (micro-propagated plants).

While €10.5m represents a slight increase on 2009 levels it is less of an increase than had been anticipated. Crop losses sustained due to adverse weather conditions last winter hampered growers efforts to develop exports during 2010. However, with an increase in micro-propagated plants and new varieties of cut foliage and garden plants coming on stream over future years, exports have the potential to grow from this sector.

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Growing the success of Irish food & horticulture

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