

FIRST MILK LIMITED

**ANNUAL REPORT
AND
FINANCIAL STATEMENTS 2010**



Executive Summary

In 2009/10, there was a major improvement in the financial performance of the business compared to the prior year. The key financials are:

- A £10.3m positive swing in pre-tax profitability resulting in a profit of £0.4m. This turnaround in profit has been achieved against a backdrop of a global economic downturn and falling commodity markets.
- Group turnover was £536m - a decrease of 8% on 2008/09, which reflected the decision to move away from several low margin cheese contracts.
- Net bank debt reduced by £10.7m compared to 2008/09.
- £8.2m was invested in a number of capital projects during 2009/10, compared to £4.4m in 2008/09. This money was spent on a range of site improvement and upgrade projects to advance our efficiency.
- A strong balance sheet, with total net assets of £46m at 31 March 2010. (If the value of our shareholding in RWD plc as at 31 March 2010 was reflected in the financial statements instead of the cost, the total net assets would be £63m).

Chairman Bill Mustoe, commented:

Overall, the business made progress during the year to 31 March 2010. Financially, we are in a stronger position, with improved profitability, a sound balance sheet and reduced net debt.

We have entered 2010/11 with an increased momentum to deliver change. A range of efficiency savings and better market returns has delivered profits ahead of target for the first quarter. This has allowed us to fund a number of increases in the member milk price.

We have also taken steps to restructure our Executive team including the appointment of a new chief executive in April 2010 and are in the process of reshaping the Board to ensure that we have broader commercial experience around the table.

We are firmly focused on maximising our cash earnings by identifying opportunities that offer greatest market value; reducing our cost base and improving efficiencies. This will allow us to continue to improve the member milk price.

2 August 2010

Financial Reports
Year ended 31 March 2010

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Officers and Professional Advisers

Directors

Bill Mustoe (chairman)
Thomas Campbell (vice chairman)
Kate Allum
Richard Davis
Roger Evans
Ian Forgie
Michael Gorton
Beverley Hodson
Hugh Parker
Eric Sanderson
Richard Twose

Secretary

Angus Waugh

Registered Office

Cirrus House
Glasgow Airport Business Park
Marchburn Drive
Paisley
PA3 2SJ

Bankers

Barclays Commercial Bank
Churchill Plaza
Churchill Way
Basingstoke
RG21 7GP

Lloyds TSB Commercial Finance
Boston House
The Little Green
Richmond
Surrey
TW9 1QE

Bank of Scotland plc
The Cross
Paisley
PA1 1DB

Solicitors

Peterkins Robertson Paul
227 Sauchiehall Street
Glasgow
G2 3EX

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and
Statutory Auditors
141 Bothwell Street
Glasgow
G2 7EQ

Directors' Report

The directors present their annual report and the audited consolidated financial statements of the Group and the Society for the year ended 31 March 2010.

Principal Activities

First Milk is a dairy farmers' co-operative registered under the Industrial and Provident Societies Acts 1965 to 2002. The principal activities of the Group and Society are the marketing of milk on behalf of its members and the manufacture and sale of dairy products.

Results and Future Prospects

The financial statements on pages 12 to 38 detail the trading results and financial position of the Group and Society, which includes The First Milk Cheese Company Limited, Scottish Milk Products Limited and Scottish Milk Dairies Limited, as well as an investment in Robert Wiseman Dairies plc and joint ventures, involving Westbury Dairies Limited and Promovita Limited.

The Group and Society's income and expenditure account is shown on page 12. The Group's result for the year was a surplus of £0.4m after recording non-recurring operating costs of £4m (2009: deficit of £7.1m after recording non-recurring operating costs of £3.6m).

The balance sheet on page 13 of the financial statements shows that the Group's financial position at the year end has members' funds of £1.8m (2009: £3.1m). Net assets employed of £45.6m (2009: £47.3m) reflect a decrease of £0.5m in the members' loan capital.

The Group's net debt at 31 March 2010 was £114.3m (2009: £125.9m) with net cash outflow from financing of £16.9m during the year (2009: inflow of £7.7m).

Review of Developments

In April 2009 a new capital structure for the Society was implemented by the creation of the new Member Capital Account and "A" Preference Shares.

On 6 May 2009, Michael Gorton was elected as a farmer director.

On 26 August 2009, Robert Shearlaw resigned as vice-chairman and as a farmer director.

On 7 October 2009, Richard Davis was elected as a farmer director, replacing Mansel Raymond. Hugh Parker was also elected as a farmer director on the same date.

At the Annual General Meeting on 29 October 2009, Richard Greenhalgh resigned as chairman of First Milk and Bill Mustoe was appointed chairman.

On 20 November 2009, First Milk disposed of one-third of its shareholdings in Robert Wiseman Dairies plc, leaving First Milk with a 10% shareholding in that business.

On 4 December 2009, it was announced that Peter Humphreys would be leaving the business and as a consequence would resign as chief executive on 31 March 2010. On the same date, Bill Mustoe became executive chairman of First Milk.

On 14 December 2009, Peter Humphreys resigned as a director of First Milk.

In January 2010, plans were announced to reduce the number of elected farmer directors to three and to have three appointed farmer directors in their place. These plans are to be implemented through Rule changes to be proposed to members at the Annual General Meeting on 5 October 2010.

Refinancing

The Group and Society restructured its bank debt in August 2009 to provide more appropriate and flexible facilities. The main difference was a reduction in term debt and a move to revolving facilities to support the Group and Society's working capital requirements. The principal bankers of the Group and Society became Barclays Bank plc and Lloyds Banking Group (following the acquisition of Bank of Scotland by Lloyds Bank).

Post Balance Sheet Events

On 1 April 2010, First Milk introduced a Market Related Pricing system under which the price members receive for their milk differs according to whether their milk is supplied to the liquid or cheese market or is part of balancing pools.

On 1 May 2010, Kate Allum was appointed as chief executive of First Milk. She was appointed as a director of First Milk on 2 June 2010.

On 2 June 2010, Thomas Campbell was appointed as vice-chairman of First Milk.

On 30 June 2010, James Maguire resigned as a director of First Milk.

On 29 July 2010, Ian Forgie was appointed as a director of First Milk.

Principal Risks and Uncertainties

Loss of milk production volumes

The Board is aware of the importance of maintaining milk production volumes and seeks to achieve this by paying its members the maximum milk price possible. Members' core milk price is reviewed on a regular basis and the Board has a policy of returning any additional income achieved from the market to members as quickly as possible. This is supported by a pro-active communications policy, through which members are kept up to date by meetings and discussion groups, letters and a monthly business update.

The Board has adopted a policy of attracting additional milk volumes through direct supply contracts, in cases where such contracts will be of benefit to the business and to the members as a whole.

The introduction of Market Related Pricing noted above seeks to address the risk of losing milk volumes by recognising that market returns and costs to supply the market vary in different parts of the country. As a result, the business will return a price to members that are more in line with the actual return received for their milk.

Directors' Report (continued)

Competitive risk

The Society sells milk to processors, many of whom have the option of sourcing a proportion of their raw milk requirement directly from individual farmers. It also manufactures milk derivatives and faces the risk of customers substituting milk derivatives with non-dairy alternatives in their own products.

The First Milk Cheese Company sells cheese to the major retailers and food service companies and in doing so, faces competition from other similar companies in the United Kingdom and abroad.

First Milk addresses these risks by ensuring that sales staff are fully aware of relevant markets, offering products at market competitive prices, providing excellent service levels and developing long-term strategic relationships with customers.

Regulatory risk

First Milk is required to comply with various regulatory regimes in areas such as competition law, health & safety and environmental regulation. This is addressed through the adoption of appropriate policies and structures, risk assessments, monitoring and review of performance, recruitment and training of suitably qualified staff and support from external consultants, including legal advisors, where appropriate.

Input cost risk

First Milk faces the prospect of paying higher prices for vital commodities, including electricity, gas, plastics and cardboard. This risk is mitigated in relation to many input costs by maintaining awareness of markets and by forward buying where this is appropriate. In addition, the use of such commodities is kept to a minimum and reduced where possible. The business addresses electricity costs by buying electricity in the wholesale market, with expert assistance from energy consultants.

Financial Risks

The Group and Society's activities expose it to a number of financial risks including price risk, credit risk, cash flow risk and liquidity risk. The use of financial derivatives is governed by the Group and Society's risk management framework as approved by the Board of Directors. The Group and Society does not use derivative financial instruments for speculative purposes.

Cash flow risk

The Group and Society's activities expose it primarily to the financial risks of changes in interest rates. The Group and Society uses interest rate swap contracts where appropriate to hedge these exposures.

Credit risk

The Group and Society's principal financial assets are bank balances and cash, trade and other receivables and investments.

The Group and Society's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. An allowance for impairment is made where there is an identified triggering event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

Credit risk attributable to trade receivables is mitigated through the use of credit insurance.

Liquidity risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Group and Society uses a mixture of long-term and short-term debt finance.

Price risk

The risk of the business receiving low prices compared to market levels is mitigated against by the use of up to date market intelligence.

Directors' Report (continued)

The Board of Directors

The directors who held office during the year to 31 March 2010 and up to the date of signing the financial statements were as follows:

- Bill Mustoe - non-executive director and chairman (appointed as chairman and as a director on 29 October 2009)
- Thomas Campbell - elected director (appointed as vice chairman on 2 June 2010)
- Kate Allum - executive director (appointed 2 June 2010)
- Richard Davis - elected director (elected on 7 October 2009)
- Roger Evans - elected director
- Ian Forgie - executive director (appointed 29 July 2010)
- Michael Gorton - elected director (elected on 6 May 2009)
- Richard Greenhalgh - non-executive director and chairman (ceased to hold both offices on 29 October 2009)
- Beverley Hodson - non-executive director
- Peter Humphreys - executive director (ceased to hold office on 14 December 2009)
- James Maguire - executive director (ceased to hold office on 30 June 2010)
- Hugh Parker - elected director (elected on 7 October 2009)
- Mansel Raymond - elected director (ceased to hold office on 7 October 2009)
- Eric Sanderson - non-executive director
- Robert Shearlaw - elected director and vice chairman (ceased to hold both offices on 26 August 2009)
- Richard Twose - elected director

The elected directors' capital account balance and interests in the preference shares of the Society at 31 March 2010 and 31 March 2009 were:

	31 March 2010			31 March 2009	
	Member Capital Account £	A' Preference Shares £	B' Preference Shares £	Capital Accounts £ (Members Investment Account and Membership Account)	Preference Shares £
Thomas Campbell	11,344	1,094	-	15,322	-
Richard Davis	16,213	1,635	-	18,848	-
Roger Evans	22,631	2,209	-	24,840	-
Michael Gorton	6,974	608	-	7,582	-
Hugh Parker	38,019	3,478	-	41,497	-
Richard Twose	44,702	4,800	-	49,503	-

On 1 April 2009, First Milk's new capital structure was implemented by the conversion of 10% of the Members' Investment Account into new 'A' Preference Shares and the combination of the remaining 90% and the Membership Account balance into a new Member capital account. The Preference Shares that some members held on 31 March 2009 were re-designated as 'B' Preference Shares.

Each elected director is also a member of First Milk Limited and as such holds one ordinary share.

Directors' Report (continued)

Employees

The recruitment, development, retention and maintenance of a highly skilled workforce is key to the future of the business. It is the policy of the Board of Directors to enlist the commitment of all employees in attaining the Group and Society's objectives. Implementation of this policy is by encouraging employee involvement through effective communications, which includes an induction process for new employees, team briefings, newsletters, a company Intranet and any other appropriate means of individual or collective consultation.

Disabled Employees

It is the Board of Directors' policy to ensure that continuous employment is offered to employees who become temporarily or permanently disabled where it is practicable to do so within the scope of the business activities of the Group and Society. First Milk has secured 'Positive About Disabled People' accreditation from the Department for Work and Pensions demonstrating that it is an organisation committed to the employment, retention, training and career development of disabled people.

Political Donations

The policy of the Board of Directors is not to make donations of a political nature.

Disclosure of Information to Auditors

In the case of each of the persons who are directors of the Group and Society at the date when this report was approved:

- So far as each of the directors is aware, there is no relevant audit information of which the Group and Society's auditors are unaware; and
- Each of the directors has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Group and Society's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Statement of Directors' Responsibilities

The directors are responsible for preparing the annual report and financial statements in accordance with applicable laws and regulations.

The directors have chosen to prepare the financial statements for the Group and Society in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards).

Legislation requires the directors to prepare such financial statements for each financial year which give a true and fair view of the state of affairs of the Group and Society and of the surplus or deficit of the Group and Society for that period and comply with UK GAAP and the Industrial and Provident Societies Acts 1965 to 2002 and the Industrial and Provident Societies (Group Accounts) Regulations 1969. In preparing those financial statements the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to assume that the Group and Society will continue in business.

The directors are responsible for keeping proper accounting records which, disclose with reasonable accuracy at any time the financial position of the Group and Society and enable them to ensure that the financial statements comply with the Industrial and Provident Societies Acts 1965 to 2002 and the Industrial and Provident Societies (Group Accounts) Regulations 1969. They are also responsible for safeguarding the assets of the Group and Society and hence for taking reasonable

steps for the prevention and detection of fraud and other irregularities.

The directors confirm that they have complied with these requirements and, having a reasonable expectation that the Group and Society have adequate resources to continue in operational existence for the foreseeable future, have adopted the going concern basis for preparing the financial statements.

Directors' Transactions

No director who was a director during the year ended 31 March 2010 had a beneficial interest in any contract with the Group or Society except as follows:

- In respect of elected and non-executive farmer directors, transactions entered into in the ordinary course of business; and
- In respect of executive directors, contracts of employment.

Independent Auditors

PricewaterhouseCoopers LLP, have indicated their willingness to continue in office as independent auditors and a resolution that they be reappointed will be proposed at the Annual General Meeting.

BY ORDER OF THE BOARD



ANGUS WAUGH
Secretary
2 August 2010

Corporate Governance Report

Corporate Governance is the system by which companies are directed and controlled.

The Board

The Board of Directors is committed to operating the business with integrity, high ethical values and professionalism and aims to achieve high standards of corporate governance.

The UK Governance Code ("the Code"), which is binding on all companies is the recognised standard for sound corporate governance. Although not obligated to do so, the Board is committed to comply with those aspects of the Code that are considered appropriate for First Milk, as discussed below.

The Code focuses in particular on Board leadership, effectiveness, remuneration, accountability and audit and relationships with shareholders (or, in the case of First Milk, its members). As a consequence this Corporate Governance report focuses on those aspects and should be read with the Audit Committee and Remuneration Committee Reports on pages 9 and 10. The governance of First Milk will be reviewed to take account of any changes to the Code.

Role of the Board

The role of the Board of First Milk is to set strategies and objectives that will enable the business to fulfil its mission of making members better off with First Milk and to ensure that the business is effectively and efficiently managed and controlled.

Composition of the Board

The First Milk Board is structured to bring a variety of skills and experience to the performance of its roles.

As a farmer owned business, it is important that members are represented on the Board and accordingly six farmer non-executive directors are elected to the Board by 25 local representatives. As noted on page 3, it is being proposed that the number of elected farmers will be reduced to three and that three farmer directors will be appointed in

their place from the wider membership. Each local representative represents a geographical district consisting of members producing an average of approximately 60 million litres per annum. The Board is proposing to reduce the number of Local Representatives and to change their title to 'Area Representative'.

Three other non-executive directors, one of whom is the chairman, bring experience from diverse corporate backgrounds.

Two executive directors, the chief executive and finance director for First Milk, bring the composition of the Board to 11.

Proceedings of the Board

The Board has ten scheduled meetings each year, and meets at other times as required. At each meeting, it receives reports and financial information, which enable it to review the business's performance. In addition to regular reports from First Milk's operating divisions (cheese and liquid/ingredients) and central functions (such as Human Resources, communications and sustainability), the Board considers strategic matters and other issues that affect members' interests.

The implementation of strategy and day-to-day operational matters are delegated to First Milk's Operations Board, which operates under terms of reference set by the Board. The Operations Board is led by the chief executive, who reports to the Board on its activities, and also consists of the finance director for First Milk, the commercial finance director, the executive director (liquid and ingredients), the Group HR director, the Group communications director, the sales and marketing director, the general manager – manufacturing & technical, the general manager – supply chain & business analysis, the general manager – procurement, the membership director and the company secretary.

Board Committees

In order to be able to devote sufficient time to strategic issues, the Board delegates certain tasks to its standing committees, which operate under set terms of reference. Each committee comprises either non-executive directors only, or a mixture of non-executive directors and executives, as appropriate. Other executives attend Board committees as required. All five committees are chaired by non-executive directors, who make regular reports to the Board on the activities of their respective committees.

Audit Committee

The Audit Committee is chaired by Eric Sanderson and also comprises Michael Gorton and Hugh Parker. Its role is to oversee the annual external audit, to review the work of the internal auditors and to consider the effectiveness of internal controls and risk management. A report on the activities of the Audit Committee can be found on page 9.

Remuneration Committee

The Remuneration Committee is chaired by Thomas Campbell and also comprises Roger Evans and Beverley Hodson. Its role is to approve remuneration policies for the First Milk Group and specific remuneration packages for senior executives. A remuneration report giving more detailed information can be found on page 10.

Nomination Committee

The Nomination Committee is chaired by Bill Mustoe and also comprises Thomas Campbell and Roger Evans. Its role is to identify and nominate, for Board approval, candidates for Board vacancies (other than elected farmer directors). It also considers Board succession planning and reviews the structure, size and composition of the Board.

Corporate Governance Report (continued)

Members' Committee

The Members' Committee is chaired by Roger Evans and includes two other directors, Michael Gorton and Beverley Hodson. The committee also comprises Steve Dunning (chairman of the local representatives), Robert Martin (vice chairman of the local representatives), Alan Taylor (membership director) and Paul Flanagan (Group communications director). The role of this committee is to assist the Board in maintaining and improving relationships between the Board, local representatives and membership.

Newly appointed or elected directors go through a comprehensive induction process that includes training in the role of the Board and duties of directors.

For and on behalf of the Board
ANGUS WAUGH
Secretary

2 August 2010

Sustainability Committee

The Sustainability Committee is chaired by Richard Davis and also comprises Kate Allum (chief executive), Mark McQuade (executive director: liquid & ingredients), Paul Flanagan (Group communications director) and David Ditcham (safety, health and environment manager). Its role is to ensure that First Milk complies with both regulatory requirements and best practice in health, safety and environmental matters and to monitor and review other sustainability issues including energy efficiency, waste minimisation, reducing environmental impact, training and development for employees and sustainable sourcing.

Board Training and Evaluation

The Board is committed to developing its knowledge, capabilities and performance. To this end, it undertakes a periodic evaluation exercise, which has in the past included an evaluation conducted by an external body such as the Institute of Directors. Appropriate improvements in the operation of the Board and training needs of directors are identified from these evaluations. In 2009, First Milk's internal auditors carried out a review of corporate governance within First Milk. The results of this review were discussed by the Board and appropriate actions were agreed and implemented as a result.

Audit Committee Report

The Board has overall responsibility for internal controls, including the scope of both external and internal audits. It delegates these tasks to the Audit Committee under agreed terms of reference.

External Audit

The Audit Committee meets with the external auditors twice in the course of the year, first to review the scope of the external audit plan and then to receive and discuss the audit report and financial statements. The Committee also makes recommendations on the appointment of the external auditors, the fees payable to the auditors for audit work and reports to the Board in respect of non-audit services carried out by the auditors. In considering all the above, the Committee has due regard to the cost effectiveness, independence and objectivity of the audit function.

PricewaterhouseCoopers was re-appointed by members as First Milk's external auditors at the Annual General Meeting in October 2009. Their report can be found on page 11.

Internal Audit and Risk

The Audit Committee monitors internal control procedures and reviews their effectiveness on an ongoing basis. There are inherent limitations in any system of internal control, which can provide only reasonable, and not absolute, assurance with respect to the preparation of financial information and the safeguarding of assets.

The key features of the internal control system that operated throughout the period covered by the financial statements are:

- A control environment based on a clearly defined organisation structure;
- The identification and evaluation of business risk, control actions and monitoring activities to manage risk and establish priorities for the allocation of resources;

- The operation of control procedures covering financial transactions, verification and reconciliation procedures, commitment and authorisation limits, asset recording and protection; and
- A monitoring process, particularly through the budget, forecast review and trading reporting processes, which highlights the key business performance indicators and risks and significant variances from expectations.

The Audit Committee and the Board review the key risk areas and relevant controls to ensure that, as far as possible, the controls are being operated in line with the established procedures. Risks are monitored through the maintenance and review of risk registers that identify the key risks associated with each area of operation and actions to control, and reduce these risks. On an ongoing basis, steps are taken to deal with areas of improvement which come to management's and the Board's attention.

Ernst & Young LLP are internal auditors for the Group. The internal auditors review specific areas of the business as agreed in consultation with management and the Audit Committee. Reviews of key risk areas and relevant controls across the Group are carried out and reported to the Audit Committee together with any recommendations for improvements.

For and on behalf of the Audit Committee
ERIC SANDERSON
Chairman of the Audit Committee

2 August 2010

Remuneration Committee Report

The Board has overall responsibility for both executive and non-executive remuneration within First Milk and has delegated its duties relating to executive remuneration to the Remuneration Committee under agreed terms of reference.

Executive Remuneration

The following principles are applied to executive remuneration within First Milk:

- Total remuneration for all executives should be sufficiently market competitive in total annual cash terms to attract and retain the calibre of executive required, bearing in mind that this must also reflect the nature and purpose of First Milk as a member owned co-operative;
- The overall remuneration policy is to operate a clear, consistent and easy to communicate remuneration structure based around competitive salaries and a bonus scheme that rewards exceptional corporate and individual performance. In particular the bonus scheme must take account of the absence of any share option scheme.

These principles apply to executives across the First Milk Group.

The Remuneration Committee has authority to take independent advice and retains the services of a remuneration consultant to benchmark executive remuneration within the First Milk Group against other comparable organisations and provide advice to the Committee.

First Milk operates a Performance and Development Review system that is designed to monitor and improve the performance of all employees. The results of these reviews are used in setting executive salaries.

All employees of the First Milk Group are given the opportunity to participate in a pension scheme. While some employees are members of defined benefit schemes, (either the Milk Pension Fund or the Scottish Milk Pension Fund), entry to these schemes is closed to new employees, who have the option of joining a defined contribution scheme.

Non-executive Remuneration

The Remuneration Committee regularly reviews the fees of non-executive directors with advice from its remuneration consultant to ensure that the level of fees paid is appropriate for the duties and responsibilities of directors. These reviews also ensure that non-executive directors' fees are not out of step with fees paid in comparable businesses, including the other major British dairy co-operative.

**For and on behalf of the
Remuneration Committee
THOMAS CAMPBELL
Chairman of the Remuneration
Committee**

2 August 2010

Independent Auditors Report to the Members of First Milk Limited

We have audited the Group and Society financial statements (the 'financial statements') of First Milk Limited for the year ended 31 March 2010 which comprise the Income and Expenditure accounts, the Statement of Total Recognised Gains and Losses, the Balance Sheets, the Statements of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the Annual Report and Financial Statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Group and Society's members as a body in accordance with section 9 of the Friendly, Industrial and Provident Societies Act 1968 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002 and the Industrial and Provident Societies (Group Accounts) Regulations 1969. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Society and the Group has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the reports as described in the contents section.

We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

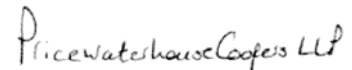
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit included examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also included an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group and Society's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give us reasonable assurance that the financial statements are free from material misstatements, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Group and the Society as at 31 March 2010 and of their income and expenditure and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Industrial and Provident Societies Acts 1965 to 2002 and the Industrial and Provident Societies (Group Accounts) Regulations 1969; and
- the information given in the Directors' Report is consistent with the financial statements.



PricewaterhouseCoopers LLP
Chartered Accountants and
Registered Auditors
Glasgow

2 August 2010

Income and Expenditure Accounts for the Year Ended 31 March 2010

	Notes	2010		2009	
		Group £'000	Society £'000	Group £'000	Society £'000
Turnover - continuing operations	2	535,767	468,152	581,124	503,222
Cost of sales	3	(517,052)	(458,927)	(561,272)	(497,121)
Gross profit		18,715	9,225	19,852	6,101
Administrative expenses (net)					
- Recurring		(19,142)	(9,234)	(21,239)	(8,697)
- Non-recurring	5	(3,973)	(1,371)	(3,608)	(1,675)
		(23,115)	(10,605)	(24,847)	(10,372)
Operating deficit - continuing operations	6	(4,400)	(1,380)	(4,995)	(4,271)
Share of operating surplus in joint ventures		-	-	-	60
Share of operating deficit in associated undertakings		-	-	(196)	-
Investment income		1,545	1,545	1,700	1,700
Gain on disposal of investments		7,922	7,922	-	-
Surplus/(deficit) before interest		5,067	8,087	(3,491)	(2,511)
Interest receivable and similar income	9	76	765	662	1,861
Interest payable and similar charges	10	(4,783)	(2,225)	(7,158)	(2,624)
Surplus/(deficit) on ordinary activities before taxation		360	6,627	(9,987)	(3,274)
Taxation (charge)/credit on surplus/(deficit) on ordinary activities	11	(33)	798	2,888	1,270
Surplus/(deficit) on ordinary activities for the financial year	22	327	7,425	(7,099)	(2,004)

Statement of Total Recognised Gains and Losses for Year Ended 31 March 2010

	Notes	2010		2009	
		Group £'000	Society £'000	Group £'000	Society £'000
Surplus/(deficit) for the financial year:					
Group/Society		327	7,425	(6,903)	(2,064)
Associates and joint ventures		-	-	(196)	60
		327	7,425	(7,099)	(2,004)
Actuarial loss relating to the pension scheme	28	(2,133)	(1,000)	(6,705)	(2,000)
UK deferred tax attributable to actuarial loss		597	280	1,805	560
Total recognised (losses)/gains since last annual report		(1,209)	6,705	(11,999)	(3,444)


Balance Sheets As At 31 March 2010

	Notes	2010		2009	
		Group £'000	Society £'000	Group £'000	Society £'000
Fixed Assets					
Intangible fixed assets	12	-	-	579	-
Tangible fixed assets	13	32,348	1,994	29,604	2,038
Investments in subsidiary undertakings	14	-	23,797	-	23,797
Investments in associated undertakings	14	1,100	1,100	1,100	1,100
Investments in joint ventures	14	-	-	100	100
Other investments	14	18,367	18,367	29,023	29,023
Total fixed assets		51,815	45,258	60,406	56,058
Current assets					
Stocks	15	71,259	1,585	69,101	3,329
Debtors	16	53,008	84,744	61,466	64,965
Cash at bank and in hand		3,581	1,678	8,069	1,303
		127,848	88,007	138,636	69,597
Creditors: amounts falling due within one year	17	(53,000)	(45,125)	(61,868)	(45,009)
Net current assets		74,848	42,882	76,768	24,588
Total assets less current liabilities		126,663	88,140	137,174	80,646
Creditors: amounts falling due after more than one year	18	(72,893)	(20,131)	(83,036)	(19,568)
Provisions for liabilities and charges	19	(22)	(22)	(25)	(25)
Total net assets employed excluding pension liability		53,748	67,987	54,113	61,053
Pension liability	28	(8,104)	(2,088)	(6,769)	(1,368)
Total net assets employed including pension liability		45,644	65,899	47,344	59,685
Share capital	21	46	46	46	46
Income and expenditure reserve	22	1,741	21,996	2,948	15,289
Revaluation reserve	22	56	56	58	58
Members' funds	23	1,843	22,098	3,052	15,393
Loan capital	21	43,801	43,801	44,292	44,292
Total capital and reserves		45,644	65,899	47,344	59,685

The financial statements on pages 12 - 38 were approved by the Board of Directors on 2 August 2010 and signed on its behalf by:



Kate Allum - Director



Ian Forgie - Director

Statements of Cash Flows Year Ended 31 March 2010

	Notes	2010		2009	
		Group £'000	Society £'000	Group £'000	Society £'000
Net cash inflow/(outflow) from operating activities	24	5,032	(1,596)	(5,079)	(5,626)
Returns on investments and servicing of finance					
Interest received		76	765	662	1,861
Interest paid		(4,783)	(2,225)	(7,158)	(2,624)
Dividend received		1,545	1,545	1,700	1,700
Net cash (outflow)/inflow from returns on investments and servicing of finance		(3,162)	85	(4,796)	937
Taxation		(33)	73	1,007	528
Capital expenditure and financial investment					
Purchase of tangible assets		(8,170)	(471)	(4,367)	(134)
Sale of tangible fixed assets		329	-	248	220
Purchase of investments		(146)	-	-	-
Sale of investments		18,578	18,578	-	150
Receipt of government grants		-	-	1,083	-
Net cash inflow/(outflow) from capital expenditure and financial investment		10,591	18,107	(3,036)	236
Acquisitions and disposals					
Investment in joint venture		-	-	-	(50)
Disposal of business		-	-	-	60
Net cash (outflow)/inflow from acquisitions and disposals		-	-	-	10
Net cash inflow/(outflow) before financing		12,428	16,669	(11,904)	(3,915)
Financing					
Net cash (outflow)/inflow from financing	25	(16,916)	(16,294)	7,666	905
(Decrease)/increase in cash in year		(4,488)	375	(4,238)	(3,010)

1. Accounting Policies

Basis of Accounting

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of certain fixed assets, and in accordance with applicable UK Accounting Standards.

The financial statements have been prepared in accordance with The Industrial and Provident Societies Acts 1965 to 2002 and the Industrial and Provident Societies (Group Accounts) Regulations 1969.

Basis of Consolidation

The Group financial statements incorporate the financial statements of First Milk Limited and its subsidiary undertakings made up to 31 March 2010.

Goodwill arising on consolidation and goodwill on acquisition (representing the excess of the fair value of the consideration over the fair value of the separable net assets and liabilities acquired) is amortised over its estimated useful economic life subject to a maximum of 20 years.

Investments

Except as stated below, investments held as fixed assets are stated at cost less provision for any impairment.

In the consolidated accounts, shares in associated undertakings are accounted for using the equity method and shares in joint ventures are accounted for using the gross equity method. The consolidated income and expenditure account includes the Group's share of the pre-tax surplus and attributable taxation of the associated undertakings and joint ventures based on the latest available financial statements for these undertakings. The Group's share of the net assets of these undertakings is shown in the consolidated balance sheet. Goodwill arising on the acquisition of an associated undertaking or joint venture is capitalised as part of the carrying amount in the consolidated balance sheet and amortised over its estimated useful life.

The Group's share of joint venture turnover is disclosed as a memorandum item. Transactions between the Group and the joint venture are eliminated in full against the share of joint venture turnover.

Tangible Fixed Assets

Depreciation is calculated to write off the cost or valuation of tangible fixed assets by equal annual instalments over their estimated useful lives.

The useful lives assumed for buildings vary between 20 and 50 years and for plant, equipment and vehicles between two and ten years. Land is not depreciated.

Tangible fixed assets include the capitalised fair value of assets acquired by finance leases and hire purchase contracts. Assets acquired by finance leases and the related lease obligations are included in the balance sheet at the present value of the minimum rental payments. The assets are depreciated over the shorter of their lease term or their useful lives in accordance with normal depreciation policy.

Investment Properties

The valuation of investment properties is reviewed annually. Surpluses or deficits on individual properties are transferred to the revaluation reserve, except that a deficit which is expected to be permanent and which is in excess of any previously recognised surplus over cost relating to the same property, or the reversal of such a deficit, is charged (or credited) to the income and expenditure account. Depreciation is not provided in respect of freehold investment properties. The directors consider that this accounting policy, which represents a departure from the relevant legal framework, is necessary to provide a true and fair view as required under SSAP 19 "Accounting for investment properties". The financial effect of the departure from the relevant legal framework is not material.

Operating Leases

Rentals under operating leases are charged in equal annual amounts to the income and expenditure account over the lease term.

Stocks

Stocks of milk are valued at the prevailing monthly payment being the cost of purchase from members. Stocks of cheese and other stocks are valued at the lower of cost and net realisable value. Where applicable, cost includes direct costs, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and sale. Provision is made for obsolete, slow moving or defective items where appropriate.

Provisions

A provision is recognised when the group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, expected future cash flows are discounted using a pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Government Grants

Government grants relating to tangible fixed assets are treated as deferred income and released to the income and expenditure account over the expected useful lives of the assets concerned. Other grants are credited to the income and expenditure account as the related expenditure is incurred.

1. Accounting Policies (continued)

Taxation

Current tax, comprising UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted. Deferred tax assets in respect of pension liabilities have been recognised in full.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Pension Costs

For the defined benefit schemes, the amounts charged to operating surplus are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the income and expenditure account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the

statement of total recognised gains and losses.

The defined benefit schemes are funded, with the assets of the schemes held separately from those of the Group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet.

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs is the contribution payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet. There were no prepayments or accruals balances at 31 March 2010 (2009: £nil).

Derivative Financial Instruments

The Group uses interest rate swaps to reduce exposure to interest rate movements. The group does not hold or issue derivative financial instruments for speculative purposes. For an interest rate swap to be treated as a hedge the instrument must be related to actual assets and liabilities or a probable commitment and must change the nature of the interest rate by converting a fixed rate to a variable rate or vice versa. Interest differentials under these swaps are recognised by adjusting net interest payable over the periods of the contracts.

Financial Liabilities and Equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the

assets of the Group after deducting all contractual liabilities.

Foreign Currencies

Transactions denominated in foreign currencies are translated into Sterling at the exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the exchange rate ruling at the balance sheet date.

2. Turnover

Group

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties for goods or services supplied during the year. The turnover and operating surplus relate to the continuing operations of the Group and are all attributable to the principal business activity, being the marketing, manufacture and sale of milk, cheese and other dairy products in the UK.

Revenue is recognised on the sale of milk at the point of collection and on dispatch of cheese and other products sold.

Society

The turnover and operating surplus relate to continuing operations and include intra group transactions which are eliminated on consolidation in the Group figures.

3. Cost of Sales

Cost of sales includes primarily payments made to members for milk supplied each month. These payments are made up of payments for compositional quality and hygienic quality adjustments and reflect deductions for milk collection charges. Cost of sales also includes the costs of ex-farm milk collection, distribution to customers and testing the milk for compositional and hygienic quality as well as costs of production of cheese and other dairy products.

4. Segment Information

The contribution of the activities of the Group to turnover, net assets and surplus/(deficit) within the United Kingdom for the year ended 31 March 2010 are:

	Milk		Cheese		Ingredients		Group	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Turnover								
Total sales	446,879	485,304	194,897	225,494	51,991	36,463	693,767	747,261
Inter-segment sales	(117,625)	(137,034)	(40,375)	(29,103)	-	-	(158,000)	(166,137)
Sales to third parties	329,254	348,270	154,522	196,391	51,991	36,463	535,767	581,124
Segment (deficit)/surplus	(2,820)	(6,168)	(3,608)	(1,297)	1,439	1,897	(4,989)	(5,568)
Common costs							589	573
							(4,400)	(4,995)
Operating surplus								
Share of joint venture and associates' operating deficit	-	(196)	-	-	-	-	-	(196)
Exceptional items reported after operating profit							9,467	1,700
Finance charges (net)							(4,707)	(6,496)
Surplus/(deficit) on ordinary activities before tax							360	(9,987)
Segment net assets	34,740	29,644	9,861	16,704	8,047	6,565	52,648	52,913
Share of joint venture and associates' net assets	1,100	1,200	-	-	-	-	1,100	1,200
Unallocated net liabilities							(8,104)	(6,769)
Net assets							45,644	47,344

5. Administrative Expenses

The non-recurring administrative expenses in 2010 are costs relating to restructuring and redundancies including the costs associated with the closure of Specialist Dairy Ingredients together with the costs provided for the closure of the Rothesay Creamery. Non-recurring administrative expenses in 2009 are costs relating to restructuring and redundancies, together with costs associated with mergers and acquisitions.

6. Operating Deficit

	2010		2009	
	Group £'000	Society £'000	Group £'000	Society £'000
Operating deficit is stated after charging/(crediting):				
Depreciation and impairment of owned assets	5,140	515	4,322	476
Depreciation of assets held under finance leases and hire purchase contracts	13	-	12	-
Goodwill amortisation	579	-	579	-
Operating lease rentals:				
- land and buildings	263	263	277	263
- plant and machinery	601	167	665	202
Hire of equipment	20	20	28	28
Auditors' remuneration:				
Audit Services:				
- audit of society and group accounts	70	70	75	70
- audit of subsidiary companies	55	-	59	-
Non Audit services:				
- tax services	34	30	34	30
- corporate finance services	20	20	545	529
Government grants released	(320)	-	(321)	-
(Profit)/loss on sale of fixed assets	(56)	-	3	9

7. Directors' Remuneration

The remuneration received by the executive directors, excluding pension contributions, was as follows:

				2010	2009
	Salary £	Benefits in kind £	Bonuses £	Total £	Total £
Peter Humphreys	300,000	15,927	-	315,927	316,104
James Maguire	200,000	10,140	22,500	232,640	210,833
	<u>500,000</u>	<u>26,067</u>	<u>22,500</u>	<u>548,567</u>	<u>526,937</u>

On 4 December 2009 it was announced that Peter Humphreys would be leaving the business and as a consequence would resign as chief executive on 31 March 2010. He received a package equivalent to £430,000 as compensation for loss of office.

The remuneration received by the non-executive and farmer elected directors was as follows:

	2010	2009
	£	£
Bill Mustoe	50,000	-
James Baird	-	20,417
Thomas Campbell	35,000	35,000
Richard Davis	17,500	23,333
Roger Evans	35,000	35,000
Mike Gorton	31,274	-
Richard Greenhalgh	70,000	120,000
Beverley Hodson	35,000	35,000
Rodger Lindsay	-	8,750
Mansel Raymond	20,417	35,000
Eric Sanderson	38,000	38,000
Robert Shearlaw	25,000	55,833
Richard Twose	35,000	14,460
	<u>392,191</u>	<u>420,793</u>

Eric Sanderson receives £3,000 in addition to the standard non-executive Board fee in relation to his role as chairman of the Audit Committee. Richard Greenhalgh resigned as chairman and left the business on 29 October 2009. He received £120,000 as compensation for loss of office.

8. Employee Information

	2010		2009	
	Group £'000	Society £'000	Group £'000	Society £'000
(i) Staff costs				
Wages and salaries	19,692	5,139	23,189	4,735
Social security costs	1,989	536	2,319	595
Other pension costs	2,421	1,516	2,559	1,497
	24,102	7,191	28,067	6,827
(ii) Employee numbers				
Average annualised full time equivalent number of employees	No. 615	No. 99	No. 732	No. 98

9. Interest Receivable and Similar Income

	2010		2009	
	Group £'000	Society £'000	Group £'000	Society £'000
Interest on short-term deposit with banks	70	17	593	383
Other interest	6	6	69	62
Interest from Group undertakings	-	742	-	1,416
	76	765	662	1,861

10. Interest Payable and Similar Charges

	2010		2009	
	Group £'000	Society £'000	Group £'000	Society £'000
Bank overdraft and revolving credit facilities	1,926	1,926	298	298
Loans repayable within five years	1,971	180	5,263	1,585
Preference shares	9	9	32	32
Finance leases and hire purchase contracts	-	-	515	-
Membership accounts	-	-	438	438
Net pension scheme finance cost (Note 28)	867	100	541	200
Other	10	10	71	71
	4,783	2,225	7,158	2,624

11. Taxation

	2010		2009	
	Group £'000	Society £'000	Group £'000	Society £'000
Current tax				
Over provision in respect of prior years	73	73	172	175
Total current tax credit	73	73	172	175
Deferred tax				
Timing differences	(120)	671	2,968	1,123
Adjustment in respect of prior years	92	54	-	-
Pension scheme liability	(78)	-	(252)	(28)
	(33)	798	2,888	1,270

The standard rate of tax for the year, based on the UK standard rate of corporation tax, is 28% (2009: 28%). The actual tax charge for the current and the previous year differs from the standard rate for the reasons set out in the following reconciliation:

	2010		2009	
	Group £'000	Society £'000	Group £'000	Society £'000
Surplus/(deficit) on ordinary activities before tax	359	6,627	(9,987)	(3,274)
Tax (charge)/credit on surplus/(deficit) on ordinary activities at standard rate of 28% (2009: 28%)	(101)	(1,856)	2,797	917
Factors affecting the charge for the year:				
Expenses not deductible for tax purposes	(759)	(125)	63	268
Depreciation in excess of capital allowances	(962)	(79)	(49)	(6)
Other timing differences	(829)	(591)	(2,811)	(1,179)
Non taxable income	2,651	2,651	-	-
Adjustments in respect of prior years	73	73	172	175
Total amount of current tax	73	73	172	175

A number of changes to the UK Corporation tax system were announced in the June 2010 Budget Statement. The Finance (No 2) Act 2010 is expected to include legislation to reduce the main rate of corporation tax from 28% to 27% from 1 April 2011. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 24% by 1 April 2014. The changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

The effect of the changes to be enacted in the Finance (No 2) Act 2010 would be to reduce the deferred tax asset recognised at 31 March 2010 by approximately £210,000. This decrease in the deferred tax asset is due to the reduction in the corporation tax rate from 28 per cent to 27 per cent with effect from 1 April 2011.

The proposed reductions of the main rate of corporation tax by 1% per year to 24% by 1 April 2014 are expected to be enacted separately each year. The overall effect of the further changes from 27% to 24%, if these applied to the deferred tax balance at 31 March 2010, would be to reduce the deferred tax asset by approximately £629,000.

12. Intangible Fixed Assets - Group

	2010	2009
	£'000	£'000
Cost/Valuation		
At 1 April 2009 and 31 March 2010	1,496	1,496
Accumulated depreciation		
At 1 April 2009	(917)	(338)
Amortised in year	(579)	(579)
At 31 March 2010	(1,496)	(917)
Net book value		
At 31 March 2010	-	579
At 31 March 2009	579	1,158

On 18 July 2007 the Society acquired the remaining 20% shareholding in Scottish Milk Products Limited. Goodwill arising on the acquisition has been capitalised and was amortised over two years and seven months.

13. Tangible Fixed Assets – Group

	Freehold investment property	Freehold land and buildings	Plant, equipment and vehicles		Total
			owned	leased	
	£'000	£'000	£'000	£'000	£'000
Cost/Valuation					
At 1 April 2009	628	11,944	32,037	1,195	45,804
Additions	-	815	7,355	-	8,170
Disposals	-	-	(1,941)	-	(1,941)
At 31 March 2010	628	12,759	37,451	1,195	52,033
Accumulated depreciation					
At 1 April 2009	400	2,555	12,095	1,150	16,200
Charge for the year	-	616	4,524	13	5,153
Disposals	-	-	(1,668)	-	(1,668)
At 31 March 2010	400	3,171	14,951	1,163	19,685
Net book value					
At 31 March 2010	228	9,588	22,500	32	32,348
At 31 March 2009	228	9,389	19,942	45	29,604

Following the sale of the business of Scottish Milk Dairies in 2006 its property was transferred from freehold land and buildings to property held for investment purposes. The directors considered the valuation of the property and concluded that the transfer to investment property should be made at the depreciated net book value and that no movement in market valuation should be recorded in the year to 31 March 2010 (2009: £nil).

13. Tangible Fixed Assets – Society

	Freehold land and buildings	Plant, equipment and vehicles	Total
	£'000	£'000	£'000
Cost/Valuation			
At 1 April 2009	1,700	4,188	5,888
Additions	-	471	471
At 31 March 2010	1,700	4,659	6,359
Accumulated depreciation			
At 1 April 2009	490	3,360	3,850
Charge for the year	34	481	515
At 31 March 2010	524	3,841	4,365
Net book value			
At 31 March 2010	1,176	818	1,994
At 31 March 2009	1,210	828	2,038

The land and buildings of the Society were valued on an open market basis at 31 October 1994. The Group has elected to adopt the transitional rules of FRS 15 for its revalued assets and consequently these valuations will not be updated. The historical cost net book value of land and buildings at 31 March 2010 was as follows:

	2010		2009	
	Group £'000	Society £'000	Group £'000	Society £'000
Freehold land and buildings	10,154	1,114	9,955	1,148

14. Investments

Group	Share of net assets
	£'000
Associated undertakings:	
At 1 April 2009 and 31 March 2010	1,100
Joint ventures:	
At 1 April 2009	100
Additions	146
Provided for in year	(246)
At 31 March 2010	-
	Listed investments
	£'000
At 1 April 2009	29,023
Disposed in year	(10,656)
At 31 March 2010	18,367

The listed investment represents 10% of the share capital in Robert Wiseman Dairies plc. The market value of this investment at 31 March 2010 based on the mid-market share price of Robert Wiseman Dairies plc at that date was £35,502,000 (2009 - £38,416,000).

Shares in associated undertakings include a long-term loan of £1,100,000 (2009 - £1,100,000).

Society	Shares in subsidiary undertakings	Shares in associated undertakings	Shares in Joint Ventures	Listed investments	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 April 2009	25,297	2,968	100	29,023	57,388
Additions	-	-	146	-	146
Disposal of investment	-	-	(246)	(10,656)	(10,902)
At 31 March 2010	25,297	2,968	-	18,367	46,632
Provisions					
At 1 April 2009 and 31 March 2010	1,500	1,868	-	-	3,368
Net book value					
At 31 March 2010	23,797	1,100	-	18,367	43,264
At 31 March 2009	23,797	1,100	100	29,023	54,020

14. Investments (Continued)

Details of subsidiary undertakings in the Group at 31 March 2010 as follows:

	Nature of business	Proportion of ordinary shares held
Scottish Milk Products Limited	Manufacture and sale of cheese	100%
Scottish Milk Dairies Limited	Non-trading	100%
The First Milk Cheese Company Limited	Manufacture and sale of cheese	100%

Details of the associated undertakings in the Group at 31 March 2010 are as follows:

	Nature of business	Proportion of ordinary shares held
Westbury Dairies Limited	Manufacture and sale of dairy products	40%

Details of principal joint ventures in the Group at 31 March 2010 are as follows:

	Nature of business	Proportion of ordinary shares held
Promovita Limited	Sale of dairy products	50%

All subsidiary undertakings, joint ventures and associated undertakings are incorporated in the UK.

15. Stocks

	2010		2009	
	Group £'000	Society £'000	Group £'000	Society £'000
Raw materials and consumables	3,038	31	4,089	75
Finished goods and goods for resale	68,221	1,554	65,012	3,254
	<u>71,259</u>	<u>1,585</u>	<u>69,101</u>	<u>3,329</u>

16. Debtors

	2010		2009	
	Group £'000	Society £'000	Group £'000	Society £'000
Due within one year:				
Trade debtors	45,767	31,967	55,191	31,520
Owed by subsidiary undertakings	-	48,476	-	30,004
Owed by associated undertakings	-	-	269	269
Other debtors	52	2	140	56
Prepayments	2,782	904	1,516	589
Value added tax	1,693	1,145	1,603	1,003
Deferred tax asset (note 19)	2,714	2,250	2,747	1,524
	53,008	84,744	61,466	64,965

The directors consider that the carrying amount of trade and other receivables approximates their fair value. Included within amounts owed by subsidiary undertakings to the society is loans of £31.8m (2009 - £20.3m) which bears interest at the London Inter-bank Offered Rate (LIBOR) plus 2.85%. There are no fixed repayment dates.

17. Creditors: Amounts Falling Due Within One Year

	2010		2009	
	Group £'000	Society £'000	Group £'000	Society £'000
Bank loans (note 18)	1,707	-	7,243	4,400
Trade creditors: amounts due to members	30,241	30,241	31,730	31,730
Trade creditors: other	7,102	4,834	11,182	1,844
Owed to subsidiary undertakings	-	3,836	-	1,286
Owed to associated undertakings	691	622	643	643
Other taxes and social security	759	112	1,103	193
Accruals and deferred income	10,936	5,436	9,534	4,913
Other creditors	1,564	44	433	-
	53,000	45,125	61,868	45,009

Trade creditors: amounts due to members above represents purchases of milk at the prevailing monthly payment value, which are payable according to standard terms of trade (refer to note 3 for basis of payments). The directors consider that the carrying amount of trade payables approximates their fair value. There are no fixed repayment dates for amounts owed to subsidiary undertakings or associated undertakings.

18. Creditors: Amounts Falling Due After More Than One Year

	2010		2009	
	Group £'000	Society £'000	Group £'000	Society £'000
Bank loans and facilities	70,450	18,161	80,110	17,234
Debentures	1,970	1,970	1,936	1,936
Preference shares	-	-	398	398
Deferred government grants	473	-	592	-
	72,893	20,131	83,036	19,568

Bank loans and facilities are repayable as follows:

	2010		2009	
	Group £'000	Society £'000	Group £'000	Society £'000
Within one year (note 17)	1,707	-	7,243	4,400
Within one to two years	1,707	-	7,407	4,400
Within two to five years	68,743	18,161	69,568	13,000
Over five years	-	-	4,000	-
	72,157	18,161	88,218	21,800
Unamortised issue costs	(1,745)	(397)	(865)	(166)
	70,412	17,764	87,353	21,634

In August 2009 a commercial mortgage of £4.9m, an asset finance loan of £5.8m, a term loan balance of £21.8m and a revolving credit facility of £55m were repaid. This was replaced by a revolving credit facility of up to £120m and a new term loan of £8.5m repayable in monthly instalments of £142,000. Both facilities bear interest at the London Inter-bank Offered Rate (LIBOR) plus 2.85%.

Group bank borrowings at 31 March 2010 of £72,157,000 (2009 - £88,218,000) are secured by fixed securities over certain Group assets, a floating charge over Scottish Milk Products Limited and a debenture over First Milk Limited and First Milk Cheese Company Limited.

19. Provisions for Liabilities

Deferred tax asset

	2010		2009	
	Group £'000	Society £'000	Group £'000	Society £'000
Balance at 1 April 2009	(2,747)	(1,524)	221	(401)
Other income and expenditure account charge (note 11)	33	(726)	(2,968)	(1,123)
Balance at 31 March 2010 (note 16)	<u>(2,714)</u>	<u>(2,250)</u>	<u>(2,747)</u>	<u>(1,524)</u>

A deferred tax asset exists in both the Group and the Society at 31 March 2010. The asset is presented within debtors (see note 16).

	Group			
	Provided/(recognised)		Not Provided/recognised	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Provision of deferred tax asset consists of the following amounts:				
Losses	(2,407)	(3,358)	-	-
Other timing difference	(58)	(146)	-	-
Capital allowances in excess of depreciation	(249)	757	-	-
	<u>(2,714)</u>	<u>(2,747)</u>	-	-

	Society			
	Provided/(recognised)		Not Provided/recognised	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Provision for deferred tax asset consists of the following amounts:				
Losses	(1,921)	(1,226)	-	-
Other timing difference	(13)	(60)	-	-
Capital allowances in excess of depreciation	(317)	(238)	-	-
	<u>(2,250)</u>	<u>(1,524)</u>	-	-

19. Provisions for Liabilities (Continued)

Other provisions

	Environmental provision £'000
At 1 April 2009	25
Utilised in year	(3)
At 31 March 2010	22

The environmental costs are expected to be incurred over the next two years and are held within the Society.

20. Financial Commitments

	2010		2009	
	Group £'000	Society £'000	Group £'000	Society £'000
Annual commitments under non cancellable operating leases which expire:				
In respect of land and buildings:				
within one year	263	263	-	-
within two to five years	-	-	263	263
	263	263	263	263
In respect of equipment:				
within one year	245	43	253	72
within two to five years	261	124	339	110
over five years	73	-	73	20
	579	167	665	202

21. Share and Loan Capital

Share capital (Group and Society)	Ordinary shares of £5 each	Ordinary shares of £10 each	Total
	£'000	£'000	£'000
Called up, allotted and fully paid			
As at 1 April 2009 and 31 March 2010	16	30	46

The authorised share capital of the Group is 200,000,000 preference shares of £1 and an unlimited number of ordinary shares of £5 and £10 each.

First Milk Limited is a Society established under the Industrial and Provident Societies Act 1965. It is governed by its rules that require all members, on joining, to purchase a £10 ordinary share. Each member shall be bound but only entitled to hold one ordinary share. The £5 ordinary shares and £10 ordinary shares rank *pari passu*.

'B' Preference shares may only be held by members of the Society. 'B' Preference shareholders who cease to be members of First Milk Limited can exchange their preference shares for debentures on the basis of £1 debenture for each £1 preference share. The debentures pay interest at base rate. The Society is entitled to repay all or part of the value of any debentures biannually, otherwise debentures are repayable on 1 April 2020.

'B' preference shares carry no voting rights other than certain class consents.

Loan Capital	Membership Accounts	Member Investment Accounts	Preference Shares	Member Capital Accounts	Total
	£'000	£'000	£'000	£'000	£'000
As at 1 April 2009	6,427	37,865	-	-	44,292
Transfer to member capital account	(6,427)	(34,728)	-	41,155	-
'A' preference shares	-	(3,137)	3,137	-	-
'B' preference shares	-	-	398	-	398
Repayments during year	-	-	(43)	(1,208)	(1,251)
Increase in year	-	-	-	362	362
As at 31 March 2010	-	-	3,492	40,309	43,801

On 1 April 2009, First Milk Limited implemented a new capital structure. This involved the conversion of 10% of the Members' Investment Account into new 'A' Preference Shares and the combination of the remaining 90% and the Membership Account balance into a new Member Capital Account.

Members and former members have certain rights to trade their capital. In particular, former members are entitled to sell their 'A' Preference Shares for a period of a year, after which point, the balance of their 'A' Preference Shares remaining is added to their Membership Capital Account at par value.

When a member retires from milk production, his capital can either be:

- transferred to a permitted successor; or
- paid in 5 annual instalments from the date of cessation of membership as follows: 10% on the first anniversary, 20% on the second and third anniversary and 25% on the fourth and fifth anniversary.

From the date of retirement until full repayment of total capital invested in the Member Capital Account, an annual interest rate, equal to Bank of England base rate or at the discretion of the Board, will be paid on the balance in the Member Capital Account unless the member leaves First Milk and continues milk production, in which case no interest will be paid. Capital may not be withdrawn except at the discretion of the Board. The Member Capital Account ranks behind all other creditors, including preference shareholders, on any winding up of the Society.

22. Movements in Reserves

	Group		Society	
	Income & expenditure account	Revaluation reserve	Income & expenditure account	Revaluation reserve
	£'000	£'000	£'000	£'000
At 1 April 2009	2,948	58	15,289	58
Transfer of revaluation reserve	2	(2)	2	(2)
Retained surplus for year	327	-	7,425	-
Other recognised gains and losses relating to the year	(1,536)	-	(720)	-
At 31 March 2010	1,741	56	21,996	56
At 31 March 2010 excluding pension liability (net of deferred tax)	9,845	56	24,084	56

23. Reconciliation of Movements in Members' Funds

	Group	
	2010	2009
	£'000	£'000
Surplus/(deficit) for the financial year	327	(7,099)
Other recognised losses relating to the year (net)	(1,536)	(4,900)
Net reduction in members' funds	(1,209)	(11,999)
Opening members' funds	3,052	15,051
Closing members' funds	1,843	3,052

	Society	
	2010	2009
	£'000	£'000
Surplus/(deficit) for the financial year	7,425	(2,004)
Other recognised losses relating to the year (net)	(720)	(1,440)
Net addition to (reduction in) members' funds	6,705	(3,444)
Opening members' funds	15,393	18,837
Closing members' funds	22,098	15,393

24. Reconciliation of Operating Surplus to Operating Cash Flows

	2010		2009	
	Group £'000	Society £'000	Group £'000	Society £'000
Operating deficit	(4,400)	(1,380)	(4,995)	(4,271)
Depreciation and impairment charges	5,153	515	4,334	476
Goodwill amortisation	579	-	579	-
(Gain)/loss on sale of fixed assets	(56)	-	3	9
Release of government grants	-	-	(321)	-
(Increase)/decrease in stocks	(2,158)	1,744	2,969	47
(Increase)/decrease in debtors	8,459	(8,034)	6,803	5,334
Increase/(decrease) in creditors	(3,207)	5,397	(13,333)	(7,084)
Increase/(decrease) in provisions	(3)	(3)	(647)	(100)
Adjustment for pension funding	(200)	-	(649)	(70)
Amortisation of debt issue costs	865	165	178	33
Net cash inflow/(outflow) from operating activities	5,032	(1,596)	(5,079)	(5,626)

25. Analysis of Cash Flows for Headings Netted in the Cash Flow Statement

	2010		2009	
	Group £'000	Society £'000	Group £'000	Society £'000
Financing				
Debt due within one year:				
Repayment of loans	(89,071)	(21,800)	(7,639)	(4,400)
Loan advanced to subsidiary undertakings	-	(11,800)	-	(2,000)
Debt due after more than one year:				
Decrease in membership accounts loan capital	(855)	(855)	7,305	7,305
New loans	73,010	18,161	8,000	-
Net cash (outflow)/inflow from financing	(16,916)	16,294	7,666	905

26. Analysis of Net Debt

	Group			
	At 1 April 2009	Cash Flow	Non-cash changes	At 31 March 2010
	£'000	£'000	£'000	£'000
Cash at bank and in hand	8,069	(4,488)	-	3,581
Bank debt due within one year	(7,244)	7,244	(1,707)	(1,707)
Bank debt due after more than one year	(80,110)	7,953	1,707	(70,450)
Net bank debt	(79,285)	(10,709)	-	(68,576)
Debentures	(1,936)	(34)	-	(1,970)
Preference shares	(397)	397	(3,492)	(3,492)
Member loan capital	(44,293)	492	3,492	(40,309)
Total net debt	(125,911)	11,564	-	(114,347)

Non-cash changes represent movements between debt aging categories of £1,707,000 (2009: £7,244,000).

	Society			
	At 1 April 2009	Cash Flow	Non-cash changes	At 31 March 2010
	£'000	£'000	£'000	£'000
Cash at bank and in hand	1,303	375	-	1,678
Bank debt due within one year	(4,400)	4,400	-	-
Bank debt due after more than one year	(17,234)	(927)	-	(18,161)
Net bank debt	(20,331)	3,848	-	(16,483)
Loans from group companies	20,000	11,800	-	31,800
Debentures	(1,936)	(34)	-	(1,970)
Preference shares	(397)	397	(3,492)	(3,492)
Member loan capital	(44,293)	492	3,492	(40,309)
Total net debt	(46,957)	16,503	-	(30,454)

Preference shareholders who cease to be members of First Milk Limited are required to exchange their preference shares for debentures on the basis of £1 debenture for each £1 preference share (note 18).

27. Reconciliation of Net Cash Flow to Movement in Total Net Debt

	2010		2009	
	Group £'000	Society £'000	Group £'000	Society £'000
(Decrease)/increase in cash in year	(4,488)	375	(4,238)	(3,010)
Cash outflow/(inflow) from increase in debt and lease financing	16,916	16,294	(7,665)	(905)
Change in net debt resulting from cash flows	12,428	16,669	(11,903)	(3,915)
Amortisation of debt issue costs	(864)	(166)	(178)	(33)
Decrease/(increase) in net debt in year	11,564	16,503	(12,081)	(3,948)
Total net debt at start of year	(125,911)	(46,957)	(113,830)	(43,009)
Total net debt at end of year	(114,347)	30,454	(125,911)	(46,957)

28. Pension Schemes

First Milk Limited operates the Scottish Milk Limited Retirement Benefits Plan ("the Scottish Plan"), and also participates in The Milk Pension Fund ("the Milk Fund"), an industry scheme in which all participating employers report only their share of assets, liabilities and obligations while legally holding joint and several liability for the scheme as a whole. Both are funded defined benefit pension schemes, funded by contributions from employees and sponsoring employers. These schemes are closed to new members. The Scottish plan is such that the Society cannot separately identify its share of the underlying assets and liabilities of the scheme and the FRS 17 deficit of this scheme is therefore only reflected within the Group accounts. The Group also operates two defined contribution schemes – Stakeholder Group Pension Plans with Standard Life and Norwich Union.

The figures below for the defined benefits schemes have been based on the most recent actuarial valuations at 31 March 2009, updated to the current year-end by qualified independent actuaries. The major assumptions used for the actuarial valuation were:

Assumptions at 31 March	Scottish Plan % pa		Milk Fund % pa	
	2010	2009	2010	2009
Discount rate	5.6	6.7	5.6	6.7
Rate of increase in salaries	4.7	4.5	3.7	4.0
Rate of increase in pensions in payment	3.7	3.0	3.7	3.0
Rate of increase in pensions in deferment	3.7	3.0	3.7	3.0
Inflation assumption	3.7	3.0	3.7	3.0

28. Pension Scheme (Continued)

The fair value of assets in the scheme, the present value of liabilities in the scheme and the expected rates of return at each balance sheet date were:

Asset	Scottish Plan Expected long term rate of return % pa		Milk Fund Expected long term rate of return % pa		Scottish Plan £'000		Milk Fund £'000	
	2010	2009	2010	2009	2010	2009	2010	2009
	Equities	7.2	6.6	8.0	8.25	13,899	9,605	10,100
Gilts	-	-	4.4	3.8	-	-	1,800	4,600
Bonds	4.2	4.5	5.5	6.7	16,321	13,515	3,200	2,400
Property	-	-	8.0	-	-	-	700	-
Cash	-	-	0.5	0.5	-	6	-	200

	Scottish Plan £'000		Milk Fund £'000	
	2010	2009	2010	2009
Total market value of assets	30,238	23,127	15,900	12,300
Present value of scheme liabilities	(38,594)	(30,628)	(18,800)	(14,200)
Deficit in the scheme	(8,356)	(7,501)	(2,900)	(1,900)
Related deferred tax asset	2,340	2,100	812	532
Net pension liability	(6,016)	(5,401)	(2,088)	(1,368)

The employer contribution rate to the Milk Fund was 13.8% of pensionable salaries in 2009/10 and is 13.8% of pensionable salaries in 2010/11. A special contribution of £121,000 was made in 2009/10 and will be made in 2010/11. The employers' contribution rate to the Scottish Plan was 32% of pensionable salaries in 2009/10 and is 32% of pensionable salaries in 2010/11. A special contribution of £780,000 was made in 2009/10 and £795,000 will be made in 2010/11 to the Scottish Plan.

28. Pension Scheme (Continued)

Liabilities	Scottish Plan £'000		Milk Fund £'000	
	2010	2009	2010	2009
Opening	(30,628)	(31,471)	(14,200)	(14,500)
Current service cost	(208)	(233)	(100)	-
Interest cost	(2,008)	(2,062)	(900)	(1,000)
Benefits paid	1,647	1,731	700	600
Member contributions	(111)	(122)	-	-
Actuarial (loss)/gain	(7,286)	1,529	(4,400)	700
Curtailments and settlements	-	-	100	-
Closing	<u>(38,594)</u>	<u>(30,628)</u>	<u>(18,800)</u>	<u>(14,200)</u>

Assets	Scottish Plan £'000		Milk Fund £'000	
	2010	2009	2010	2009
Opening	23,127	27,874	12,300	14,500
Expected return on scheme assets	1,241	1,721	800	800
Actuarial gains/(losses)	6,153	(6,234)	3,300	(2,700)
Benefits paid	(1,647)	(1,731)	(700)	(600)
Employer contributions	1,253	1,375	200	300
Member contributions	111	122	-	-
Closing	<u>30,238</u>	<u>23,127</u>	<u>15,900</u>	<u>12,300</u>

Mortality	Scottish Plan Years	Milk Fund Years
	2010	2010
Longevity at age 65 for current pensioners		
Men	20.2	21.6
Woman	23.0	23.8
Longevity at age 65 for future pensioners		
Men	22.1	24.5
Women	24.8	25.7

28. Pension Scheme (Continued)

Analysis of movement in the scheme deficit during the year:	2010		2009		2008		2007		2006	
	Scottish Plan £'000	Milk Fund £'000	Scottish Plan £'000	Milk Fund £'000	Scottish Plan £'000	Milk Fund £'000	Scottish Plan £'000	Milk Fund £'000	Scottish Plan £'000	Milk Fund £'000
Current service cost	(208)	(100)	(233)	-	(343)	(200)	(404)	(200)	(384)	(400)
Total included within operating surplus	(208)	(100)	(233)	-	(343)	(200)	(404)	(200)	(384)	(400)
Contributions	1,253	200	1,375	300	1,273	300	1,165	200	1,210	200
<i>Amounts included as other finance income:</i>										
Expected return on pension scheme assets	1,241	700	1,721	800	1,690	800	1,641	800	1,364	900
Interest cost on pension scheme liabilities	(2,008)	(900)	(2,062)	(1,000)	(1,946)	(900)	(1,939)	(800)	(1,905)	(900)
Gains on curtailments and settlements	-	100	-	-	-	-	-	-	-	-
Net finance cost	(767)	(100)	(341)	(200)	(256)	(100)	(298)	-	(541)	-
<i>Analysis of the actuarial gains and losses in the statement of total recognised gains and losses:</i>										
Actual return less expected return on pension scheme assets										
Amount	6,153	3,300	(6,234)	(2,700)	(2,470)	(800)	(584)	(600)	3,255	1,500
Percentage of scheme assets	20%	21%	(27%)	(22%)	(9%)	(6%)	(2%)	(4%)	12%	10%
Experience gains and losses arising on the scheme liabilities										
Amount	(322)	100	101	-	(56)	(100)	2,208	700	(17)	-
Percentage of present value of scheme liabilities	1%	(1%)	0%	0%	0%	(1%)	(6%)	(4%)	0%	0%
Changes in financial assumptions underlying the scheme liabilities										
Amount	(6,964)	(4,400)	1,428	700	5,906	2,900	529	(700)	(1,990)	(1,400)
Percentage of present value of scheme liabilities	18%	23%	(5%)	(5%)	(19%)	(20%)	(1%)	4%	5%	9%
Total actuarial gains and losses recognised in the statement of total recognised gains and losses	(1,133)	(1,000)	(4,705)	(2,000)	3,380	2,000	2,153	(600)	1,248	100
Deficit at 1 April	(7,501)	(1,900)	(3,597)	-	(7,651)	(2,000)	(10,267)	(1,400)	(11,800)	(1,300)
Deficit at 31 March	(8,356)	(2,900)	(7,501)	(1,900)	(3,597)	-	(7,651)	(2,000)	(10,267)	(1,400)

29. Contingent Liabilities

	2010		2009	
	Group £'000	Society £'000	Group £'000	Society £'000
Guarantees in respect of bank loans	-	-	-	2,000

As security for banking facilities the Society has provided certain guarantees. No provision has been made in the financial statements for these guarantees because it is unlikely they will be called up.

30. Derivatives Not Included at Fair Value

The Group has entered into interest rate swaps for a total notional principal amount of £40,000,000 (2009: £40,000,000) of which £20,000,000 lapsed on 1 January 2010. The termination date of the last of these swaps is 30 December 2011. The fair value of this derivative at 31 March 2010 is a liability to the Group of £1,406,665 (2009: £2,225,626).

31. Related Party Transactions

During the year all of the elected directors supplied raw milk from their farms to the Group and the Society at normal commercial rates totalling £1,663,068 (2009: £2,473,453). The outstanding balance owing to the directors at 31 March 2010 was £115,088 (2009: £191,359).

The Group processed milk with Westbury Dairies Limited for the year ending 31 March 2010 amounting to £30,718,120 (2009: £18,545,739). The outstanding balance owed to Westbury Dairies Limited by the Group was £577,371 (2009: £643,095).

The outstanding loan balance owed to the Group by Westbury Dairies was £1,100,000 (2009: £1,100,000). This is included within Investments of £1,100,000 (investment loan). This loan was repaid on 25 June 2010.

The Group supplied milk to Robert Wiseman Dairies plc for the year ending 31 March 2010 amounting to £151,310,407 (2009: £160,020,696). The outstanding balance owed to the Group by Robert Wiseman Dairies plc at 31 March 2010 was £13,476,372 (2009: £13,541,030). This is included within Trade Debtors in Note 16.

Amounts due to members at 31 March 2010 for the purchase of milk are disclosed in Note 17.