Foodservice Market Update

July 2014

Market Overview —Year ending March 2014

Annually, the Foodservice market remains flat in terms of visits although average individual spend continues to increase (+1.6%), due to price inflation (+3.8% per item). Consumers bought fewer items per visit but spent more per item purchased. Wage growth, falling unemployment, low interest rates and growing consumer confidence impacted positively on foodservice trends. This resulted in three consecutive quarters of growth in visits to foodservice outlets but this growth was negated by poor performance in Q2 2013. Family centred occasions drove growth this year, with family time a key consumer motivation for eating out. Breakfast, lunch and evening meal centred occasions also grew on the back of increased consumer confidence, leaving less appetite for snacking which has suffered as a consequence. Further details on the impact of this trend on potatoes are on page two of this report.

Total Sales
£50.2 Billion (+1.5%)

Traffic
11.0 Billion (-0.0% YOY)

Average Individual Spend
£4.56 (+1.6% YOY)

Average Price per Item
(+3.8% YOY)

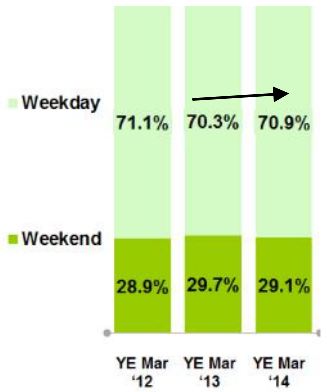
Average Number of Items
(-2.0% YOY)

Quarterly Review - OOH Channels

- With inflation in March 2014 at +1.6%, it seems that consumers were more willing to treat themselves to the more sociable, higher spend occasions. Both spend and visits grew in Q1 2014 and comparatively better weather compared to Q1 2013 also had a positive impact on eating out. Across all foodservice channels, consumers increased meal occasions which were bought on deals and promotions.
- Pubs have seen three strong consecutive quarters in both visitor and spend growth. In Q1 2014, Pubs (visits up 2.0%) and Full Service Restaurants - including Café Bistro (+1.4%) continued to see the benefits of consumers trading up. For Full Service Restaurants Q1 2014 saw combined visitor and spend growth for the first time in several years. This was probably influenced by the improved weather impact compared to Q1 2013.
- Increased employment and greater spending confidence has seen austerity induced pack lunches declining as consumers return to weekday eating out. On an annual basis Lunch visits have grown within Full Service (+1.3%), with pubs the main beneficiary (+4.7%). Weekday (Mon-Fri) visits grew +0.8% in the 12-months to Mar 2014 following several years of decline and this has been especially true at Pubs (+3.4%). Also pub visits with children in attendance grew strongly (+9.4%) over the year, building on a positive trend first noted last year.
- The Quick Service Restaurant (QSR) channel growth is gaining momentum in both spend and visits (+2.6%) in Q1 2014. This is in sharp contrast with Q2 2013 which saw an accelerated decline in visits. Annually, branded QSRs are showing the strongest growth, particularly the large QSR brands with a continued shift away from smaller independents. Annually, there has been a sharp increase in 'on-premise' visits (+7.6%) at QSRs whereas, off-premise visits which account for more than 70% of the market are in decline. However, drive-through remains a small but growing niche.
- The Travel and Leisure channel posted visit and spend growth for the first time in several years in Q1 2014. This was probably also due to the influence of the improved weather.

FOODSERVICE CHANNELS	SHARE OF VISITS YE MAR 2013/14		TRAFFIC CHANGE % YOY (+/-)				
	2013	2014	Q1 13	Q2 13	Q3 13	Q4 13	Q1 14
QUICK SERVICE RESTAURANTS	50.9%	51.2%	-0.2	-2.4	1.2	1.1	2.6
PUBS	11.1%	11.3%	-0.2	0.1	3.3	3.4	2.0
FULL SERVICE RESTAURANTS	10.6%	10.5%	-0.2	-4.0	1.5	0.2	1.4
TRAVEL & LEISURE	10.8%	10.6%	0.4	-10.5	3.4	0.6	1.9
WORKPLACE/EDUCATION	15.8%	15.4%	-1.9	-9.9	1.8	-1.4	-0.6

Total out-of-home traffic distribution

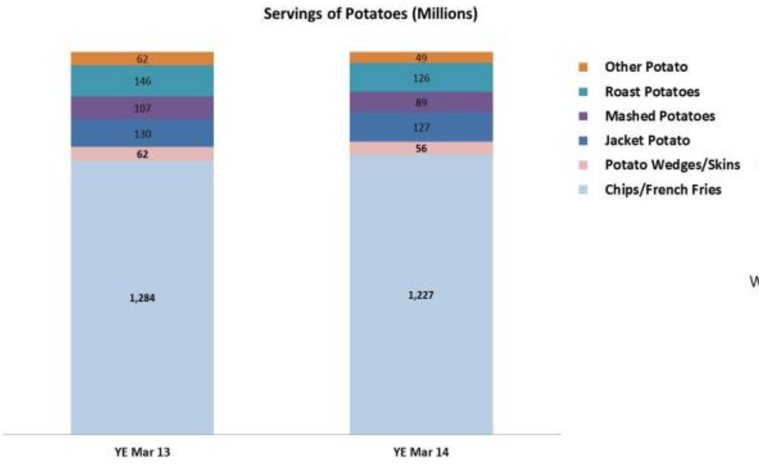


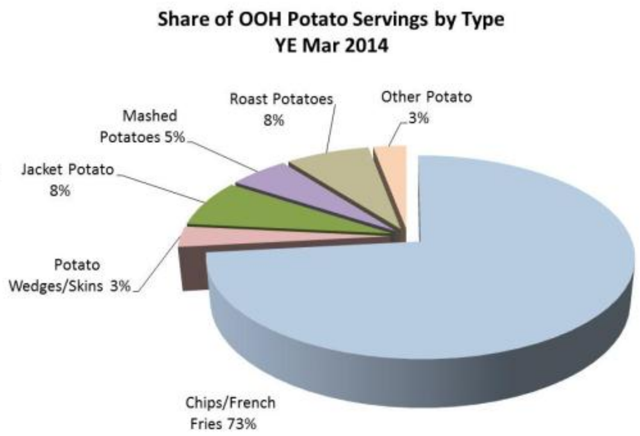
- After 2 strongly positive years, weekends occasions have lost momentum. Weekdays are growing back as younger consumers are feeling more confident and trading back into the mid-week lunch occasion. Lunch and Dinner are gaining back visits. Snacking is down (-4.4%) over the year and needs to revitalise.
- In a tough environment, consumers are increasingly going for Deals/Promotions. Visits on Deal/Promotion grew in the YE Mar 2014 (+4.8%) and now deals are part of nearly 28% of visits to commercial outlets.

Source: The NPD Group/CREST®, YE Mar '14

Potato Consumption - Orders and Servings

This section refers to OOH servings that contain a particular product.

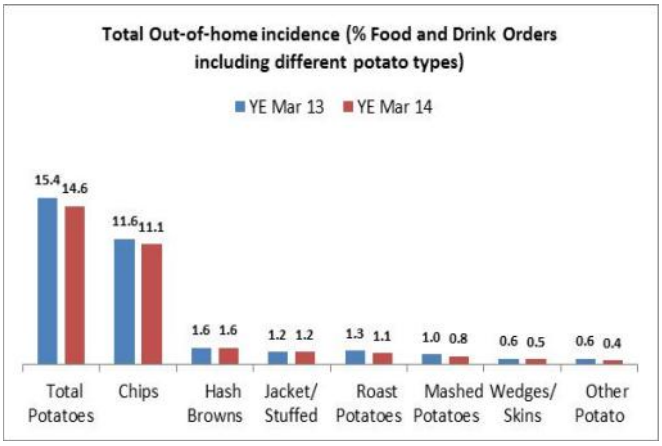




- There were 1.67 billion potato servings out of home in the year ending March 2014 — equivalent to 4.6 million servings every day. This was down 6.5% compared to the same period last year, representing an acceleration in decline compared to the year ending December 2013.
- As unemployment falls, and wage rises match inflation, potato servings among 18-24 year olds has picked up (+0.5%) with growth focused on Chips/French fries (+2.9%). Potato servings among 50-64 year olds is the only other category in growth YOY with growth also focused on Chips/French fries.
- Roast potato servings are down 13.8% over the year. The decline in roast potato servings has been particularly driven by a fall in servings during the week and at lunchtime.
- The trend towards more family centred eating out occasions has not influenced the total number of potato servings to children (17 and under), with servings amongst 13-17 year olds showing the fastest decline of all age groups YOY.
- Chips/French fries account for the majority of potato servings and as such their performance has a big influence on the total potato category. Servings fell 4.4%, with 56 million fewer sold in the year ending March 2014 compared to the same period last year. Quick Service burger and chicken restaurants continue to drive this decline. In particular, there appears to be a growing trend for consumers to order beef or chicken burgers independently of the 'meal deal' or without the additional side order of fries. Meanwhile the incidence of chicken wraps being ordered has increased.
- Jacket potato servings fell 2.1% over the year. There was a steep decline in weekday servings which account for 75% of all servings. In contrast, servings of Jacket potatoes at the weekend, showed strong growth. Jacket potatoes are showing decline at lunchtime but a growth in servings at dinnertime. Dinner servings of Jacket potatoes now account for 19.5% of total servings, up from 18.8% in the year ending March 2013.
- Servings of mashed potatoes have declined over the year, with declines seen across most channels. Servings of mashed potatoes show stronger decline during the week compared to the weekend. The strongest decline is seen in FSRs and pubs.

Potato Consumption - Incidence Rate*

- Potatoes currently feature in 14.6% of OOH food and drink orders, down from 15.4% last year. They are more popular with pub orders, accounting for 30.4% of all orders through pubs. This compares to 15.6% of orders through Full Service and 14.3% through Quick Service Restaurants
- Chips remain the most common potato variant to be served out of the home, with 11.1% of all orders including them. However, this is down compared to last year, driven by the comparatively weaker performance at QSRs.
- Roast and mashed potatoes are lower influenced by a reduction in roast meals through FSRs.



**Incidence rate refers to the percentage of orders that contain that specific food*

Snacking Trends

In both QSRs and FSRs/pubs, there has been no room for snacking as consumers focus on more social occasions and are now more willing to spend more for their main meals. This has resulted in the core dayparts (breakfast, lunch and dinner) showing increased traffic at the expense of snacking. In contrast to the rest of the industry, the Travel & Leisure channel posted traffic gains at snacking (+2.8%) as busy travelers grab a quick snack on the go.