

Dairy Farmers of Britain Ltd
Alpha Building
London Road, Stapeley
Nantwich, Cheshire
CW5 7JW

«Member_Name»
«Address_1»
«Address_2»
«Address_3»
«Address_4»
«Postcode»

18 June 2009

Our Ref: SO/CA

Dear «Saluation»

Dairy Farmers of Britain Limited (Receivers and Managers Appointed) (known as the "Company" or "DFB").

Further to my letter dated 3 June 2009, I want to explain the calculation and timing of the payment in respect of the milk supplied between the date of my appointment 3pm 3rd June 2009 and midnight 16th June 2009 – the initial two week period.

Payment for milk supplied during the initial two week trading period

At the outset of my appointment I explained I would be pure margin managing. The price which you receive for milk supplied in this initial two week period is calculated after deducting DFB's trading costs from trading receipts in the ordinary course of business and apportioning this amount between all the Members who have supplied milk based on volume and quality standards. The trading costs exclude the fees of the Receivers and Managers but include trading losses in the liquids division which I completely closed at the end of last week. We will be providing a breakdown of the calculation when it is finalised – we will give full transparency.

The process for completing this calculation accurately is very complex and time consuming. It involves the gathering of a great deal of information from a variety of sources including hauliers, suppliers, farmers, customers and from each of the different parts of the DFB business – some of which have now been sold or closed.

It also needs to reflect the high number of farmers leaving and to accurately capture individual leaving dates as well as the specific volume of milk supplied by each Member based on their various leaving dates and times. This particularly involves agreeing the split of haulage recharges between DFB and the new milk buyers for farmers that have left (1,600 of 1,800 supplying members left DFB in this two week period), so that we can reconcile DFB's share of haulage costs. Dairy UK has offered to try and help us by encouraging the milk buyers to agree these recharges as soon as possible. This would ordinarily take up to 6 weeks.

I undertook that DFB would make a payment to farmers on 19 June 2009 and I can confirm that you will receive an 'on account' payment of 10p per litre for milk supplied in the two week trading period. This will be paid in two tranches, 5p per litre on Friday 19th June and 5p per litre on Monday 22nd June. This mechanism helps my cashflow and enables me to pay as much money as I can as early as I can.



This 'on account' payment represents our best estimate of the margin managed price at this time. However, there are haulage recharges amounting to millions of pounds to finalise and it is only then that we can 'strike' the final amount due for milk for the two week period. I had suggested I would be able to agree the final amount by the end of June and, if any further payment was due, make it then.

This will not be possible due to the complexity of the haulage recharges. I do hope to be able to 'strike' the final amount due in time for any further payments to be made by 21st July 2009 – at this stage it is uncertain whether there will be any further payments for the initial two week period. I have summarised my accounting arrangements on the attached table.

Enclosed with this letter are two statements showing the litreage supplied by your farm during the initial period which forms the basis of the two 5p payments.

Monthly contract

I had a meeting with a number of key industry bodies on Wednesday 17 June 2009, including DEFRA, NFU, WVF and Dairy UK. At this meeting it was suggested that I reduce the notice period for farmers on the monthly contract to a period of 2 weeks. This would allow more flexibility to farmers who are actively seeking and finding new homes for their milk.

I have consulted the Member Council and the milk supply team who both believe this is the right thing to do. Therefore I have agreed to reduce the notice a member needs to give to two week blocks ie notice by a member given up to and including 30 June 2009 will allow exit on 16 July 2009, notice given up to and including 16 July 2009 will allow exit on 31 July 2009 (see attached table).

This change is not designed to allow me to give continuing members only 2 weeks notice. I will remain bound by 4 weeks notice.

You do not need to do anything to acknowledge these changes as they are in your favour. DFB will continue to make twice monthly payments of 10p per litre supplied as previously agreed.

Debt for equity swap

I have enquired into the possibility of reversing the transaction made on 27 March 2009 to exchange retention amounts for ordinary share capital. I am advised that legally this will not be possible and we will not be able to reverse the transaction. We have reviewed the company's taxation advice which clearly states that the debt for equity swap makes no difference to the available tax relief of a member, contrary to suggestions elsewhere.

10p vs £1 Investment

Additionally, in my communication of 11 June 2009, you were provided with a summary of the amounts owed to you by DFB as at 3pm on 3 June 2009. This included details of your capital investment in the company along with your statements for milk supplied in May and the first 3 days of June.

For members that received shares as part of the debt for equity swap, the statement showed these at the nominal value of 10p. These should have been shown at £1 per share and I have enclosed an amended capital statement to reflect this. I apologise for any confusion this may have caused.



I am very grateful for your continued patience and support during this difficult time.

Yours faithfully

For and on behalf of the Company as its agent and without personal liability

Stephen Oldfield
Joint Receiver and Manager
Dairy Farmers of Britain Limited

Table of accounting arrangements

Two Week Contract	Monthly Contract
5p payment - Fri 19th June	10p payment - 7th July (for period 17 June to 30 June)
5p payment - Mon 22nd June	10p payment - 21st July (for period 1 July to 16 July)
Final account estimated by 21 July	Notice up to 30 June - leave date 16 July Notice up to 16 July - leave date 31 July

Messrs Ian Green, David Kelly and Stephen Oldfield are all licensed to act as insolvency practitioners by the Institute of Chartered Accountants in England and Wales and were appointed as Receivers and Managers and in their capacity as agents of Dairy Farmers of Britain Limited at 3pm on the 3rd of June 2009. Neither they nor their partners, firm, employees or agents shall incur any personal liability howsoever arising from their actions or under or in connection with any deed or other document or agreement entered into on behalf of Dairy Farmers of Britain Limited pursuant to or in connection with their appointment or the performance of their duties as Receivers and Managers. In particular (but without prejudice to the generality of the foregoing) no such personal liability shall arise by virtue of either Sections 37(1)(a) or 44(1)(b) Insolvency Act 1986 or otherwise.



Table 1 – Summary of amounts owed to you by Dairy Farmers of Britain Limited at 3pm on 3 June 2009

Holding	Value (£)
Total Equity	«Total»
Milk Cheque – May	«May»
Milk Cheque – June (up to 3pm 3 June) ¹	«June»

Please see the enclosure for further detail regarding the equity balance. Your capital statement also confirms the value of any guarantee you hold on behalf of DFOB.

Member number	«Member»
Member's name	«Member_Name»

¹ Please note that we have calculated the amount owed in relation to June with reference to the average quality of your milk during May. Since in most cases we had not sampled the quality of milk supplied in June, and this seems the fairest way of making an estimate.

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