PRICEWATERHOUSECOOPERS

Dairy Farmers of Britain Limited – Receivers and Managers appointed

Receivers' report to creditors, members and ex-members

24 August 2009

CONTENTS

GLOSSARY

ABL	Bank facilities based upon stock and debtors
ACC	Associated Cooperative Creameries Limited
BMB	Bottled Milk Buyers
Co-Op	The Co-Operative Group Limited
Defra	Department of Environment, Food and Rural Affairs
DFB	Dairy Farmers of Britain Limited
DFBP	Dairy Farmers of Britain (Processing) Limited
FSA	Financial Services Authority
FUW	Farmers Union of Wales
FY	Financial year ended 31 March
IS	Insolvency Service
Llandyrnog	Llandyrnog Cheese
Lubborn	Lubborn Cheese Limited
Margin Management	Calculating the price paid to farmers for milk supplied as the balance of DFB trading sales less trading expenses
NFU	National Farmers Union
Receivership	The appointment of Receivers and Managers on 3 June 2009
The Bank	HSBC Bank Plc and subsidiaries
WA	The Welsh Assembly Government

1) BASIC DATA

Company Names	Dairy Farmers of Britain Limited – Receivers and Managers appointed Dairy Farmers of Britain Processing Limited – in administration Associated Cooperative Creameries Limited – Receivers and Managers appointed ACC Milk Properties Limited – Receivers appointed over various properties
Address	Alpha Building, London Road Stapeley, Nantwich Cheshire CW5 7JW
Principal Activities	• Milk supply – collection and distribution of raw milk • Liquids milk – processing of milk and cream from Bridgend (South Wales), Blaydon (North East of England) and Lincoln (Lincolnshire) • Cheese production – Llandyrnog (North Wales) and Lubborn (Somerset)
No. of Employees	Circa 1,500
Annual turnover	Circa £500m
Firm Name and address	PricewaterhouseCoopers Benson House 33 Wellington Street Leeds LS1 4JP
Receivers and Managers	Stephen Oldfield Ian Green David Kelly

Contact for queries

Email:		
	Employees	dfobemployees@uk.pwc.com
	Members and ex Members	dfobfarmers@uk.pwc.com
	All other creditors	dfobsuppliers@uk.pwc.com
	Remaining asset sales	plant.sales@kingsturge.com
Telephone:		020 7804 9333

2) STATUTORY INFORMATION

- In 2003 the Enterprise Act was introduced which included legislation governing insolvency appointments over limited companies.

- The legislation also included regulations on how insolvency practitioners communicate with creditors. However, the appointment over a co-operative is not covered by the Enterprise Act 2002 and hence is still “old law”, which provides only limited guidance to Receivers and Managers on reporting to creditors and members.

- Indeed there is nothing in statute requiring either a report or a meeting of creditors and members. The FSA is the registering authority relevant to DFB both prior to and following Receivership.

- Notwithstanding there is no requirement to hold meetings of members and creditors we have agreed with the FSA and IS to convene such a meeting to be held at De Vere Whites Hotel, Bolton Wanderers Football Club, De Havilland Way, Bolton, Greater Manchester on 7 September 2009 to present this report to members, employees and creditors. There will be no other formal business.

- It is envisaged the Receivership will continue until at least June 2010 in order to sell the remaining property assets and collect in remaining debtors whereupon, in the ordinary course, the Receivers will write a final report to creditors and members, file their resignation and the FSA will take steps to strike off DFB from the Register of Industrial and Provident Societies.

3) KEY MESSAGES

1. By successfully concluding milk swaps, haulage final accounts and collection of milk supply debtors, the Receivers have improved milk price for both the initial 2 weeks and subsequent month. There are still some provisions for debtors and final accounts to be concluded but the Bank has agreed to take the financial risk of those provisions which enables the Receivers to pay final milk cheques for the 2 weeks and the month as follows:

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

2. The estimated outcome of the Receivership is still that unsecured creditors, loan note holders and members with equity, will not receive any dividend on monies owed to them by DFB.

3. The Receivers still have to realise funds from debtor collections, property sales and settle liabilities from our trading and as such the final outcome of the Receivership is unlikely to be known before June 2010 (given the current state of the property market). When concluded, a final Report will be available to all creditors and members and lodged with the FSA. In the ordinary course the Receivers will then file their notice of resignation and the FSA will be asked to strike off DFB from its Register bringing DFB to an end.

4. In regard to members' guarantees it is a complex issue and we have been taking advice. Consequently we can confirm that no steps will be taken by the Receivers and Managers (or by the Bank) to collect any monies that may be due from any members, including members who have retired or left, with guarantees.

5. A major contributory factor to the demise of DFB was the failure of its Liquids division to deliver sustainable profits. Ultimately, it was loss-making, proved unsaleable as a business either before or during Receivership, and (at least in one such negotiation) was cited as the reason why a 'significant next step' merger or joint venture deal was not possible.

6. The DFB proposal to fill the emerging funding gap caused mainly by Liquids' losses was the raising of new equity (£20 million) via retention from members milk cheques. At the 27 March 2009 Council meeting these proposals were not supported by Council. Only the loan to equity conversion was sanctioned by Council to assist improvement of the balance sheet. Consequently, following discussions between DFB and the Bank, the funding gap was bridged by the Bank in an effort to:

   a) give time to try and sell the entire DFB business or find an alternative solution; and

   b) ensure the business continued throughout the spring flush.

4) REPORT ON THE RECEIVERSHIP

Insolvency appointments

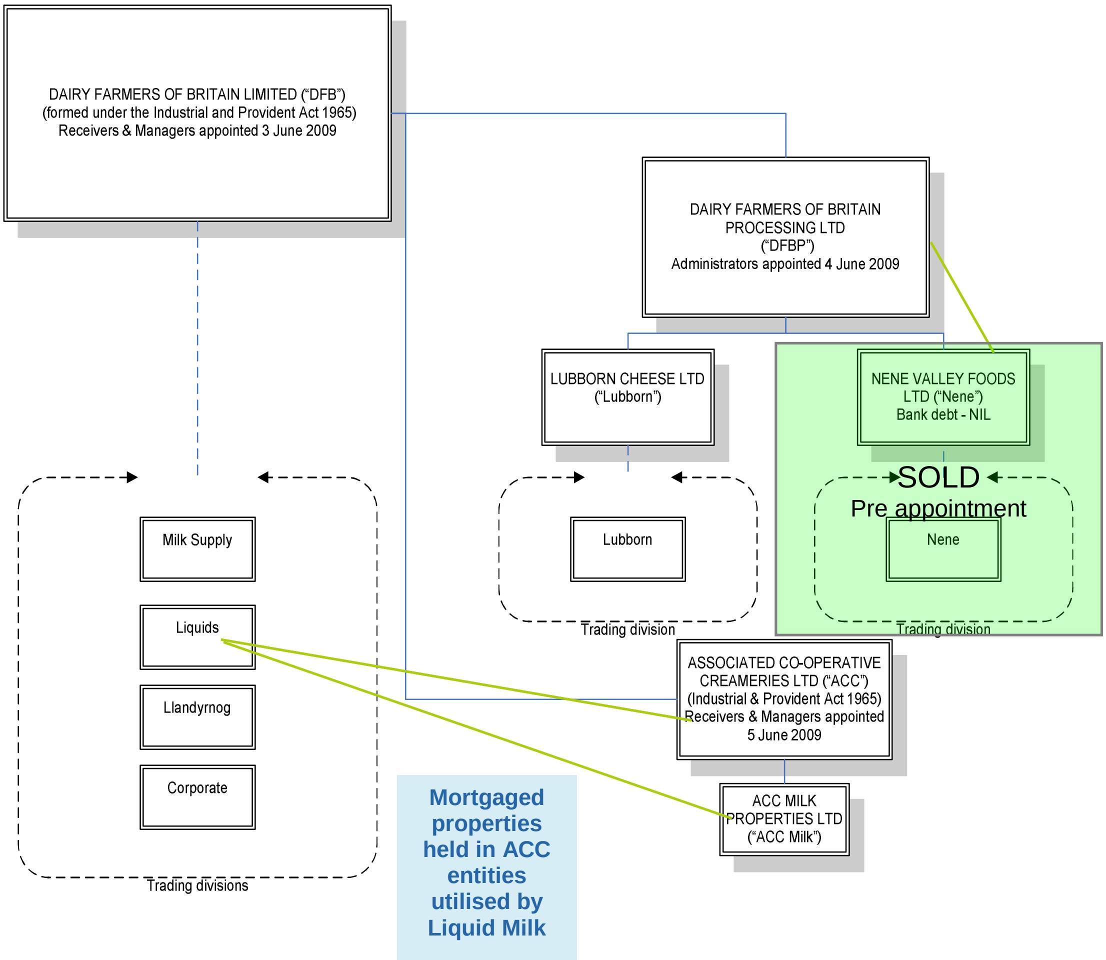
- The directors of DFB invited the appointment of Receivers and Managers on 3 June 2009. Stephen Oldfield, Ian Green and David Kelly, all partners at PricewaterhouseCoopers LLP, were appointed as joint Receivers and Managers of DFB pursuant to the terms of a debenture dated 15 July 2008 pursuant to the Industrial & Provident Societies Act 1965 (as amended).

- To enable the separate sale of some of the properties and the Lubborn cheese business, subsequent insolvency appointments were made over DFBP on 4 June 2009 and ACC on 5 June 2009. These were followed by various fixed charge Receiverships over the properties held in ACC Milk Properties Limited between 9 June 2009 and 24 July 2009.

- A separate report specifically dealing with the affairs of DFBP has been issued to that company's members and creditors to comply with the requirements of the Insolvency Act 1986 for companies.

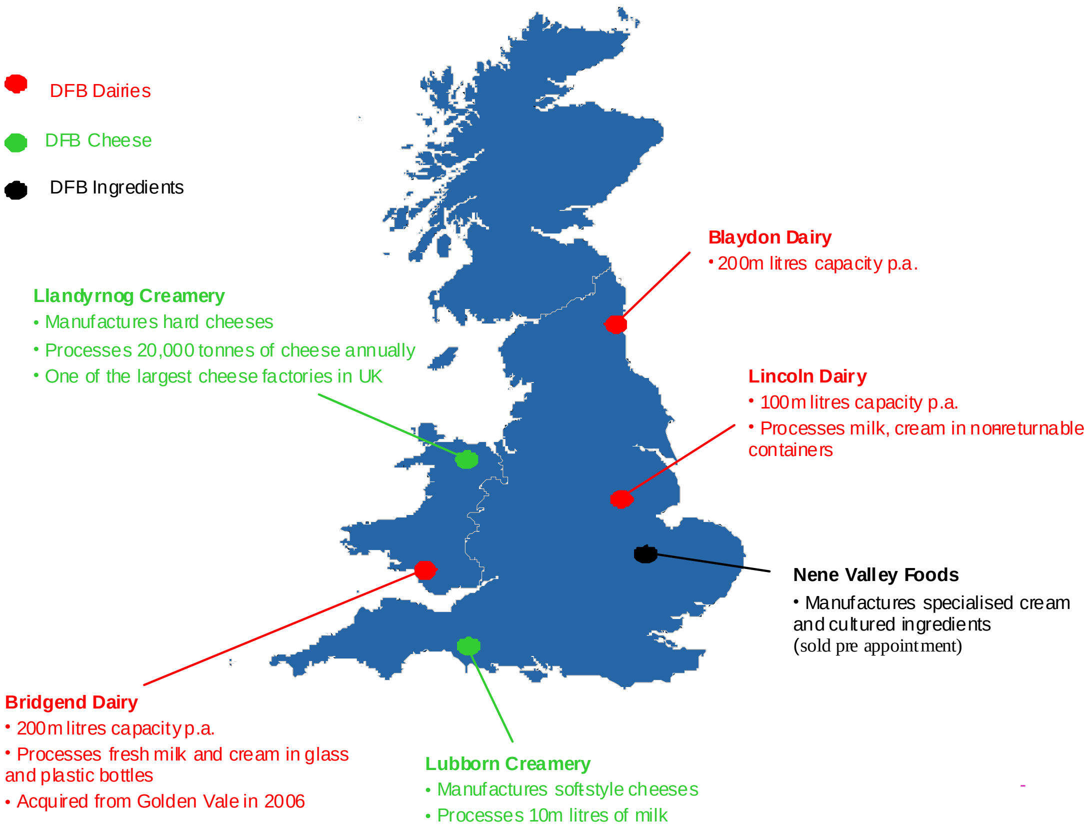
Legal structure

- The legal structure of DFB and related companies and relevant insolvency appointments is illustrated below;



4) REPORT ON THE RECEIVERSHIP

Business structure



Receivers' and Managers' strategy

- The key considerations were:
  - "To keep the wheels turning and the milk flowing". We had to ensure DFB's logistics continued without interruption to both collect and deliver the milk.
  - What to do with members milk contracts? Continue current arrangements or vary them, particularly given over half the members had given notice of their intention to resign.
  - Margin management? How to calculate and over what period?
  - Funding the Receivership trading. How much did we need to borrow and for how long?
  - How to keep all DFB businesses trading with the objective of selling them as going concerns? In particular, to secure the sales of Lubborn and Llandyrnog which were at an advanced stage of negotiation.
  - On Liquids, how to quickly ramp up efforts to find a buyer following Receivership given:

    a) the considerable number of jobs 'at risk' in that business;

    b) the lack of interest shown in that business pre-Receivership;

    c) the threat of customers migrating their business to alternate processors; and

    d) the continuing losses in Liquids which if they significantly increased would drag down Margin Management.

- How to retain the staff needed to operate the business?
- How to communicate quickly, consistently and clearly to a very large, geographically spread group of stakeholders in DFB?

- In order to refine our strategy, we took steps immediately prior to our appointment to consult with:
  - Martin Armstrong and his membership and milk supply team;
  - Stephen Yates on 2 June and the next morning the Members Council (as members elected representatives); and
  - the Bank in regard to the Receivers' funding requirement.

- Our strategy was then settled, the key points of which were:
  - "Pure Margin Management". In order to avoid trading losses (which could not be funded) in Receivership agree to pay for members milk by fully transparent Margin Management. However, the members should not be asked to pay Receivers' fees, Bank interest costs or costs associated with the onset of Receivership. The Margin Management should simply be the price paid by end customers of the milk from DFB less the cost of getting it there.
  - "Take the handcuffs off". Legal advice suggested we could have held members to existing contracts and enforced the 12 month notice periods. Commercially this was fraught with risk leaving the Receivers with both the prospect of numerous legal challenges and members voting with their feet regardless (all stakeholders consulted post-Receivership confirmed this as the only practical strategy).
  - Agree a "hiatus" period of two weeks to allow those that wanted to leave to leave. This would result in significant milk supply migrating to others but in unknown quantities. As such we could not set a milk price for that period. In any event such a set price might drag the overall milk market down.
  - Agree a subsequent (to hiatus) monthly rolling period to accommodate those members that had not left or could not leave and set a minimum price.
  - Engage with the third party hauliers on hour one, day one of the Receivership, and the other dairy companies involved in milk swaps and shared haulage, to agree continued operations.
  - Pull the DFB milk supply and members teams together and offer them PwC support "on the ground" to deal with the anticipated levels of queries and concerns from members. Reinforce the DFB members' helpline team.
  - Retain the Member Council for an initial one month to similarly assist in dealing with member queries, communicating the Receivers' strategy and progress, informing members of the prospects, in particular, of the Llandyrnog sale and assisting in organising the retention of that milk field.
  - Set up Employee Representative Committees at all major sites to inform them of progress and consult over the likelihood, or otherwise of sales of the businesses.
  - Contact all customers to seek to reassure them over continuing supplies whilst we sought going concern sales of the businesses.
  - Continue, but supplement with more staff/resource, the PwC team engaged in selling the DFB businesses. Accelerate negotiations for the sale of Lubborn and Llandyrnog and reinvigorate the Liquids marketing effort.

– Closely monitor the Liquids business in terms of financial performance.

- Communication of the strategy was urgent and immediate to <u>all</u> DFB stakeholders. We facilitated this through:

  – a dedicated website including webcasts, video blogs, web updates (we had in excess of 17,000 hits within the first two weeks of appointment);

  – a members' helpline; and

  – farmers' meetings – held in Carlisle, Harrogate, Stoke and St Clears with the Receivers within days of appointment.

- We refined the strategy on an ongoing basis, not only with continuing dialogue with Martin Armstrong and his team, Stephen Yates and the Council, but through regular engagement with Defra, WA, NFU, FUW, Dairy UK and the Regional Development Agencies.

Achieved to date

- Since appointment we have been able to achieve the following results:

  1. Maintenance of milk collections and milk processing of nearly 1 billion litres by keeping the wheels turning and milk flowing. We do not believe any member milk collections were missed. This was enabled by significant help from the industry and also from the efforts of the Milk Supply and membership teams;

  2. Management of milk margin for first two weeks delivering 16.0ppl and 15.7ppl subsequently;

  3. The transition of the entire milk field of 1,813 members within 43 days to "new homes" allowing Receivership collections to cease on 16 July 2009;

  4. The successful sale of Lubborn and Llandyrnog as going concerns;

  5. Sale of five Liquids depots as going concerns and three Milk Supply depots;

  6. Preservation of 420 jobs;

  7. A comprehensive programme of communication intended to ensure the Receivership strategy was communicated to <u>all</u> stakeholders in the business; and

  8. Closure of the dairies and the remaining related depots.

- Further information on these achievements is set out below.

Members

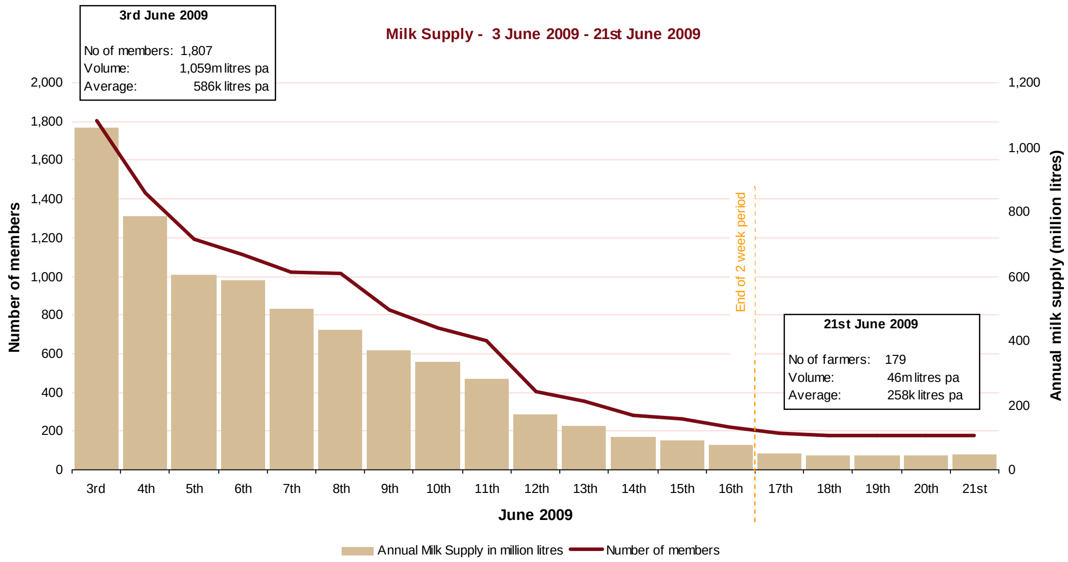
- The protecting of ongoing milk collections throughout the milk field by negotiating and agreeing the continuation of transport collections and various other service arrangements.

- The payment to the Members of an aggregate 16.0 ppl for the initial two week period. This was paid in three instalments the first of 10.0 ppl on 17 June 2009, followed by an additional 2.0 ppl on 17 July 2009, followed by the final payment of 4.0 ppl announced on 21 August 2009. The phasing was due to the financial uncertainty surrounding revenues and costs at the time. The Bank, without recourse, has agreed to bear any residual financial risk from trading, allowing the final payment to give certainty to farmers on milk price.

4) REPORT ON THE RECEIVERSHIP

- By removing the notice requirements of the members' milk contracts, we allowed members to move to alternative 'processors'. We also reduced the notice period on the 4 week contract after representations from Defra and industry bodies. This resulted in the successful transition of the milk field comprising 1,813 members, within one month of appointment.

- The graph below indicates the rate at which members left DFB and shows that the members who were first to leave represented the largest producers with the average volume of milk per member reducing from 568klpa on 3 June 2009 to 258klpa by 21 June 2009, i.e. it was the smaller producers with less choice on alternatives that remained in the DFB milk field until the solution was found with Milk Link.



- By 26 June 2009 only 144 members remained. We were able to negotiate and secure an arrangement with Milk Link that all 144 members were offered the same deal. We believe 104 members accepted this deal, 16 members retired and the remaining 24 secured alternative supply contracts.

Milk price and accounting

- At the outset of the Receivership we undertook to Margin Manage payments to farmers, being the trading receipts less trading costs for the first two week period across the whole business.

- In determining what constitutes relevant trading income and costs we have used the following assumptions in making the margin calculations;

Included:

Employee arrears on appointment, Llandyrnog trading (up to sale date), Milk Supply trading, Liquids trading.

Excluded:

Receivers' and legal fees, duress payments, closure costs, bank interest and charges.

Pre sale trading of Lubborn as it was not under the Receivers and Managers appointment.

4) REPORT ON THE RECEIVERSHIP

- A summary of the trading and related costs during the Receivership is shown below. It is from these results we have calculated the maximum final margin payment of 16.0ppl.

Two week trading period 3 – 17 June 2009	£'000	£'000
Sales (net of rebates and milk swaps)		7,477
Costs		
Transport and other costs	(2,306)	
Wages and salaries	(2,139)	
Overheads	(857)	
Total costs		(5,302)
Net surplus / (deficit)		2,175
Literage during two weeks ('000's)		13,613
Pence per litre		16.0 ppl

- The payments to members have been paid as follows:

	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**

- A smaller group of farmers, 197 members, continued with the Margin Management arrangements for the month 17 June to 16 July 2009. They have received an interim payment of 10.0ppl and we now believe the total amount payable under this arrangement is 15.7ppl, the balancing 5.7ppl is to be paid alongside the final payment on the initial two week period. Details of these calculations on a fully transparent basis has been sent under separate cover to those farmers affected.

- To enable the finalisation of the milk margin calculations the Bank has agreed to underwrite the residual financial risk still in existence relating to the final determination of costs and the collection of the debts created during the two week period and the remaining trading period.

Business and asset sales

- Following the work done pre-appointment, we were able to successfully conclude the sale of the shares in the subsidiary business Lubborn to Lactalis, one of two French bidders. The manner in which the ongoing negotiation for the sale of this company has been managed has meant the full value for this business has been protected and retained (when measured against other bids received prior to appointment). The completion of this transaction took place on 6 June 2009 at an enterprise value of circa £9.47m.

- Similarly following up on work already done, we were able to quickly conclude the sale of the business and assets of Llandyrnog to Milk Link on 10 June 2009 for an aggregate consideration of £24.96m. This is in excess of the price being negotiated prior to appointment. An additional benefit of this deal is that the deal was conditional on the attaching milk field of approximately 300 members transferring to Milk Link.

- The sale of three Milk Supply depots to Lloyd Fraser (the main transport provider to Milk Supply), helping to stabilise and secure ongoing transport logistics within the milk fields previously served by DFB, together with five of the Liquids depots on a going concern basis.

- Overall, the sale of these various businesses and depots has helped to protect and secure ongoing employment for 420 people.

Liquids closure

- For a considerable time, before the appointment of the Receivers and Managers, an extensive marketing of the Liquids business had taken place on behalf of the Directors with some limited initial interest being shown in parts of the business, none of which resulted in any final offers subject to contract.

- Following appointment we carried out a short, but intensive, further marketing of the Liquids business but were unable to locate any party willing to make an offer, capable of completion, for the business as a going concern, reflecting the experience of DFB prior to the appointment of the Receivers and Managers. During that time we had also undertaken extensive consultations with Defra, WA and other regional government bodies to explore interim arrangements which may have assisted in finding a purchaser for this business.

- It became increasingly unlikely a buyer for all three of the dairies at Blaydon, Bridgend and Lincoln, either together or separately, would be found as a result of a combination of the following factors:

    - Poor historic financial performance including the prospect in August 2009 that the largest customer was moving its business;

    - Other customers finding alternative suppliers further reducing processing volumes and further undermining the viability of the dairies (circa 60% of the customer base had either switched or notified they would be imminently switching supply within the first seven days following the Receivership); and

    - Continuing milk supply as the DFB milk field migrated to other providers.

- A combination of all of the above factors led to significant trading losses in that business that could only be funded by reducing the already low milk price of 10p. Therefore, in the absence of any offers capable of completing, the Receivers and Managers took the decision that the three dairies needed to be closed as quickly as possible to reduce the ongoing and increasing loss making.

- The closure of all three dairies was announced and implemented 9-12 June 2009. As part of an agreement with Defra and WA the Receivers and Managers guaranteed to maintain the three dairies as fully functional units until 15 July 2009 to give a further opportunity for offers to be made. This proved unsuccessful.

- Since closure we have not received any offers capable of support from our valuation agents.

4) REPORT ON THE RECEIVERSHIP

Members' guarantees

Background

- When DFB was formed, members were asked to sign Members Financial Agreements, and for any new members this was a condition of joining. Under the Members Financial Agreement members provided a guarantee to DFB equivalent of 5p per litre based on their annual milk production.
- In 2006/2007, DFB introduced a new milk supply agreement. Members who signed this contract were released from their member guarantee or could have their Member Liability Loan repaid or transferred into a Member Investment Account.
- For members who had not signed the new milk supply agreement the guarantee, subject to the rules of the Members Financial Agreements, remained in place until the member retired or resigned.
- Upon retirement or resignation any guarantees were released in two equal amounts on the first and second anniversary of the end of the milk year in which the member retired or resigned.

Receivership

- From DFB's records, 336 guarantees from members would appear to remain in place at the date of the Receivership. We have looked at the status of members who have provided guarantees and they can be split into three groups:

  1. Members of DFB at 3 June 2009 who will have lost significant sums of money from the non payment of the milk cheque in respect of milk supplied in May and early June 2009;
  2. Members who have retired from farming altogether; and
  3. Members who left DFB but are still dairy farming elsewhere.

Decision outcome

- It is a complex issue and we have been taking advice. Consequently we can confirm that no steps will be taken by the Receivers and Managers (or by the Bank) to collect any monies that may be due from any members with guarantees.

4) REPORT ON THE RECEIVERSHIP

Employees

- At the date of appointment DFB employed the following personnel:

	Number of employees
Group	74
Milk Supply - Nantwich	52
Lincoln, Bridgend and Blaydon dairies	698
Liquid milk depots	454
Llandyrnog	165
Lubborn	90
Total Headcount*	**1,533**

* *This excludes a number of agency staff used in the dairies and processing plants*

- As outlined earlier, the sale of Llandyrnog, Lubborn and the liquid milk depots has preserved the employment of 420 people.

- Every step available was taken to ensure that we elected and consulted with both union and employee representatives at each location to communicate information in a consistent and honest approach (within the boundaries of confidentially) for those employees effected by a redundancy or transfer of business.

- As the Receivers and Managers were unable to find a buyer for the dairies, we had to make a significant number of redundancies. The total number of people that have, or will be, made redundant is 1,113.

- Significant efforts were made to try and support those employees affected by redundancy. For the site closures in Bridgend, Lincoln and Blaydon, various job fairs were organised inviting local government organisations such as Job Centre Plus, Next Step, Council and Business Link to discuss all help available for redundant employees, as well as providing help with completion of Forms RP1 to ensure the swift payment of statutory claims available.

- A considerable amount of time was initially spent verifying all details included on the RP1 forms against DFB records. This proved beneficial as employees made redundant from 12 June 2009 received claims within 6 weeks, which is faster than the estimated 10-12 weeks initially communicated. All submitted claims to date for both Forms RP1 (holiday pay and redundancy pay) and RP2 (compensatory notice pay) have now been paid.

- At the date of this report we have retained the services of over 30 members of staff to assist with the realisation of the residual assets. Ultimately these staff members will also be made redundant.

- We would like to formally record our thanks to the DFB staff for their help with the Receivership.

4) REPORT ON THE RECEIVERSHIP

Employment claims

- The Industrial & Provident Societies Act 1965 (as amended) does not separate preferential and non-preferential creditors. More specifically employee claims representing arrears of remuneration and holiday pay are not preferential creditors (as would be the case in other forms of insolvency).

- For the majority of employees, there were three days of wages that were outstanding at the date of appointment which were paid by the Receivers and Managers to ensure the cooperation of the workforce.

- There were also significant arrears of holiday pay for over 600 employees, totalling circa £895k. The Redundancy Payments Office (RPO) has paid circa £600k (of the £895k) relating to holiday pay at the agreed statutory rates.

- A significant number of employees (230+) are long serving employees, with service earlier than October 1998. These employees were required at the outset of their employment to work the first 12 months and accrue their holiday entitlement. As a consequence these employees have circa £566k of accrued holiday outstanding from the time of their first employment. Early communication and conversations with the Senior Policy Advisor for the RPO guaranteed that payment would be made to these employees totalling circa £370k (of the £566k).

Customers and suppliers

- Central to the Receivership strategy was to seek to maintain the level of service provision with customers, including members, to permit either a sale of the business (or parts thereof) or the orderly transition of the milk field to other providers.

- Efforts were made to satisfy customers that ongoing supplies would be maintained but inevitably some customers sought to make alternative arrangements elsewhere. A number of key customers switched immediately. This impacted both Milk Supply and the Liquids business but we were able to largely maintain customer base at Lubborn and Llandyrnog.

- We continued to supply all key Liquids' customers in order to try and preserve these relationships, and any inherent value in them, as we sought to find a buyer for the business.

- In addition, ensuring unbroken supply and maintaining service levels during the Receivership also improved chances of collecting pre-appointment debts by mitigating any business disruption claims customers may seek to set-off against amounts owing to DFB.

- Within seven days of appointment, circa 60% of Liquids' customers had notified us of their intention to switch supply by 14 June 2009 at the latest. We committed to meeting supply for key customers up until their notified date of switch.

- Whilst we recognise the ultimate closure of the dairies was conducted at short notice in order to stem the potential losses for creditors if we had continued to trade (with the consequent impact to staff and customers alike) we believe the strategy adopted maintained stability and service levels for as long as was deemed practically possible. We do not believe any milk deliveries to customers were missed.

4) REPORT ON THE RECEIVERSHIP

Bringing the Receivership to a close

- As soon as the remaining assets have been realised, remaining debtors collected and Receivership suppliers paid, the funds will be distributed to the creditors in order of priority. As we are expecting the Bank to suffer a shortfall, remaining funds will be distributed to the Bank and the Receivership will be concluded.

- As always with a Receivership, the option is open to unsecured creditors or member shareholders to petition the court to put DFB into liquidation.

- At present it is difficult to give any exact timescale when the conclusion of the Receivership might be achieved, but at present we would not envisage this occurring much before June 2010. A final report will then be sent to creditors, members and ex-members.

5) ESTIMATED FINANCIAL OUTCOME & DIVIDEND PROSPECTS

Estimated Financial Outcome

- We set out below an Estimated Financial Outcome which summarises realisations and payments to date and sets out future estimated receipts and payments as at 31 July 2009. This incorporates the assets recoveries from all companies within the DFB group and the associated costs of realisation.

Receivers' Estimated Outcome Statement at 31 July 2009

	As at 31 July 2009 £'000	Future receipts and payments £'000	Total £'000
Realisations			
Land and buildings	2,500	2,646	5,146
Plant, machinery, fixtures and fittings	568	2,850	3,418
Depot sales	1,180	-	1,180
Goodwill and investments	6,100	-	6,100
Stock	16,711	-	16,711
Debtors	34,718	1,000	35,718
Miscellaneous other assets	945	-	945
Members guarantees	-	-	-
Total estimated realisations	**62,722**	**6,496**	**69,218**
Trading			
Trading profit	1,613	819	2,432
Members margin payments	(2,079)	(353)	(2,432)
Net profit after margin payment	**(466)**	**466**	**-**
Other costs not included in the margin calculation (including closure costs)	(3,572)	(2,450)	(6,022)
Total trading and closure costs	**(4,038)**	**(1,984)**	**(6,022)**
Costs of realisation			
Provision for realisation costs	(3,405)	(3,095)	(6,500)
Irrecoverable VAT on all costs (including trading)	-	(1,750)	(1,750)
Total costs of realisation	**(3,405)**	**(4,845)**	**(8,250)**
Total of all costs	**(7,443)**	**(6,829)**	**(14,272)**
Realisations less all costs (available to secured creditor)	55,279	(333)	54,946
Estimated Bank debt	(58,942)	-	(58,942)
Net shortfall to the Bank	**(3,663)**	**(333)**	**(3,996)**
Available to:			
Creditors			nil
Loan note holders			nil
Equity holder			nil

The estimated values used in forecasting the final outturn necessarily deal with events in the future and until such time as all assets, revenues and costs associated with trading have been recovered or discharged there remains uncertainty over the final position.

5) ESTIMATED FINANCIAL OUTCOME & DIVIDEND PROSPECTS

- Whilst trading has concluded, there are still a number of assets and debts to be realised and payments to be made and as such the table below is an estimate. We are only three months into the Receivership and consequently there are still very significant sums (£ millions) still to be collected by the Receivers and Managers and also payments to suppliers to be made. However the figures do show the current estimated outcome of the Receivership incorporating the sale of Llandyrnog and Lubborn, wind down and realisation of assets for the Milk Supply and Liquids businesses.

Dividend prospects

- The Estimated Financial Outcome indicates that the secured creditor, the Bank, will suffer a shortfall estimated at £4m before any further monies are due for accrued interest and charges.

- As indicated at the onset of the Receivership and despite significant progress on selling the businesses and assets of DFB to date, the Receivers and Managers **do not currently believe any dividend will become payable to the unsecured creditors**.

Estimated costs of the Receivership

- We set out below a table that shows all the professional costs incurred to date in the Receivership.

	Estimated Costs £'000
Receivers and Managers' costs to date	2,737
Legal costs to date	418
Property and plant agents to date (estimated)	250
	3,405

- We have included a provision of £3m for the estimated remaining future costs which are likely to be incurred.

- Due to the estimated financial position above these costs will be borne by the Bank.

5) ESTIMATED FINANCIAL OUTCOME & DIVIDEND PROSPECTS

Summary of legal and other professional firms

- The Receivers and Managers have instructed the following other professional advisors:

Service provided	Name of firm / organisation	Reason selected	Basis of fees
Legal advice – England & Wales	Addleshaw Goddard LLP	Situational experience	Time costs
Legal advice	BSDR*****	Previous experience	Agreed fee structure
Valuers & Agents	King Sturge	Situational experience	Commission based

***** BSDR were DFB's pre Receivership legal advisors and were used by the Receivers and Managers on some minor matters where it was time and cost effective to retain their services.

6) EVENTS LEADING UP TO THE APPOINTMENT OF RECEIVERS & MANAGERS

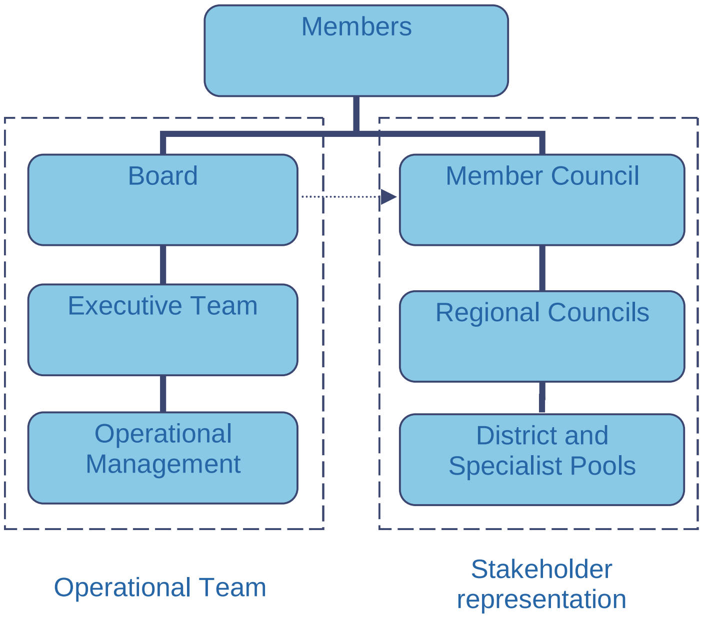
- As a consequence of the size and extent of the DFB business, we have needed to examine and consider a substantial volume of documentation and information in the preparation of this report. Consequently, whilst this report is intended to cover those matters we believe to be of significance to creditors and members, it is not intended to be a comprehensive examination of all aspects of the DFB business.

- The directors have commented that they believe the business of DFB to be far too extensive and more complex than could be represented in a report of this nature.

Background

- In 2002, DFB was established following the merger of Zenith Milk and The Milk Group. In addition to this core milk supply business, the newly created DFB also owned the Nene and Lubborn businesses.

- Responsibility for co-ordinating the activities of DFB rested with the Board and Executive Team. They reported directly to the Membership, who, in addition to being the farmer businessmen, are also the shareholders of DFB. Stakeholder representation comprised of a member Council, various Districts and two specialist milk pools – 'Channel Islands' and 'Organic'. The diagram below shows the interaction between the operational team and the Stakeholders.



- From a review of the minutes of a Board strategy meeting (September 2003), it was noted that *"there were a number of choices that DFB could make – one of them to do nothing – but all the board agreed that this was not viable and that DFB needed to do 'something' positive."*

- From this meeting onwards, DFB undertook a number of projects aimed at improving its overall market position. Based on our review of its systems, to date we have identified 35 projects undertaken by DFB, which include, but are not limited to the following:

  - Potential building of a new dairy

  - Rationalisation of Liquids customer base and depots

  - Acquisition of dairy assets of East Anglia and Midlands Co-ops

  - Acquisition of dairy assets of Lincoln Co-op (completed)
  - Acquisition of Golden Vale/Bridgend and subsequent transfer and closure of Cardiff dairy (completed)
  - Acquisition of Westbury as a joint venture (completed)
  - Acquisition of and/or merger with key dairy industry competitors, some considered on multiple occasions
  - Sale of parts of DFB to, or potential joint ventures with, key competitors
  - Sale of Liquids business to key competitors

- A number of projects were completed but there is clear evidence that a significant number of the above projects were either aborted or not successfully completed prior to our appointment.

- The most significant acquisition made by DFB since its inception was that of Associated Cooperative Creameries in 2004. This is discussed in further detail below.

Acquisition of Associated Cooperative Creameries

- In early 2004, ACC was offered for sale by its owners, Co-Op. DFB agreed at the time that complemented the vertical integration strategy and commenced due diligence on the acquisition of ACC.

- During the year to March 2004, ACC was DFB's third largest customer, behind Arla and Express, taking circa 240 million litres of milk.

- In August 2004, DFB completed the acquisition of ACC for a total of £81m, including acquisition costs and a goodwill payment of £17m. The purchase price was funded by a combination of bank and vendor debt, with a proportion of this replaced with members' funds arising from an increase in Members' Capital Retentions in the year and a half following the deal through to 31 March 2006.

- DFB commented in the pre-deal plan dated 9 August 2004 as follows:

  "Simply put, this acquisition is a strategic imperative for Dairy Farmers of Britain:

  – *without more direct control of the use & outlet for the milk DFB collects from its members, it will be increasingly unable to secure a large proportion of high value liquid milk contracts and will be left with lower priced cheese, butter and powder sectors, which have and continue to suffer from wide fluctuations in both volume & price*

  – *through the acquisition of ACC, a number of other deals that are in an advanced state of readiness, would either "come to" or "return to the table". Together, these deals provide substantial, and related synergistic benefits beyond those available from each individual acquisition. The sum is truly greater than the parts. We believe the combination of two co-operative businesses will create a new and powerful force in the UK Dairy Industry. This one deal transforms DFB into not only the UK's No.1 fully vertically integrated, farmer-owned milk processor, but also, at 1.3 billion litres, the UK's 3rd largest processor of milk, after Arla Foods and Dairy Crest."*

6) EVENTS LEADING UP TO THE APPOINTMENT OF RECEIVERS & MANAGERS

Post ACC acquisition plans

- DFB identified the following key strategic goals from the ACC acquisition:

  1. Co-Op revenue growth and establishing distribution in Scotland;
  2. Maximise synergies and drive cost reduction - generation of £4.5m pa of synergies;
  3. Maintaining the existing joint venture with Definitely Devon in the South of England; and
  4. Leverage distribution expertise to increase retail coverage.

- Our review of DFB's records show an expectation of significant capital expenditure in order to enable these goals to be achieved. We comment on the outcomes of these goals below:

1. Co-Op revenue growth

- Milk sales to the Co-Op grew for at least 8 months following the acquisition. However, after that, rolling 12 month (weekly comparative) sales fell by on average 0.5% each month until November 2007. This was partly offset by increasing cream sales, although in total the rolling 12 month (weekly comparative) sales to Co-Op fell by 0.1% each month until November 2007.

- As part of the 2007 contract renewal, DFB reviewed it's arrangements with the Co-Op, which included resolving all remaining issues on the ACC acquisition. This allowed DFB's relationship with Co-Op to move forward under the new two year supply agreement.

- Based on our discussions with DFB's finance team, there has been no material turnover generated in Scotland.

2. Cost synergies

	2004 £'000	2005 £'000	2006 £'000	2007 £'000	2008 £'000
Milk price equalisation	720	1,470	1,560	1,850	2,000
Membership services	130	250	250	250	250
Haulage	240	470	470	470	470
MCA retentions	1,050	2,440	1,920	1,740	1,740
	2,140	**4,630**	**4,200**	**4,310**	**4,460**

- A large proportion of the above synergies were expected to be derived from ACC farmers joining DFB. 12 months after acquisition, DFB had largely the same number of farmers as prior to the ACC acquisition, and thus the benefit of retaining these additional farmers was not delivered in full.

6) EVENTS LEADING UP TO THE APPOINTMENT OF RECEIVERS & MANAGERS

3. Definitely Devon

- As part of the ACC deal, DFB had the option to purchase Definitely Devon. Following further due diligence, DFB decided not to complete this acquisition due to the level of upfront capital expenditure which it was felt didn't translate into a trading benefit meaning that these anticipated benefits did not arise.

4. Increase retail coverage

- DFB intended to use the ACC acquisition to leverage into larger retailers using Co-Op as a base.

- ACC had an existing relationship and supply contract with Tesco and this continued post acquisition, albeit at low turnover rates. However from June 2007 onwards, liquid milk sales increased significantly and sales of cream commenced.

- Liquid milk sales increased again from April 2008 following the launch of Local Choice Milk.

- This increase in sales from April 2008 followed significant capital expenditure at dairy sites to ready them for Tesco Local Choice requirements. In particular, £3.2m was spent on capital improvements at the Bridgend site in FY08.

- Whilst representing a significant improvement on previous volumes, DFB's Tesco sales were nonetheless well below volumes budgeted by DFB. For example, total FY09 Tesco sales represented only 41% of DFB's original budget.

Post ACC Acquisition actions

- Following the acquisition of ACC, DFB were trying to develop the Liquids business with national coverage. As part of that strategy a number of processing sites were closed and other sites were purchased. We set out the key site changes below.

    - Closure of Llangadog ingredients plant announced in April 2005 (after being acquired in August 2004). This site closed due to the level of trading losses being incurred and the known future losses of certain contracts within 12 months;

    - Acquisition of the trade and assets of Lincoln dairy from Lincoln Co-op in April 2005 for £6.3m as part of DFB's business expansion plans;

    - Acquisition of Bridgend dairy in November 2006 for £7.5m and subsequent closure of Cardiff dairy costing £1.7m due to the imminent expiry of the Cardiff site lease;

    - Closure of Whitby dairy in April 2007 costing £1.3m, as part of the Group's nationalisation plans to reduce capacity. Manufacture of liquid milk and cream was transferred to other DFB sites and UHT and cottage cheese manufacture ceased.

    - Closure of Fole and Portsmouth dairies in early 2009 (as part of "Project 523" restructuring plan, which when completed reduced the operational dairies to those of Lincoln, Bridgend and Blaydon) reducing capacity and costs of processing.

6) EVENTS LEADING UP TO THE APPOINTMENT OF RECEIVERS & MANAGERS

DFB Funds flow – FY04 to FY09

- As summarised in the table below, the Group experienced a £52m funding shortfall from FY04 to FY09.

	Year ended 31 March						
	FY04 £'000	FY05 £'000	FY06 £'000	FY07 £'000	FY08 £'000	FY09 £'000	Total £'000
Opening bank borrowings	(6,197)	292	(56,799)	(35,926)	(34,242)	(41,371)	**(6,197)**
Cash flow							
Trading cash flow (including interest)	769	13,478	16,591	14,743	1,229	(8,994)	**37,816**
Exceptional items	-	(907)	(4,931)	(3,860)	(4,026)	(10,480)	**(24,204)**
Net capital expenditure and disposals	(802)	(3,978)	(2,314)	(8,825)	(9,551)	(468)	**(25,938)**
Acquisitions	64	(81,157)	(6,277)	(7,695)	(413)	(98)	**(95,576)**
Investments / business sales	(3,336)	(500)	-	1,872	706	15	**(1,243)**
Net cash in/(out) flow before members	(3,305)	(73,064)	3,069	(3,765)	(12,055)	(20,025)	**(109,145)**
Retentions / shares / members funds	9,794	15,973	17,804	5,449	4,926	3,450	**57,396**
Net Cash In/(Out) Flow	**6,489**	**(57,091)**	**20,873**	**1,684**	**(7,129)**	**(16,575)**	**(51,749)**
Closing bank borrowings	292	(56,799)	(35,926)	(34,242)	(41,371)	(57,946)	**(57,946)**
Main bank syndicate members	Lloyds TSB	Lloyds TSB, HSBC, Barclays and Co-Op	HSBC, Barclays and Co-Op	HSBC and Barclays	HSBC	HSBC	

- Over the period from 1 April 2004 to 31 March 2009 the Group's net cash outflow before Members was £109.1m, which included over £95m in acquisition costs including ACC (£81.1m in FY05), Lincoln (£6.3m in FY06) and Bridgend (£7.5m in FY07).

- It was expected that the cost of acquisitions would ultimately be funded by member retentions and trading efficiencies. The net cash shortfall of £51.5m indicates that this did not occur and that DFB's trading, member retentions and working capital management were not sufficient to:
  - fund the high levels of net capital expenditure (£26m);
  - cover the significant exceptional costs incurred in restructuring the business (£24m); and, accordingly
  - support the milk price it paid (even though that price was often at the lower end of the market).

- Following the acquisition of ACC, DFB incurred £24m of exceptional costs including:
  - £8.7m on redundancies, primarily relating to post-ACC staff reductions in FY06 (£2.6m) and Project 523 redundancies in early 2009 (£5.3m), albeit the latter was funded by a 2p reduction in milk price in November 2007;

  - Closure costs averaging circa £2m a year following the ACC acquisition, including Llangadog (FY06), Cardiff (FY07), Whitby (FY08) and Fole & Portsmouth (FY09);
  - Remaining items (circa £7m) include the professional costs (legal fees, accountancy fees and consultancy fees) associated with the large number of strategic initiatives and transactions pursued by DFB which could not be successfully concluded, in some instances as a consequence of counter party withdrawal.

- DFB's net capital expenditure totalled £26m from FY04, with over £20m in Liquids. The Liquids expenditure mainly involved regular dairy and depot improvements, including customer-related improvements, as seen in FY08 with expenditure of £3.2m at Bridgend in preparation for increased Tesco volume (which in the main did not materialise, as discussed at page 26 below).

New board / commercial issues

1. Board composition and associated issues

- Set out in the table below is a summary of key management changes and commercial issues identified in our review of Board minutes since May 2008:

Month	Board and Executive Team	Commercial issues in minutes
May 08	• Norman Coward (adviser) leaves	
June 08	• 2 non-executive board members, Mark Heywood and Wendy Radley resign	
July 08		• DFB pulled out of the South East Co-Op stores comprising circa 50m litres of milk as costs increase was not accepted
August 08		• Significant Liquids trading problems and subsequent strategic solution planning discussed • Acknowledgement that ongoing Co-Op relationship at next tender in jeopardy
September 08		• Financial review notes that YTD trading is £0.2m favourable to budget, though this includes £1.8m of provision releases. It was further noted that underlying trading is showing continuing deteriorating performance of circa £2-2.5m loss per month. •
October 08	• Philip Moody (Board member) resigns • David Potts (Group Commercial Director) resigns	• Decision not to pay member interest of £1.8m made by Board
November 08	• Rob Knight (Chairman) resigns, replaced by Lord Grantchester • Roger Taylor does not take up position on Board	• Announcement of 2ppl retrospective price drop
December 08	• Andrew Speak (Chief Restructuring Officer) appointed – departed end February 2009	

6) EVENTS LEADING UP TO THE APPOINTMENT OF RECEIVERS & MANAGERS

Month	Board and Executive Team	Commercial issues in minutes
March 09		• Loss of Co-Op contract confirmed • Debt for Equity swap occurs • Member Capital raising not supported
April 09	• Sandy Birnie (Chief Restructuring Officer) appointed • Andrew Cooksey (CEO) steps down	
May 09		• Nene sold • Revised restructuring plan produced

2. Banking facilities

- DFB entered into new banking arrangements in July 2008 which included a £5m temporary facility available mid-month to help fund milk cheques in addition to 'cheese stock', debtor, property and equipment-related facilities.
- This facility was first breached in August 2008 when a delay in a VAT receipt caused DFB to temporarily exceed facilities. Further breaches led to discussions between the Bank, DFB and their respective advisers.
- Various over-advance agreements and temporary facility increases to DFB were agreed with the Bank from November 2008 through to April 2009.
- In April 2009, after the Member Council had rejected a capital injection proposal due in late March 2009, the Bank agreed to provide additional ABL and overdraft facilities until 11 June 2009, in effect, bridging the funding gap whilst sales discussions progress, alternate restructuring plans were considered and to see through the 'spring flush'.

6) EVENTS LEADING UP TO THE APPOINTMENT OF RECEIVERS & MANAGERS

3. Membership issues including resignations

- As set out in the table below, after experiencing a minimal number of members resigning over the first 9 months of 2008, DFB saw an increase in member resignations from October onwards. This included 322 members resigning in December 2008, which followed an announcement by DFB on 28 November 2008 of a 2ppl price drop to members, backdated to 1 November 2008 at a time when competitor prices remained stable. The retrospective price drop was intended to help fund Project 523.

- In accordance with member agreements, DFB members were required to provide 12 months notice when tendering their resignation.

Month notice of resignation received	Number of members	Annual Litres (M litres)	Milk price (Pence per litre)
January 2008	2	0.58	25.01
February 2008	6	3.58	25.01
March 2008	10	9.26	25.01
April 2008	6	2.36	25.01
May 2008	16	13.64	25.01
June 2008	8	7.04	25.51
July 2008	6	3.15	25.51
August 2008	7	8.31	25.51
September 2008	9	6.44	25.51
October 2008	28	24.35	25.51
November 2008	62	66.10	23.51
December 2008	322	259.81	23.51
January 2009	44	35.80	23.51
February 2009	37	26.37	22.41
March 2009	66	53.97	22.41
April 2009	107	85.63	20.21
May 2009	98	61.73	20.21
Total	**834**	**668.12**	
Total members December 2007	2,229	1,548	
Total members June 2009 (including members still within notice period)	1,813	1,059	
Percentage decrease	19%	32%	

6) EVENTS LEADING UP TO THE APPOINTMENT OF RECEIVERS & MANAGERS

Key events in the nine months preceding the Receivership

- A number of key events occurred during the nine months leading up to DFB's Receivership in June 2009. These include:

    1. Restructuring of the Liquids business via Project 523;
    2. Key Liquids customer relationships
    3. Llandyrnog trading and stock issues;
    4. Sale of business activity;
    5. Debt for equity swap and proposed capital raising;
    6. Creditor action.

- Our comments on key events and issues surrounding them are set out hereunder:

1. Restructuring of the Liquids business via Project 523

- In late 2008 DFB developed a restructuring plan to reduce the overhead cost of the business ("Project 523") which had at its core the closure of two of the existing five Liquids dairies and associated depots, namely Fole and Portsmouth. To make a contribution to the restructuring costs associated with Project 523 the price paid to members was reduced by 2ppl with effect from 1 November 2008.

- The dairy and depot closures occurred in early 2009, leading to over 640 redundancies.

- However, despite the significant initial cash outlays primarily relating to redundancies, and delivery of Project 523 on budget, the planned cash and profitability improvements did not materialise in the remaining Liquids business prior to the appointment of Receivers.

2. Key Liquids customer relationships

<u>Loss of Co-Op contract</u>

- As noted earlier, in 2007, DFB entered into a new supply agreement with Co-Op for 2 years which was due to expire in August 2009.

- From our review of the Board minutes, the first signs of potential issues around the retention of the Co-Op contract were raised in August 2008.

- In March 2009, DFB was informed by Co-Op that its existing contract would not be renewed. The loss of Co-Op represented circa 30% of the total volume of the Liquids business.

- Between March 2009 and the date of our appointment, DFB sought to secure additional contracts to mitigate the loss of Co-Op. At the time of appointment no material agreements had been secured.

- The loss of the Co-Op contract, whilst not publicly announced until 23 April 2009, seriously impacted the future viability of the Liquids business and, therefore its attractiveness to a potential purchaser (as noted below).

Lower than expected Tesco Local Choice volume

- As noted above, the Liquids business successfully increased its Tesco sales following the launch of Local Choice milk. However, whilst volumes were significantly above previous sales levels, during FY09, they remained less than half of what was initially budgeted.

- This underperformance against budget worsened from early 2009 as Tesco was in the process of delisting the Local Choice product from a number or regions. DFB were working on a DFB branded replacement to be launched in six of the fifteen regions they had previously supplied with Tesco Local Choice.

- At the date of our appointment, the delisting of Local Choice had occurred, and the new branding was still being developed by DFB.

- DFB had invested heavily to support Tesco and the Local Choice brand, including capital expenditure of £3.2m in FY08 at the Bridgend dairy alone.

3. Llandyrnog trading and stock issues

- Our review of divisional management accounts shows that Llandyrnog experienced trading issues from October 2008 as a result of:

    - Downward pressure on bulk cheese prices (at 5% below budget due to excess supply in the market); and

    - An increase of six million litres of milk versus budget supplied into the business via Milk Supply, causing increased stock holdings over circa 1,000 tonnes.

- From members' perspective, it was more financially beneficial for DFB to place surplus milk from Milk Supply into Llandyrnog at a notional internal transfer price of circa 28ppl, rather than sell it on the spot market for a lower price.

- By placing such large volumes milk into Llandyrnog, DFB could not generate as much cash as it would have had it sold the milk on the spot market, thus placing further pressure on its cash flow. This was because it's ABL stock facility was fully utilised meaning DFB could not generate additional cash through increasing stock levels. However, with available ABL debtor facilities, it could have generated cash against invoices raised by selling milk on the spot market.

- Faced with mounting stock and low cheese sale volumes, DFB undertook an urgent disposal of bulk cheese in November 2008, offering values of circa £500 per tonne less than those achieved in October in order to secure a quick sale.

- Llandyrnog experienced similar problems in early 2009 and continued to sell stock at large discounts in order to secure sales.

- Whilst these stock sell-downs helped DFB to generate cash, it crystallised substantial operating losses as the cheese was sold at much lower prices than the stock had previously been valued.

6) EVENTS LEADING UP TO THE APPOINTMENT OF RECEIVERS & MANAGERS

4. Sale of business activity

- DFB had consistently engaged Smith & Williamson, as Merger and Acquisition (M&A) advisers, in particular providing advice on strategic options following the ACC acquisition.

- In later 2008, DFB engaged Smith & Williamson to assist in finding a strategic solution for the business, including the potential disposal, restructuring and/or closure of the Liquids business. A number of key dairy industry players had been approached in this regard, though by early 2009, no strategic solution had been concluded.

- In February 2009, PwC were engaged to conduct a sale process of DFB and its businesses which continued up until the date Receivers and Managers were appointed.

- Maximising value from Nene and Lubborn (to raise equity) and achieving a solution for the underperforming Liquids business were the main objectives of DFB, though disposals of Llandyrnog and Milk Supply were also considered.

- The sale of Nene Valley Foods to Meadow Foods was completed on 20 May 2009.

- The marketing of the Milk Supply business prior to appointment did not identify any material interest capable of being completed independently of the other business and within a rapid timescale which would have attributed any significant value to this business.

- In respect of the Liquids business, all initial indications of interest received were reliant on funding or conditional upon no significant contracts being lost. As discussed above, with DFB being informed of the loss of the Co-Op contract in March 2009, this undermined the ability to progress any sale of all or parts of the Liquids business.

- Building upon the sale processes DFB had undertaken at the time of the Receivership, the following sales occurred after the appointment of Receivers:

    - A share sale of Lubborn Cheese Limited to Lactalis was completed on 6 June 2009;

    - A sale of the business and assets of the Llandyrnog business to Milk Link was completed on 10 June 2009.

5. Debt for equity swap and proposed capital raising

- On 5 March 2009, DFB, following professional advice, announced proposals to transform its capital structure which included the creation of new equity shares and the conversion of member loanstocks and member investments into these new shares.

- In late March 2009, the Member Council voted to support converting £55m of member investments (Member Investment Accounts, Member Capital Accounts and Preference Shares) which had been classified as debt in DFB's balance sheet into shares.

- Also in March 2009, DFB asked the Member Council to approve a capital injection of circa £20m via member contributions to being DFB back within its banking facilities and cover incurred losses. The Member Council did not support the proposed resolutions to increase retention and capture capital from members.

6) EVENTS LEADING UP TO THE APPOINTMENT OF RECEIVERS & MANAGERS

6. Creditor actions

- As noted earlier in this section, DFB experienced significant cash pressure and struggled to remain within its agreed banking facilities, prompting requests for over-advances and extensions to the Bank from late 2008.

- This cash pressure was increased in January 2009 as credit insurers started to remove cover on DFB, further eroding available cash. Trade credit insurers cover businesses against the risk of bad debt due to the insolvency or default of their buyers. In this case, it involved DFB customers having insurance against monies owed to them by DFB withdrawn, prompting them to request faster settlement of accounts

- Shortly before appointment, key suppliers were starting to threaten to suspend continued supply unless their accounts were brought up to date. DFB made some payments to key suppliers to ensure that operations continued in order to keep the milk flowing, but this placed further pressure on DFB's cash position.

7) NEXT STEPS / FUTURE COMMUNICATIONS

Parliamentary Select Committee

- The Environment, Food and Rural Affairs Committee ("the Committee") has decided to examine the implications of the collapse of DFB. The Committee will consider in particular:

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

- The Committee does not intend to consider the issues surrounding the Receivership of DFB.
- All submissions to the Committee need to be received by 31 August 2009.
- The Receivers and Managers will be submitting this report to the Committee as a reference document.

Future communications

- The Receivers and Managers will continue to provide regular updates via the website (www.pwc.co.uk/dfob).
- Unfortunately the Receivers and Managers can not enter into individual discussions with specific creditors.