

To all known creditors, members and ex-members

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Dear Sirs

Dairy Farmers of Britain Limited – Receivers and Managers appointed (“DFB”)

It is a year and a half since I was appointed Receiver and Manager of Dairy Farmers of Britain (DFB) and I promised an updating final report. I can confirm that there is no action you are required to take as a result of this report.

In summary, technical matters prevent me from closing the receivership for many months but the overall outcome of the receivership is now clear. Whilst the receivership was successful in protecting the UK milk market from a potential crash, finding new homes for farmers milk and selling the saleable businesses in DFB, as anticipated it has not resulted in any money back to creditors or members.

However, I am pleased to report an improved receivership trading outcome (due to improved customer receipts) which has allowed me, on a margin managed basis, to pay a final cheque for farmers milk supplied **after** the receivership which averages 2ppl.

The first three months

The first three months of receivership were difficult for everyone:

For farmer suppliers

A lost May milk cheque, uncertainty over the price for supplying the receiver and over whether DFB's milk processing businesses could be sold along with their milk fields and, hence, uncertainty over who their future milk buyer would be.

For trade creditors

Non-payment for supplies made prior to the receivership, uncertainty over what parts of DFB might be sold and in doing so provide continuing custom for their products and services.

For employees

Would their jobs be saved by a buyer? Or would they face redundancy, and, due to the receivership, a pay-out by the Government's Redundancy Payments Office limited to the statutory minimum, leaving many owed for the difference to their contractual entitlement.

During that hectic period we kept the 'wheels turning and the milk flowing' and:

- Consulted directly with the Members Council and consequently took the practical decision to take the contractual handcuffs off farmer suppliers allowing them to find new homes;
- Within days met with as many farmers as we could in Carlisle, Harrogate, Stoke and St Clears and set up a helpline and website for immediate and continued communication;
- Committed to continue collecting milk from farmers in some of the most remote, yet most important rural landscapes of our country (and then engaged with Government and Industry Bodies to try and find a longer term collection solution for those farmers);
- Commenced employee and union consultation on all sites with newly elected representatives;
- Made concerted and urgent efforts to sell the various businesses within DFB. Selling what we could and, in the face of trading losses which we would have otherwise had to pass on in milk price, closing what we could not;
- Confirmed that neither the receivers nor the Bank would be taking any steps to collect any monies that may be due from any members' with guarantees; and
- Assessed that unsecured creditors, loan note holders and members with equity would not receive any dividend on monies owed to them by DFB.

In the event I am reasonably pleased with those crucial first three months. DFB was the most complex and challenging assignment I have ever had to deal with – milk needs moving and there is no time for indecision or room for lack of clarity. In the event:

- Llandyrnogg, Lubborn and many of the liquid milk distribution depots were sold saving jobs and giving suppliers continuity and preserving the milk field. However, Lincoln, Blaydon and Bridgend didn't sell with sad, but unavoidable job, supplier and milk field losses. As press releases and website announcements at the time recognised, a significant number of jobs were lost at DFB processing plants and, rightfully, we needed to make real efforts to support Jobcentre Plus and other regional teams in helping those adversely affected. Redundant employees received their government claims 6 weeks early;
- No milk collections were missed and within 43 days 100% of DFB farmer suppliers had found new homes, including those in remote areas. However, I should acknowledge that, with a lost milk cheque and prevailing low milk price, sadly a few farmers simply had no choice but to exit or retire from dairying.

By holding our nerve and not destabilising the milk market on day one and retaining some, but not all, of DFB customers, we were able to pay milk prices for the receivership trading period (some six weeks of collections) on an 'open book' margin-managed basis at the following base levels for conventional milk:

First two weeks	Date paid	Pence per litre
First interim payment	17 June 2009	10.0
Second Interim payment	17 July 2009	2.0
Third, and final, payment	24 August 2009	4.0
Total Milk Margin payments		16.0

Final month	Date paid	Pence per litre
First interim payment (supplied 17 – 30 June)	8 July 2009	} 10.0
Second interim payment (supplied 1 – 16 July)	22 July 2009	
Third, and final, payment (supplied 17 June – 16 July)	24 August 2009	5.7
Total Milk Margin Payments		15.7

At the time of the receivership I am aware some farmer suppliers switched to alternate customers for similar prices so to pay this price in receivership is reasonable. In all c.15,237m litres of milk were supplied in the receivership.

Non-farmer suppliers of Dairy Farmers of Britain continued to receive payment for goods and services provided to the receivers whilst we traded the various DFB businesses. Where businesses were sold there was an opportunity for suppliers to seek to continue trading; where closed, suppliers, like farmers, needed to find new customers.

Report, Creditors Meeting and EFRA Enquiry

Despite not being obliged to by law, I thought it right that creditors, members and ex-members were sent a comprehensive receivers and managers' report (including what we'd achieved to date and commentary on the events leading up to the appointment of receivers) within 12 weeks of my appointment and then invited to a creditors members and ex-members meeting on 7 September 2009 to meet me and my colleague receivers, so that any queries and questions on that report could be tabled and addressed. A copy of that first detailed report is still posted on my website at www.pwc.co.uk/dfob for reference.

Thereafter the EFRA Select Committee commenced its enquiry in the Autumn of 2009 into:

- The impact of the collapse of DFB on dairy farmers and the industry;
- The governance and accountability structures;
- DEFRA's response to the collapse;
- The causes and lessons to be learned from the collapse.

taking evidence from anyone affected by the receivership and calling for personal appearances from me, directors and ex-directors, members and their Council, and representatives of the industry. EFRA's report was issued 23 March 2010 and concluded that amongst other things that, "No single factor caused the demise of DFB, although the purchase of ACC for a total of £81 million in 2004 had lasting repercussions that made DFB's future success unlikely", and that, "we are satisfied DFB did not fail because it was a co-operative". The report made recommendations including DEFRA offering advice and assistance to support dairy co-operatives and highlighting capital raising as one of the principal challenges to address suggesting the setting up of a task force.

A full copy of the EFRA report is available on:

<http://www.publications.parliament.uk/pa/cm200910/cmselect/cmenvfru/227/227i.pdf>

Where we find ourselves now

After the necessary decision to close Bridgend, Lincoln and Blaydon in the early weeks of receivership due to a combination of trading losses and lack of buyers for those businesses we did the following:

- Bridgend: maintained functionality for a further month post closure but with still no buyers the processing equipment was auctioned and its property lease now awaits disclaimer to the landlord;
- Lincoln: processing equipment auctioned and property lease similarly awaiting disclaimer;
- Blaydon: maintained functionality and after an extensive competitive sales process the freehold site and processing equipment sold to Medina in January 2010 who recommenced liquid milk production in March 2010. The sale price was above expectation;
- Across all the sites collated all the books and records of the Co-operative amounting to some 3000 plus boxes.

Additionally there were considerable monies still owed to DFB by its customers. Many of these customers were small dairymen (doorstep deliveries), some of which were already behind on their payments at the time of my appointment. The sheer volume of individual customers owing money when I was appointed in June 2009 meant I was pessimistic of collecting all the cash owed. This included being cautious on my expectations of achieving full recovery of the money from customers who took milk after our appointment as receivers.

Whilst there are some customers still to pay up for the period prior to my appointment, we have successfully concluded the collection of monies from customers supplied after receivership. As a result of doing much better than I ever expected, I have some additional money to pay out to the DFB farmer milk suppliers to the receivership. Farmers will recall I promised not to deduct any receiver or, legal fees, duress payments, closure costs or bank interest and charges from the money I received from DFB customers. Instead simply to deduct DFB's costs, principally haulage and processing and pay over the balance in milk cheque (open-book margin-managing). The final position now looks like this:

Final, Margin managed position	£'000	£'000
Milk receipts in receivership		9,027
Less:		
Purchases	(1,270)	
Wages and taxes	(1,896)	
Transport & carriage	(2,111)	
Lease hire costs	(170)	
Consultancy fees	(40)	
Security	(42)	
Rent & rates	(176)	
Postage Stationery & telephones	(49)	
Other costs	(448)	
		(6,202)
Milk Price paid to date		(2,510)
Final Milk Price to balance		315

Final Payment	1st two weeks	Final month
Pence per litre already paid	16.0	15.7
Additional amount to be paid from the above	2.0	2.0
Revised Total Milk Margin payment	18.0	17.7

Note: These were the base prices paid for conventional milk. Adjusted payments were made for the supply of CI & Organic milk

The payment of this final milk cheque has been calculated and paid by cheque earlier this month.

As mentioned earlier and as creditors, and members, will clearly recall, I made it clear from the outset of my appointment that I saw little hope of any money being available to the creditors or the members of DFB co-operative. This was because of the significant amount due to the Bank, which you may recall, increased its exposure in April 2009 to see the Co-op through the spring flush. Further, because of the complexity (creditors may recall we had to go to Court to get approval for continuing to collect milk to trade the business) and intensity of the receivership in keeping the wheels turning and the milk flowing, I saw both significant professional costs (receivers' and legal costs) and site closure costs might be incurred.

As creditors, members and ex-members will recall at the time of the receivers' report on 24 August 2009. I said my costs were already at £2.75m and had provided a further £3m for future receivers legal, agents and closure costs. This has proved broadly in line with the expected final outcome set out below but receivers' fees have increased since those first twelve weeks by c. 15% as a result of the complexity, further work on collecting final debtors and the extended duration of the receivership. Due to the final estimated receivership outcome below these costs will be borne by the Bank.

In the event, as highlighted above, property sales and customers receipts have exceeded my initial expectations. Further we have agreed the VAT position for DFB with HMRC. This was a highly complex and technical area but at a late July 2010 meeting with HMRC, we were able to reconcile the VAT position. Over the summer, further customer monies were collected and small properties sold albeit there are some monies still to collect, a few small properties still to sell and some outstanding technical matters to conclude. All these may take many months delaying the technical completion of the receivership but not affecting the final milk cheque herein or the outcome for creditors and members. Hence this will be my final report.

I summarise below the final estimated receivership outcome position for DFB creditors and members:

	Summary position £'000
Gross realisations to date	73,643
Add: remaining properties and debtors to realise (estimated realisations)	60
	73,703
Less: Duress payments & Closure costs, (including estimate to conclude)	(4,972)
Less: Irrecoverable VAT	(1,527)
Less: Total Receivers, legal ,agents and property realisation	(7,070)
costs (including provision for additional costs on pension matters)	
Net amount available to the Bank	60,134
Less: Bank indebtedness	(61,667)
Estimated loss to the Bank	(1,533)
Memo: First report as at 31 July 2009, only 3 months into the receivership, estimated Bank loss	(3,996)

List of outstanding creditors, and members*

	£'000
Estimated loss to the bank from above	(1,533)
Redundancy service for payments made to employees and balance of employee claims	(17,354)
Trade Creditors	(4,562)
Milkman bonds	(87)
HMRC	(3,636)
Members milk cheque	(19,399)
Members equity / loans	(74,058)
Milk pension fund scheme deficit	(4,800)
Total	(125,429)

**These figures are drawn from a number of different sources and are estimated in nature as, with no funds available to the creditors and members, no detailed validation process has been undertaken.*

As we expected in our earlier report, the Bank will suffer a shortfall so any remaining money to be realised less the costs to be incurred will be distributed to the Bank whereupon the receivership will be concluded.

Other Matters

As expected I have received correspondence from creditors and members asking questions on the position of DFB prior to my appointment. I also liaised with the Financial Services Authority and the Insolvency Service and commented to the agribusiness media who provided a further viewpoint. I have responded to these queries and questions, reflected my thoughts in my first report on the events leading up to my appointment and fully co-operated with the EFRA enquiry. I submitted my first report as evidence to that enquiry and was extensively cross questioned upon it 'on camera'. I have met the current Directors on a number of occasions and made enquiries of the DFB professional advisors as needed.

DFB was a participating employer in the Milk Pension Fund (the "Fund") along with a number of other milk and distribution businesses. As a result of the insolvency of DFB, it has ceased to participate in the Fund. We understand that the Fund will be supported by its remaining employers in the future.

As above, DFB's receivership has left behind significant unpaid creditors and members. One of the creditors, HM Revenue and Customs (HMRC) was owed £3.64m at the date of my appointment. I understand it is now normal operating practice for HMRC to seek to wind up businesses that owe this size of debt. HMRC's position was finalised over last summer and now they have moved to put DFB into compulsory liquidation on 6 April 2011.

The compulsory liquidation of DFB will have no effect on my task of completing the receivership and I will remain in office to complete my work and then resign. The assets still to sell, less the costs, will go to the Bank so, with no money left over from the receivership, either the Official Receiver (a Government Official) or a HMRC paid liquidator will have to take on the liquidation alongside my receivership. They will ask questions of me in regard to the receivers work and my appointment on DFB and will ask questions of the Directors in regard to their role. The Liquidator will form a view of the conduct of the Directors independently but I would remind you that in the EFRA report it stated "if PwC, as receivers for DFB, had uncovered any illegal activity during the course of the receivership, they would have been obliged to report it".

My understanding from discussion with HMRC is that the Official Receiver/ Liquidator's focus will be on investigating the circumstances under which such a large debt to HMRC arose. The Official Receiver/Liquidator will advertise their appointment and may well not write to you if they consider it is appropriate. It is now likely it will be the liquidator, not myself as receiver, who will ultimately ask the FSA to strike off DFB from its register bringing DFB to an end.

I would stress my own view is that the liquidation process is unlikely to result in any change to the financial outcome of the insolvency of DFB and hence no further money to creditors and members. However, the Liquidator is independent of me and will make their own way.

I would like to take this final opportunity to thank the DFB employees, hauliers, suppliers and the other milk co-operatives and processors that helped keep the milk flowing in those difficult first three months. I would also thank the Members Council and Stephen Yates as chair who challenged me on my strategy but in turn helped me to make what I believe were the right decisions at critical times.

Yours faithfully
For and on behalf of Dairy Farmers of Britain Limited



Stephen Oldfield
Joint receiver and manager

Ian Green, David Kelly and Stephen Oldfield are all licensed to act as insolvency practitioners in the United Kingdom 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 on 3 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