



23 January 2015

Julian Smith MP
House of Commons
London
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Dear Mr. Smith,

Thank you for your recent letter.

I am very happy to provide further explanation on the main points from our 08 January letter to our farmer members.

2 week delay to payments

While payment for our farmers' milk is being delayed by 2 weeks, every single litre of their milk will be paid for in full. The next few payment dates will be 26th January, 10th February, 24th February, and so on.

This move significantly improves our cashflow which was negatively impacted by falling dairy market prices throughout 2014.

Changes to milk price

1.1ppl of the previously announced February price cut was related to an additional funding package and other steps to secure the cashflow going forward that we were exploring. This 1.1ppl cut would have funded the net effect of these measures. The Board decided that a members' equity route was cheaper and better for the business and our members, and we have therefore reversed 1.1ppl of the previously announced February price cut.

Increased capital investment by members

The decision to increase members' capital investments from 0.5ppl to 2ppl for defined period will ensure that our financial position will improve further over the coming months, as we build up a buffer so that we can better handle volatility in the marketplace during 2015 and beyond.

There are 3 reasons why the member equity route was chosen. Firstly, it brings more money into the business. When we move milk price for our 2 main pools (manufacturing and liquid), there are a number of members who are not affected as they are in defined customer pools. Secondly, and related to the first point, the Board were determined that as many members as possible contribute to this set of measures. Thirdly, in contrast to milk price reductions, capital investment payments are allocated to individual members' accounts, therefore members will receive any dividend payments that are made in the future.

Customer support

Since we made the announcement we have received the full support of our major customers such as Adams Foods, Fonterra, and Nestlé. They understand our situation, they understand that the actions we have taken are positive steps and put the business on a solid footing, and they are standing shoulder-to-shoulder with us as we work through this.

I think it's also important to highlight that every part of the business continues to be under the microscope to lower our cost base. We have saved a total of £3.5m in this financial year alone. £1.7m of these savings has come from removing a number of roles from the organisation and not replacing people who leave unless the role is absolutely critical. We have saved another £1.8m in operating costs across a range of areas, for example we have closed some depots and cut the agri-show budget right back.

Finally, we have had a comprehensive programme of communication with our members using a number of channels. This has involved four large meetings around the UK where our Board members have presented to around 700 of our farmer members; phone calls for members with their local farmer representative, farm enterprise team member, and/or Board directors; videos providing answers to common questions; and regular email bulletins. We have also shared materials and held discussions with a range of farmer influencers including banks, consultants, accountants, feed companies, and politicians.

I trust that this answers your questions. However, should you require more detail, please contact our external relations director, Paul Flanagan on 07767 241452.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Kate Allum', with a long horizontal line extending to the right.

Kate Allum
Chief executive