first milk

The Regenerative Co-op

ANNUAL REPORT AND FINANCIAL STATEMENTS 2022 / 2023

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The directors of First Milk Limited ("First Milk", the "Society" or "Group") present their strategic report for the year ended 31 March 2023. The Group includes First Milk Limited and the subsidiaries listed in note 12.

The business and principal activities
First Milk Limited is a dairy farmers' co-operative registered under the Co-operative and Community Benefit Societies Act 2014 (number: 29199R). 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
The financial statements on pages 20 to 46 detail the trading results and financial position of the Group and Society which, in the year ending 31 March 2023, included The First Milk Cheese Company Limited, Fast Forward FFW Limited and Lake District Biogas Limited.

Key financial performance indicators and review of business
The table below provides key financial performance indicators ("KPIs") relating to the Group's performance during the year.

Financial KPIs	**2023**	**2022**
Group turnover	£456m	£331m
Operating profit (before exceptional items)	£5.1m	£5.1m
Profit for the year	£0.1m	£2.3m
Total capital and reserves	£46.7m	£48.7m
Net bank debt (external borrowings less cash)	£63.9m	£43.4m

The rapidly changing market dynamics over the last twelve months have been challenging. Volatility on this scale has a significant financial impact as rapidly increasing prices put pressure on working capital requirements, as cheese going into stock had a much higher value. It is proof of how far we've come as a business and the resilience that is now built into the business that our lenders, Wells Fargo, were supportive of our additional finance requirements and, as the size of the facility grew, we were pleased to introduce a new lender, HSBC, into our banking relationship.

Due to the strength and nature of our commercial relationships we were able to refinance quickly and this ensured we were able to maximise the milk price paid to members as quickly as possible during a period of such considerable change.

In the year ended 31 March 2023 we continued to deliver against our strategic objectives, improving total returns to our farmer members through milk price and net asset value. During the year, milk price increased on average by 14.4ppl and we have also continued to increase turnover, deliver profitable growth, and progress our capital investment programme.

Turnover
Sales for 2022-2023 increased by 38% to £456m. Sales volumes increased year-on-year, especially cheese and whey co-products. Cheese sales account for over 75% of the milk handled. While volumes increased, most of the turnover increase relates to the recovery of rising milk prices through our selling prices to customers.

Profitability
The cash earnings (EBITDA) within our operating profit were £10.9m. EBITDA is defined as operating profit of £5.1m with the addition of non-cash depreciation of £5.8m charged to the profit and loss.

We continue to deliver profitable growth and, despite the economic and supply uncertainty, our customer relationships have never been stronger. We have worked together through the many challenges that the year brought to find positive ways to recover inflationary costs and meet each parties' commercial needs. Our cheese business has continued to grow, both in the UK and overseas. We have continued to build on our successful long-term partnership with Ornua, supporting them in securing growth and ensuring we continue to deliver a robust and efficient supply chain for quality product during the cost-of-living crisis. Beyond our Ornua relationship, we have also extended our export partnership, increased sales with in-country partners, and are increasingly making bespoke cheese and curd products for specific customer requirements, helping us create additional value.

Our strategic objective remains to improve total returns to our farmer members, including milk price. During the year to March 23, our milk price paid to members was on average 14.4ppl higher than the previous year, paying out an additional £105m in the year. Our member premium remained at 0.5ppl for all litres supplied in the year to 31 March 2023 for fully paid-up members, and was paid out post year-end, on 20 April 2023, with the average payment per member being just over £5,200.

Capital investment
During the year our capital expenditure at sites was £7.4m (2022: £14.9m), investing in processing capacity, efficiencies and operational stability. At Haverfordwest we increased cheese production capacity by approximately 20% to meet the growing demand for our cheddar. This was delivered through a £5.5m investment and the addition of two cheese vats and additional silos for milk, whey and cream. At Lake District Creamery we started a capital investment to adapt the current whey processing equipment to enable us to manufacture Nutrilac® FO-7875 on behalf of Arla Foods Ingredients using the company's proprietary process, which they will market and sell internationally. This project will complete in FY24, with production expected to start towards the end of the year.

Key financial performance indicators and review of business (continued)

Balance sheet, cash flow and net debt
Our balance sheet, excluding the pension asset, weakened slightly with net assets falling by £0.6m. While we delivered profits along with capital expenditure ahead of depreciation, our cash contributions to the pension deficit were offset by actuarial losses resulting in a smaller pension asset at the 31 March 2023.

Net debt increased significantly by £20.5m to £63.9m as rising milk prices resulted in higher working capital. While debt has increased, our asset base grew in value too. Stocks, without a significant change in volume, have risen in value by £32.5m as milk price rises have increased the cost of production which will be recovered when the maturing cheese is sold profitability in the future.

Member investment
At the end of the year, Member Capital stood at £78.0m compared to £77.2m the previous year. Members made cash contributions of £0.8m in the year to 31 March 2023 through the retention of 0.5 pence per litre until they reach their capital target of 7ppl. Our share trading platform, Asset Match, offers members an alternative to the 0.5ppl retention and the opportunity to buy shares to help reach their targets.

In the year to March 2023, £37k of New Preference shares held by former members were cancelled as they were not sold within the three-year period following termination of membership.

Pensions
The Group operates a defined contribution scheme - a Stakeholder Group Pension Plan with Standard Life. All employees have access to the stakeholder plan under which the company contributions are charged to the profit and loss account as they fall due each year. Contributions to the defined contribution scheme charged to the profit and loss account in the year ended 31 March 2023 were £0.5m (2022: £0.5m).

In addition, First Milk Limited operates the Scottish Milk Limited Retirement Benefits Plan and participates in The Milk Pension Fund, an industry scheme in which all participating employers report only their share of assets, liabilities and obligations while legally holding joint and several liabilities for the scheme. Both schemes are closed to accrual of benefits.

Both these pension funds were subject to triennial actuarial valuations as at 31 March 2021. These were completed during FY22, and the financial position of both funds had improved since the last valuation. The Milk Pension Fund had a slight surplus, so the trustees do not require any deficit payment to be made to the scheme and only £0.1m of expense contributions will be made annually.

In January 2022, following the finalisation of the Scottish Milk Limited Retirement Benefits Plan triennial valuation of 2021, a revised schedule of contributions was agreed by the trustees and First Milk. Shortfall contributions from 1 January 2022 to 31 May 2026 will be paid of at least £2.1m per annum, increasing by RPI each year from April 2023, plus a £348k contribution to expenses.

In the year to 31 March 2023, total contributions of £2.5m (2022: £2.9m) were paid to the Scottish Milk Limited Retirement Benefits Plan, while contributions of £0.1m (2022: £0.2m) were paid to the Milk Pension Fund.

During the year our pension assets deteriorated slightly from £2.3m to £0.9m, despite our cash contributions of £2.6m, due to actuarial losses of £6.7m. While the accounting valuation at year-end shows a worse position, this does not change our contributions to the schemes and the latest funding report for both schemes demonstrates that the hedging policies in place for inflation and interest rates are ensuring the deficit is reducing due to the contributions we make. We do not have rights to any surpluses within the Milk Pension Fund and no surplus has been recognised for this fund.

Interest and debt facility
Interest costs in the year to 31 March 2023 increased as both the value of our debt and interest rates rose. Net finance charges totalled £4.1m, with £3.9m paid to the debt facility and £0.2m relating to finance costs associated with the pension deficit. While interest costs have increased, we will recover these higher costs through the future selling prices of our maturing cheese.

Working capital
Working capital consumed £18.5m during the year. Our stock levels did not change significantly, with over 99% of the stock held to fulfil committed future sales. However, cheese stock value increased by £32.5m as higher milk prices increased the value of cheese and co-product stocks. The stock increase was offset by a £10.7m release due to an increase in the outstanding payables due to members and suppliers. As milk price rises the balance due to members, paid the following month, increases.

To support the increasing working capital cash demands on the business we extended our debt facility through to 31 July 2026 and increased the maximum available from £74m to £90m in April 2022. In November 2022, as working capital demands continued to rise, we increased the facility further to £120m and introduced a new lender, HSBC, into our banking relationship. The amount available to borrow is dependent on the value of stock and debtors and is based on a percentage draw-down specified in the facility agreement, and a term loan on our fixed assets.

Summary and outlook

Despite the challenging circumstances of FY23, the business has continued to perform, delivering on our long-term commitment to improve total returns to members.

It is clear that the market volatility that was so disruptive in the period remains, and we have seen marked reductions in global milk price since year-end, as well as continued economic uncertainty as a result of political turmoil in the UK, the ongoing war in Ukraine, and the slow post-Covid global recovery.

Despite this, the long-term outlook remains strong. Global demand for dairy continues to look positive in the long-term as it plays a key role in feeding a growing population. We are also well placed with our regenerative activity to play our part in addressing the challenges of climate change, ensuring that dairy is seen as a force for good. With our well-invested facilities, and our strong commercial relationships, we will continue to work tirelessly to deliver our vision of enriching life every day to secure the future.

Prospects and strategic aspiration

The Group's key objective is to deliver above market total returns to the farmer members of First Milk.

The directors plan to deliver this objective includes the following elements:

- Improve total returns to our farmer members through milk price, and net asset value.
- Positively develop customer relationships that continue to create value through growing our cheese, co-products and milk brokerage business.
- Improve operational performance through cost reduction, optimising site utilisation and increasing productivity.
- Improve systems, processes and reporting to speed the provision of timely, informative information.
- Enhance people's effectiveness throughout the business by building knowledge and understanding and developing skills and capability.

Review of the business – key events timeline

On 8 April 2022, the business entered into a new long-term supply agreement with Ornua Foods UK Limited and Ornua Cooperative Limited.

On 20 April 2022, the member premium payment of 0.5ppl for all litres consigned in the year to 31 March 2022 for fully paid-up members was paid. The average payment per member was over £4,900.

On 28 April 2022, the board resolved to appoint Frank Colhoun as a non-executive director of First Milk Limited.

On 29 April 2022, First Milk renewed long-term debt arrangements with Wells Fargo Capital Finance (UK) Limited, increasing the maximum facility available from £74m to £90m and extending the facility for a further two years to 31 July 2026. The facility includes a revolving credit facility and a term loan on our fixed assets.

On 10 May 2022, the regenerative agriculture premium was paid for the first time to all members who had completed regenerative agriculture plans by 31 March 2022.

On 4 August 2022, Frank Colhoun was appointed as a director of First Milk Limited with effect from the end of the AGM on 4 August 2022.

On 18 November 2022, First Milk renewed the long-term debt arrangements entered into on 29 April 2022 with Wells Fargo Capital Finance (UK) Limited and new co-funder HSBC Invoice capital Finance (UK) Limited. These new arrangements increased the maximum facility to £120m.

Post balance sheet events

On 20 April 2023, the member premium payment of 0.5ppl for all litres consigned in the year to 31 March 2023 for fully paid-up members was paid. The average payment per member was over £5,200.

On 25 May 2023, the board resolved to appoint Scott Calderwood as a non-executive director of First Milk Limited with effect from 30 October 2023, in place of Robert Craig, who is due to retire from the board, having served the maximum two three-year terms.

Principal risks and uncertainties

Loss of milk production volumes

The Board addresses the risk of losing milk volumes by paying its members the maximum milk price possible, taking into account the need to retain funds to invest in processing sites, make shortfall contributions and expenses to the pension funds and meet commitments to lenders.

In addition, members' milk price is reviewed on a regular basis and the Board has a policy of keeping members appraised of factors influencing the amount paid. This is supported by a pro-active communications policy, through which members are kept up to date at meetings and through letters and regular email news briefings.

Principal risks and uncertainties

Competitive risk
The Society sells milk to processors, many of whom have the option of sourcing their raw milk requirement directly from individual farmers.

First Milk sells hard cheese and dairy ingredients into domestic and export markets. In doing so, it faces competition from other similar companies at home and abroad. It also manufactures milk derivatives and faces the risk of customers using alternative supplies or substituting milk derivatives with non-dairy alternatives in their own products.

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

Regulatory risk
The Group and Society are required to comply with various regulatory regimes in areas such as competition law, health & safety and environmental regulation. This is achieved 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 advisers, where appropriate.

Input cost risk
First Milk is exposed to market price movements for 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 the exposure to energy costs by buying energy in the wholesale market, with expert assistance from energy consultants. Throughout the financial year a range of input costs increases, the impact of some of these costs had been addressed by forward buying and hedging. Over the longer term our commercial sales contracts recover a number of inflationary costs, however, the speed at which we can recover these costs has adversely impacted results in the short term.

Financial risks
The Group and Society's activities expose it to a number of financial risks including price, credit, interest rate, liquidity and fraud risk. The use of financial derivatives is governed by the Group and the 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.

Price risk
The risk of the business receiving low prices compared to market levels is mitigated, where possible, by the use of up-to-date market intelligence.

Credit risk
First Milk's principal financial assets are trade and other receivables, investments, bank balances and cash.

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.

Interest rate risk
The Group and Society's activities expose it to the financial risks of changes in interest rates. The Group and Society has used interest rate swap contracts in the past, where appropriate, to hedge these exposures. Presently there are no such contracts in place.

Liquidity risk
In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Group and Society aims to use a mixture of long-term and short-term debt finance. Management monitors rolling forecasts of the Group's liquidity reserve and cash and cash equivalents on the basis of expected cash flows. Further information with regard to the management of current liquidity risk is contained in note 1 to the financial statements.

Fraud risk
First Milk recognises the risk of fraud. This risk is mitigated through reviews of controls within systems, conducted, where appropriate, with the assistance of internal auditors, and by the adoption of an Anti-bribery and Corruption Policy.

Cyber risk and risk of data breach
First Milk recognises the risks to IT systems and data from cyber-attacks. These risks are mitigated by the use of up to date anti-virus software, regular back-up of data and use of cloud based storage. The Board has addressed the risk of personal data breaches by staff training and the adoption of policies on privacy and acceptable use of IT equipment.

Principal risks and uncertainties (continued)

Brexit risk
The decision by the United Kingdom to leave the European Union continued to create uncertainties about our future trading relationship with the EU. Despite the additional administrative burdens of exporting, we continued to grow our export cheese volumes, with sales continuing to more than 26 countries across the globe.

There remain some minor risks in relation to labour and additional administration requirements to export products. The Board addresses these uncertainties by monitoring developments and government guidance and taking mitigating actions where appropriate.

Impact report

There can be no doubt that the huge volatility of the last twelve months has preoccupied everyone's thinking. Our farmer members have seen cost inflation for fuel, fertiliser, feed and energy, whilst also facing challenges with recruitment of farm workers. Meanwhile, the weather added further trials, with a dry spring and drought conditions through the summer months of 2022 putting pressure on forage availability not only during the grazing season but also in terms of conserved forage for the winter period.

Whilst these factors have, of course, been front of mind for farmers, the significant cost of living pressure has impacted consumer spending and reduced consumer confidence. Rising interest rates combined with static economic growth and significant inflation have knocked consumer demand and changed consumer priorities.

Yet what is clear is that despite these external pressures, the need for meaningful action on climate change, nature and biodiversity remains front of mind. During the year we have seen increased customer interest and scrutiny on our regenerative programme, as well as external recognition of our activities through the completion of B Corp certification and the presentation of the King's Award for Sustainable Development. We have also seen customers proactively sharing stories about our on-farm regenerative programme with consumers, helping reinforce the value of our actions and providing differentiation in the marketplace. As such, we continue to make good progress towards our impact goals:

- A commitment to net zero carbon emissions by 2040 at the latest, with a target to reduce carbon footprint at farm level by 50 per cent by 2030 and achieve net zero in milk transport and processing by 2035.
- A target to sequester 100,000 tonnes of CO_2 per annum on members' farms by 2025.
- A target to increase milk from forage by 10 per cent by 2025 to reduce members' reliance on imported feeds.
- The aim for all transport and processing activity to be using renewable fuel sources by 2030.
- The intention to reduce antibiotic use by a further 10 per cent by 2025.

These goals fall under the three key pillars of People, Animals and Earth. This report outlines the key activities of the last year under each heading. As before, our carbon emissions have been externally verified by SLR Consulting to ensure full transparency and accuracy.

People - building social capital

We make our biggest impact through the actions of our people and through the influence that we can have with others. We can only achieve our impact goals with the engagement and support of our members, colleagues, customers and suppliers.

As part of the ongoing development of our business, we completed an independent review of the Organisational Design at our sites in conjunction with Organisational Health Partner, Q5. The outcome of this is we now have a simple Organisational Design for both creameries, clear job grading structures, concise job role profiles and a pay & reward package for our Operational colleagues that is aligned to our culture.

Our established member initiatives have continued in the last year, with our Next Generation programme, continuing to attract participation from around 215 young members. We continue to encourage further involvement, as this group is an important way of engaging young people in the dairy sector and the many challenges and opportunities ahead.

We have also sustained our support for the Entrepreneurs in Dairying programme run by RABDF, with six young members going through the programme during the year. This successful dairy industry training programme includes focus on the milk market, future opportunities, people management, finance, tax and trading structures, business planning and funding and succession planning, giving participants a thorough understanding of the main factors that can impact the successful operation of a dairy farming enterprise.

Our Women in Agriculture group also continues, with 4 groups across the country and 63 active participants. During the year the groups held events including Succession, Team Dynamics and Parliamentary visits.

Looking at our colleague initiatives, our people agenda remains ambitious as we work to embed our culture to secure the future. Our 'lunch and learn' programme has continued throughout the year, and these informal training events have been well supported and will continue in the future, as they provide an effective way to build knowledge.

Impact report (continued)

As part of our focus on people development, we have ramped up our learning and development agenda, and have delivered more than 3,000 hours of training across the business during the year, investing in our people to build resilience. We are also committed to providing meaningful work and career opportunities, and so we are delighted that 28 colleagues have either been promoted or changed roles during the year – more than 12 per cent of our workforce. Post year-end, we have also launched our first 'Empower Me' Women in Leadership course. We have 10 of our female leaders across the business undertaking this personal development which is designed to create an empowering workplace where women can assess their strengths, and values and develop their brand whilst forging a career pathway through targeted learning, support and networking. The programme started in early April and is expected to conclude in August.

The last year also saw us continue our focus on celebrating success across the business, with our annual Gold Star awards recognising colleagues who have gone above and beyond to deliver our vision.

We continued our partnership with Mates in Mind, with all new colleagues continuing to receive 'Start the Conversation' training which has helped us continue to raise awareness, promote and lead on the development of positive mental wellbeing at work. We also continued with our Employee Assistance Programme through BUPA and continued to develop our Mental Health First Aid team to ensure appropriate representation across the business.

Post year-end we have conducted our employee survey on a new platform, We Thrive, to support our transition to more continuous listening. This will make it simpler to conduct employee surveys on a more regular basis. We have also introduced an employee benefits package, which offers colleagues a range of discounts.

Finally, our focus on giving back to the community has continued, and I'm delighted to report that we raised more than £20,000 for our chosen charity partner, Macmillan Cancer Support, during the year. Colleagues enthusiastically supported a variety of charity fundraising activities, including one colleague even fulfilling a lifetime ambition to skydive!

Animals - a life worth living

Animal welfare continues to be a key concern for consumers, but looking after the animals in their care is also at the heart of how our members farm. The vast majority (>95 per cent) of our members have signed up to our Milk Pledge, which embeds high welfare practices in everyday farm operations, whilst guaranteeing that cows have access to pasture for at least 120 days during the spring and summer.

We have continued to hold a series of member workshops as well distributing bi-monthly technical newsletters, covering parasite control, TB and worm control. The Dairy Sensors Feasibility Study that we supported came to an end during the year, which saw welfare data collected using Quantitative Behavioural Assessment (QBA) alongside activity sensors. This concluded that more positive behaviours were seen in animals at pasture compared to when housed, as well as higher herd synchrony (when animals in the herd show the same behaviours at the same time) which is a known positive indicator of welfare in cattle. Whilst this specific project has come to an end, the work will continue as part of the Digital Dairy Chain project, of which we are a key partner. This five-year project across Cumbria and Southwest Scotland aims to put the region on the world map as a leader in digitally connected dairy production and manufacturing, and we are delighted to be involved.

Earth - enriching life every day

Dairy production and processing are recognised as having a significant environmental impact and we have set out a clear commitment to address this, through a focus on achieving net zero by 2040 and through the adoption of regenerative practices to support nature and biodiversity.

Minimising CO2e emissions

We have clear targets in place to achieve net zero by 2040 across the following areas:

- Scope 1 – direct emissions from owned or controlled sources
- Scope 2 – indirect emissions from the generation of purchased energy
- Scope 3 – indirect emissions not included in Scope 2 that occur in the value chain

SLR Consulting Limited has undertaken limited assurance of First Milk's greenhouse gas (GHG) emissions (Scope 1, 2 and 3), for the 2022-23 reporting year (1 April 2022 – 31 March 2023), against the WRI / WBCSD 'GHG Protocol Corporate Accounting and Reporting Standard', 2015 revised edition, and the GHG Protocol 'Corporate Value Chain (Scope 3) Accounting and Reporting Standard'.

Impact report (continued)

GHG Emissions summary FY23 v FY22

GHG Reporting Scope	**FY23 GHG emissions (Tonnes CO2e)**	**FY22 GHG emissions (Tonnes CO2e)**	**Difference (Tonnes CO2e)**
Scope 1 (total)	*19,176*	*18,426*	*750*
Scope 2 (total)	*1,290*	*1,623*	*(333)*
Scope 3			
3.1 Purchased goods and services	782,566	819,336	(36,770)
3.2 Capital goods	6,353	14,387	(8,034)
3.3 Other fuel and energy related activities	3,723	3,759	(36)
3.4 Upstream transportation and distribution	10,631	10,207	424
3.5 Waste generated in operations	1,201	1,146	55
3.6 Business travel	75	64	11
3.7 Employee commuting	141	142	(1)
Scope 3 total	*804,689*	*849,040*	*(44,351)*
Total emissions (gross)	**825,155**	**869,089**	**(43,934)**
Benefit from biogas *	4,060	3,797	263
Total emissions (net)	**821,094**	**865,292**	**(44,198)**

* Net benefit from Lake District Biogas Limited

To date, we have delivered a reduction on base year (FY21) of 86,970 tonnes of CO2e, or a 9.6 per cent reduction in total CO2e emissions. This has been largely driven by reductions in on-farm carbon output (covered in 3.1 in the table) where we have seen emissions factor for milk drop from 1.22 in FY21 to 1.05 in FY23 (measured in KgCO2e/Kg FPCM).

We have seen an increase in absolute Scope 1 emissions as a result of a significant increase in manufacturing volume handled during the year, which also impacts on Scope 3.4 results due to increased volumes requiring transportation. Whilst tiny in the overall scheme of things, business travel has increased during the year as we are no longer subject to the COVID-19 restrictions that were previously in place.

Our work with Agricarbon to accurately measure soil carbon is ongoing, although having results that demonstrate statistical significance in terms of soil carbon change will take approximately five years from initial sampling. Work undertaken independently by the Farm Carbon Toolkit to measure our progress against our 2025 target of sequestering 100,000 tonnes of CO2e in soil per year suggest that we are making good progress towards this target as a result of the regenerative interventions that are being carried out by our members. This work has examined the current anticipated sequestration from the range of land use types and interventions being undertaken.

Accelerating our regenerative farming programme

Our regenerative farming programme launched at the start of the year with our members receiving a 0.5ppl bonus from 1 April 2022 for completion of regenerative farming plans through our unique, field-level mapping tool. This programme sees each member complete a field-level plan for their farm, including crop type for each field and the regenerative interventions that they intend to complete by field. During the year we developed an index scoring system as part of this tool with our average member score at the end of the financial year being 31. More than 93 per cent of our members have completed their FY24 plans, with an indicated average score of 44 for the year ahead, suggesting that members are embarking on more ambitious activity in the year ahead.

When it comes to specific actions, our members are implementing regenerative practices across an additional 7 per cent of land area compared to last year, with added emphasis on biodiversity, crucial for a more natural approach to food production.

Our members are implementing more regenerative practices on a wider area this year with members committing to 163,834 interventions over 84,118 Ha, with an average of 7 interventions per land parcel this year. In 2022, members committed to 130,873 interventions on 78,399 Ha of land, with an average of 6 interventions per land parcel. Interventions are based across the principles of regeneration, including:

Minimise soil disturbance
Although ploughing has benefits where surface compaction has occurred, mechanical cultivations expose the top layer of soil causing oxidation and release of carbon. Soil disturbance also disrupts the network of mycorrhizal fungi attached to plant roots which help crops to access nutrients.

This year, members have committed to 14,965 interventions aimed at minimising soil disturbance over 56,598 Ha. Last year, members committed to 12,762 interventions linked to minimising soil disturbance over 49,396 Ha. The amount of land expected to be ploughed this year has increased to 7.5 per cent of total land, from 7 per cent of total land last year.

Impact report (continued)

Maintain living roots
As plants photosynthesise, they remove carbon from the atmosphere and some of this carbon is transferred to the roots and exuded to feed soil biodiversity in a symbiotic relationship exchanging these plant sugars for nutrients. Soil biology would decline without the availability of these sugars.

This year, members have committed to interventions linked to maintaining a living root all year around on 68,794 Ha. With the assumption that permanent pasture not to be ploughed would also have all year around living root, then this area increases to 73,709 Ha. Last year, members committed to interventions that maintain living roots across 41,762 Ha, increasing to 65,847 Ha using the same assumption.

Increase species diversity
Above ground diversity of crops leads to below ground diversity as different species of plants associate with different soil organisms providing food for the natural food web. Different organisms are responsible for different nutrient cycles and the soil food web functions at its best when as many of these relationships are present as possible.

This year, members have committed to 15,606 interventions linked to encouraging plant diversity across 57,681 Ha. 13.5 per cent of land with species diversity interventions will have more than 6 species of grass, herbs or legumes. Last year, members committed to 14,295 interventions linked to encouraging plant diversity across 54,946 Ha.

Integrate livestock
Members have this year committed to graze 69,098 Ha of land for an average of 6.7 months. Last year, members pledged to graze 63,335 Ha of land for an average of 7.1 months.

This integration of livestock is key to regenerating soils through the addition of organic matter via dung and the action of 'golden hooves' trampling organic matter into the soil surface. Soils with higher organic matter benefit from increased soil health and structure, allowing improved water infiltration, greater water-holding capacity and greater ability to store nutrients and carbon.

To benefit from the maximum impact of livestock integration, carefully managed rotational grazing (i.e. short grazing bouts of less than 3 days followed by longer rest periods of over 21 days) is crucial.

This year, grazing system interventions have been altered to reflect this. As expected, this has caused a short-term negative impact on total land area rotationally grazed while members adjust to integrating rotational and mob grazing into their systems.

This year, members have pledged to rotationally graze 37,973 Ha with a weighted average of 3 days' grazed and 20 days' rest. The most popular rotational grazing system is up to 3 days' graze, with 21 to 29 days' rest, which is being carried out across 18,291 Ha. Last year, members pledged to rotationally graze 45,920 Ha for an average of 23 days' grazed and 20 days' rest.

Wider biodiversity interventions

Hedges
We are now able to measure the length of hedges on members' land and these hedges come with many benefits. They provide shade and shelter to livestock during weather extremes, help to increase water infiltration, provide habitat for ecosystems and sequester carbon.

Hedgerows support over 500 plant species, 60 species of nesting birds and almost all of the UK native small mammal species as well as over 1,500 species of insects, including those that undertake pollination or act as natural controllers of other pest species.

Our members have more than 4,200km of hedgerow on their farms and plan to plant an additional 38km in the year ahead.

Silvopasture
There are many benefits to silvopasture, or in-field trees, which help to build healthy soils by releasing carbon deep into the ground. They also help prevent flooding and protect water sources, provide shelter for livestock, sequester carbon and encourage greater biodiversity. Members have recorded that 15 per cent of farmed land benefits from silvopasture, with an average of nearly 6 trees per Ha.

Biodiversity
The more natural a farming system is, the more biodiversity it will attract – and the more biodiverse the farm is, the more balanced it will be, resulting in a healthy, thriving system. Creating habitats for a range of different wildlife will help create balance and encourage beneficial insects to work in tandem to pollinate crops and prey on pests. Increasing dung beetles will cut parasite populations, increase soil organic matter and aeration, increase soil fertility and help reduce methane emissions by breaking down dung. Over 93 per cent of land in members' 2023 plans have at least one biodiversity intervention aimed at increasing biodiversity either above or below ground.

Impact report (continued)

Protected watercourses
Livestock use rivers for a variety of reasons; to drink, to cross to neighbouring grazing and for shelter or shade, causing problems such as poaching and soil erosion on riverbanks. Livestock also introduce faecal bacteria, downgrading water quality. A fenced buffer strip next to water courses will prevent livestock access and poaching, plus will allow plant growth helping to provide a buffer strip to reduce diffuse pollution entering the water whilst also benefitting farm biodiversity and flood risk. Members have indicated that 24,647 Ha of grassland has watercourses and that more than 64 per cent of this will be protected.

Reducing water and energy use at our sites

	FY23	**FY22**	**Change (%)**
Water – m^3 extracted water per tonne of milk	0.879	0.930	(5.5)

We are committed to reducing the amount of extracted water that we utilise at our processing sites. In the last twelve months we have continued to drive this down per tonne of milk handled, delivering a reduction of 5.5 per cent as a result of reusing more water within our processing activities.

Reducing energy use

	FY23	**FY22**	**Change (%)**
Energy - kWh per tonne of milk	160.4	170.6	(6.0)

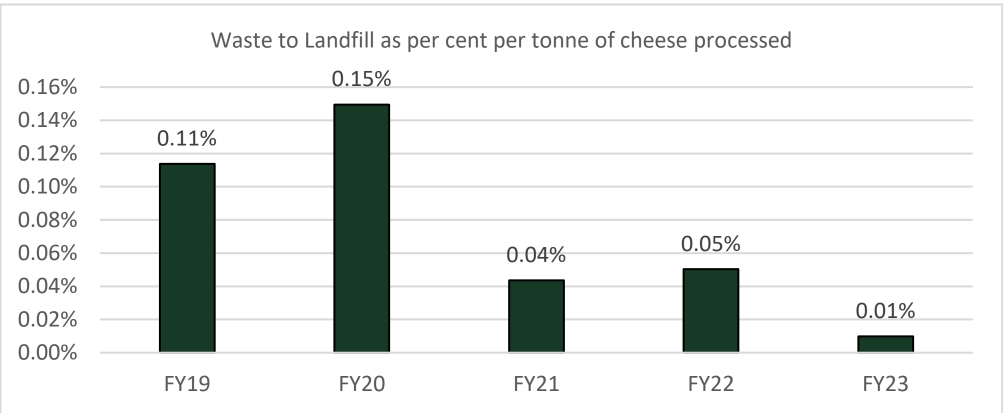
We are committed to reducing the total amount of energy consumed per tonne of milk handled and have delivered progress on this in the year, delivering a reduction of 6.0 per cent as a result of more energy efficient operations. In particular, we have reduced mains electricity use whilst increasing our use of our Combined Heat and Power plants.

Overall, our operational energy use has increased, however, by 8.1 per cent to 24,233,870 kWh as a result of an increase in manufacturing volume handled. We continue to explore options to achieve our goal of 100 per cent renewable energy use by 2030.

Food waste

Long term we are looking to minimise our effluent loading from our sites through ongoing operational efficiency savings. During the year, our food waste measured in kg of Chemical Oxygen Demand (COD) per tonne of milk increased by 0.9 per cent to 5.042 kgCOD per tonne of milk.

Waste to landfill



We monitor waste to landfill from our sites each year, with the intention of minimising any waste. The chart demonstrates our progress in recent years. FY22 saw a small increase as a result of capital investment and the removal and disposal of old equipment but FY23 has seen us continue the long-term downward trend, with zero waste direct to landfill from Haverfordwest and just a small tonnage from LDC.

Impact report (continued)

Protecting watercourses

We take our responsibilities as part of the community seriously and have continued to operate our Haverfordwest Nutrient Group to offset the nitrates, phosphates and sediment from the creamery effluent treatment plant. 33 of our farmers in the area are involved in this group, employing mitigation measures on their farms to reduce the amount of these nutrients entering watercourses around their land. The impact of this offset programme is shown in the table below which clearly indicates that the farm reductions achieved significantly outweigh the discharge from the creamery.

Haverfordwest Nutrient Offset – 1 Dec 2021 – 30 Nov 2022 (standard reporting period for NRW offset)

Kg	Ammonium – N/Nitrate	Phosphorus	Solids/sediment
Haverfordwest ETP discharge	919	330	9,530
Farm reductions	29,447	1,229	153,569

We have also initiated a similar group to offset our discharge at our Lake District Creamery but, at the time of writing, the results from this programme have not been finalised. We will report them in future years.

Other activities

At the end of the year, we were delighted to be confirmed as a Certified B Corporation. B Corp certification is a rigorous process, which addresses the entirety of a business's operations and covers five key impact areas of Governance, Workers, Community, Environment and Customers.

Our successful certification as a B Corp is recognition of our hard work around sustainability and regenerative thinking and will be an important part of our journey in the future.

We join an extensive worldwide community of like-minded organisations with shared values and this development will help us communicate our story more effectively, inspiring future action as we work to deliver our vision of enriching life every day to secure the future.

Recognising success

This year we announced a new approach to member awards with the launch of our Regenerative Farming Awards. Winners were announced immediately post year-end at our member meetings in April 2023. These awards are determined from a combination of a farm's regenerative farming plan scores, milk from forage percentage, milk quality parameters and antibiotic stewardship figures.

Winners were:
- JP Baird, Nether Affleck Farm, Lanark
- JW Coulthard and Son, Brisco Hill, Longtown, Carlisle
- D and C Murdoch, High Park, Coylton, Ayr
- WS and A Winnington, Ranton Hall Farm, Stafford

We also celebrated exceptional milk quality from our members, with our winner, WAC Gilbert and Sons from Leicestershire achieving a bactoscan average of just 9 during the year, with a somatic cell count average of 55 – a fantastic result!

Looking forward

The climate emergency becomes more obvious as each year passes, with drought conditions becoming more prevalent across much of the globe and more extreme weather becoming the norm. We don't have a choice whether to act or not – it is a moral imperative and, at the same time, in our own interests if we are to survive and thrive.

Many still view dairy production as a problem, yet we are more convinced than ever that regenerative milk production from grazed cows offers a unique opportunity to be part of the climate solution and make a major contribution to solving the nature crisis. It is not the cow; it is the how!

We are making great progress and we would like to thank our members and colleagues for their support and commitment as we work to reduce our impact. But there is still so much more to achieve, from sourcing renewable energy across our business to decarbonising our transport operations and continuing down the path towards truly regenerative milk production.

Impact report (continued)

What is so encouraging is that we are building momentum across the business, among members, colleagues and those we interact with. Our external recognition through B Corp certification and, post year-end, with the King's Award for Sustainable Development, will only help us forward on this journey, as we work to enrich life every day and secure the future.

Approved by the Directors
and signed by order of the Board

Angus Waugh
Company Secretary
28 June 2023

The directors present their report and the audited financial statements of First Milk Limited for the year ended 31 March 2023.

Business performance and future developments

The business performance and future developments of the Group are highlighted in the strategic report set out on pages 2 to 4.

Dividends

No dividends were paid during the year (2022: £nil) and no recommendation is made in respect of dividends or dividends to be paid (2022: £nil).

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's and Society's objectives. Implementation of this policy is by encouraging employee involvement through effective communications which include an onboarding 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.

Political donations

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

The Board of directors

The directors who held office during the year to 31 March 2023 and up to the date of signing the financial statements were as follows:

Chris Thomas	-	non-executive director and chairman
Robert Craig	-	non-executive farmer director and vice-chairman
Mike Smith	-	non-executive farmer director
Shelagh Hancock	-	executive director
Greg Jardine	-	executive director
Brian Mackie	-	non-executive director (retired 3 August 2022)
Michael Fletcher	-	non-executive director
Frank Colhoun	-	non-executive director (appointed 4 August 2022)

The non-executive farmer directors' capital account balance and interests in the preference shares of the Society at 31 March 2023 and 31 March 2022 were:

	31 March 2023		31 March 2022	
	C Preference Shares £	New Preference Shares £	C Preference Shares £	New Preference Shares £
Robert Craig	473,670	155,500	473,670	155,500
Mike Smith	187,083	46,580	187,083	46,580

Each non-executive farmer director is also a member of First Milk Limited and as such holds one ordinary share.

Post balance sheet events

Events after 31 March 2023 are referred to in the key events timeline in the strategic report on page 4.

Financial instruments

The Group and Society do not use derivative financial instruments as referred to in the principal risks and uncertainties section of the strategic report.

Going concern

The consolidated financial statements have been prepared on a going concern basis. The Board has undertaken a thorough review of the Group's forecasts and associated risks. These forecasts extend for a period beyond one year from the date of approval of these financial statements. The forecasts make key assumptions based on information available to the directors at the time of the approval of these financial statements that:

- the business will ensure profitability is achieved and returns to members, through milk price and net asset value, are maximised whilst also retaining sufficient profits to meet our business obligations and commitments;
- key customer and supplier contracts continue as per their existing commercial arrangements over the contractually agreed periods; and
- there is no material adverse impact in the bank facilities available to the Group or other adverse working capital movements. Stock and debtors provide collateral against which we can draw down loans from our facilities with Wells Fargo and HSBC, increases in working capital are supported by the amended facility signed in November 2022 that increased the facility from £90m to £120m.

At the date of these financial statements, the directors consider that, based upon the information available, financial forecasts and the existence of debt facilities available through to 31 July 2026, the Group will have adequate resources to continue in operational existence for the foreseeable future (being at least twelve months from the approval of these accounts) and consider it appropriate to adopt the going concern basis in preparing the financial statements. Note 1 on pages 29 and 30 of these financial statements includes the full Group disclosure on going concern.

Disclosure of information to auditor

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 auditor is 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 auditor is aware of that information.

Independent auditor

A resolution to reappoint Deloitte LLP will be proposed at the forthcoming Annual General Meeting. Their report on these financial statements can be found on pages 21 to 23.

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and financial statements in accordance with applicable law 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 and applicable law), including Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102).

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 year and comply with UK GAAP and the Co-operative and Community Benefit Societies Act 2014 and the Co-operative and Community Benefit 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 subject to any departures disclosed and explained in the financial statements; 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 adequate accounting records that are sufficient to show and explain the Group's transactions and 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 Co-operative and Community Benefit Societies Act 2014 and the Co-operative and Community Benefit 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 are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of directors' responsibilities (continued)

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.

Approved by issue by the Board of directors

Angus Waugh

Angus Waugh
Secretary
28 June 2023

The purpose of corporate governance is to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of First Milk.

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 Board of Directors of First Milk has adopted the Corporate Governance Code for Agricultural Co-operatives ("the Code") that was prepared by the Scottish Agricultural Organisation Society ("SAOS") and Co-operatives UK.

The Code sets out a number of high-level and supporting principles across a range of areas of governance covering the Board and its committees, member participation in governance and the audit and Annual Report. The Code also sets out specific provisions against which a co-operative's own governance can be measured.

A copy of the Code can be found at https://saos.coop/assets/media/files/CorpGovCodeAgriCoops.pdf

As a consequence, this Corporate Governance report focuses on those aspects that are covered by the Code and should be read in conjunction with the Audit, Finance and Risk Committee and Remuneration reports on pages 19 and 20.

The Council

The Council comprises seven members who are elected directly by members of First Milk. The Council has a range of powers, including holding the Board to account on behalf of members, approving the annual budget, approving certain acquisitions and disposals and making representations to the Board with regard to matters concerning members. The Council is chaired by an independent chairman, Dr Séan Rickard.

The Council meets formally on a quarterly basis when it receives a report from the Board on performance of the business against strategic objectives and deals with other matters within its remit. The Council receives monthly information with regard to business performance. The Board also consults the Council as appropriate on matters affecting members.

Each year, either three or four Council members are required to retire by rotation and may stand for re-election, subject to the rules on term limits. In 2023, Christine Kelsall, Jess Mills and Willie Campbell all retired from office. Following a contested election between six candidates, Alan Trainer was re-elected to the Council and James Macpherson, Peter Rees and Robert Young were elected as new Council members.

Board

The role of the Board of First Milk Limited is to set strategy and ensure that the business is effectively and efficiently managed and controlled.

In terms of the Rules, the Board comprises seven members and is structured to bring a variety of skills and experience to the performance of its roles. It comprises a chair and two other independent non-executive directors who bring experience from diverse backgrounds, two farmer directors and two executive directors, currently the chief executive and the chief financial officer.

All director appointments are subject to ratification by members at the AGM following their appointment. Directors then retire by rotation each year and may be eligible for re-appointment subject to the term limits set out in the Rules. Directors serve for a maximum three terms of two years, but may serve for a longer period to allow for orderly transition.

In August 2022, Brian Mackie reached his maximum three terms in office. Following a selection process, the board agreed to appoint Frank Colhoun as a director and he took office on 4 August 2022.

Board (continued)

Other external directorships held by directors of First Milk are noted below:

Director	External Appointments	
Chris Thomas	Street Eats Food Ltd Insepa A/S Denmark	Tiffin Sandwiches Ltd Muntons PLC
Robert Craig	Peepy Farm Ltd Royal Association of British Dairy Farmers (The) Penrith Farmers and Kidds Public Limited Company (The)	Cairnhead Farm Limited Dairy UK Limited Events For You Limited
Mike Smith	LAM Smith & Sons Ltd	Blue Flag Farming Limited
Shelagh Hancock	Dairy UK Limited*	Carr's Group PLC
Frank Colhoun	Muirhill Holdings Ltd Tuscon Properties Limited Tuscon Developments Ltd AD Jackton 1 Limited AD Jackton 2 Limited AD Jackton 3 Limited AD Jackton 4 Limited AD Jackton 5 Limited AD Jackton 6 Limited AD Jackton 7 Limited Abbey Developments (Jackton) Limited	Teviot Developments (Holdings) Limited Teviot Developments Ltd IBDT Property Limited Butler Mason Limited Surplus Property Investments Limited Surplus Property Solutions Holdings Limited Surplus Property Solutions Advisory Limited PVP Developments Ltd Cedar Vine Ltd Bell Daten Limited Steelstone Properties Limited
Michael Fletcher	Sleet Brush Limited	
	* denotes office held as nominated First Milk director / trustee	

The Board has ten scheduled meetings each year and meets at other times as required. Board meetings held in the year to 31 March 2023 and director attendance at each meeting was as follows:

	2022							2023		
	28/4	**26/5**	**23/6**	**3/8**	**30/9**	**27/10**	**24/11**	**24/1**	**2/3**	**30/3**
Chris Thomas	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
Robert Craig	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
Mike Smith	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
Brian Mackie	yes	yes	yes	yes	n/a	n/a	n/a	n/a	n/a	n/a
Frank Colhoun	n/a	yes	yes	yes	yes	yes	yes	yes	yes	yes
Michael Fletcher	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
Shelagh Hancock	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
Greg Jardine	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes

First Milk's Board committee structure comprises the following committees:

Audit, Finance and Risk Committee
The Audit, Finance and Risk Committee is chaired by Frank Colhoun and also comprises Robert Craig and Mike Smith. Brian Mackie was a member of, and chaired, the Committee prior to his retirement from the Board. Two Council members attend Committee meetings as Member Council representatives.

The Committee's roles include overseeing the annual external audit and reviewing the effectiveness of internal controls and risk management. A report on the activities of the Audit, Finance and Risk Committee can be found on page 19.

Board (continued)

The committee meetings held in the year to 31 March 2023 and director attendance at each meeting were as follows:

	2022		
	26/5	**23/6**	**24/11**
Brian Mackie	yes	yes	n/a
Frank Colhoun	yes	yes	yes
Robert Craig	yes	yes	yes
Mike Smith	yes	yes	yes

Nomination and Remuneration Committee
The Nomination and Remuneration Committee is chaired by Michael Fletcher and also comprises Chris Thomas, Robert Craig and Mike Smith. Two Council members attend Committee meetings as Member Council representatives.

Its roles include identifying and nominating, for Board approval, candidates for Board vacancies, considering succession planning and the structure, size and composition of the Board and approving remuneration policies for the First Milk Group and specific remuneration packages for senior executives. A Remuneration report can be found on page 20.

The committee meetings held in the year to 31 March 2023 and director attendance at each meeting was as follows:

	2022	2023	
	27/10	**1/2**	**3/3**
Michael Fletcher	yes	yes	yes
Chris Thomas	yes	yes	yes
Robert Craig	yes	yes	yes
Mike Smith	yes	yes	yes

Member Appeals Committee
The Member Appeals Committee is chaired by Robert Craig and also comprises two Council Members (nominated by the Council when an appeal is submitted), the Chief Impact Officer, the Company Secretary and the Responsible Sourcing Manager. The Board may appoint alternative members of the Committee as circumstances require. Its role is to make decisions on matters raised by individual members relating to their membership. The Board may also refer matters to the Committee. The Committee meets as required when an appeal is submitted. The committee did not meet in the year to 31 March 2023.

Board and Council training and evaluation

All directors and Council members undergo an annual evaluation. In addition, the board and Council conduct an annual review of their effectiveness. All newly appointed directors and newly elected Council members undergo a tailored induction process.

First Milk's compliance with the Corporate Governance Code for Agricultural Co-operatives
The Corporate Governance Code operates on a "comply or explain" basis, meaning that its provisions are not binding but that an organisation that has adopted the Code should provide an explanation if it does not comply with a particular provision of the Code. The Board of First Milk monitors its compliance with the Code and is compliant with all its provisions under exception of the following:

- *Code Provision 60 recommends that in order to safeguard the democratic status of the Board, a co-operative should ensure that external (non-member) directors and management directors should not exceed 49 per cent of the Board.*
  External (non-member) and management directors comprise five of the seven Board positions. However First Milk's democratic status is safeguarded by the member Council having substantial powers as noted above.
- *Code Provision 65 states that the Board should appoint, from its own number, a chair and at least one vice chair.*
  Appointments of the chair and vice chair are made by the Board. However their appointments are then recommended by the Council for approval by members at the Annual General Meeting.
- *Code provision 78 states that the secretary's main reporting line should be to the Board.*
  First Milk's secretary reports to both the Board and the chief financial officer due to his additional role as general counsel.

For and on behalf of the Board

Angus Waugh

Angus Waugh
Secretary
28 June 2023

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

External audit

The Audit, Finance and Risk Committee meets with the external audit firm at least 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 for work carried out by the audit firm and reports to the Board in respect of non-audit services carried out by the auditors. In considering all of the above, the Committee has due regard to the cost effectiveness, independence and objectivity of the audit function.

Deloitte LLP was re-appointed by members as First Milk's external auditor at the Annual General Meeting in August 2022. Their report on the financial statements can be found on pages 18 and 19.

Risk and controls

The Audit, Finance and Risk 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 year covered by the financial statements are:

- a control environment based on a clearly defined organisational 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 operating plan, forecast review and trading reporting processes, which highlights the key business performance indicators, risks and significant variances from expectations.

The Audit, Finance and Risk Committee, in consultation with management, reviews key risk areas and relevant controls across the Group periodically. The Committee then decides which areas of the business should be the subject of reviews to ensure that appropriate controls are in place and working. The committee has put in place policy statements relating to the appointment and replacement of external auditors and non-audit services.

Financial reporting, budget process, forecasts, financial performance and capital requirements

Under Terms of Reference approved by the Board, the Audit, Finance and Risk Committee also reviews and monitors First Milk's financial reporting, budget process, on-going forecasts of financial performance, capital requirements and pension matters. Although the Board retains primary responsibility for these matters, the Committee is able to give detailed consideration to such matters and report to the Board on key issues.

For and on behalf of the Audit, Finance and Risk Committee

Frank Colhoun
Chairman of the Audit, Finance and Risk Committee
28 June 2023

First Milk's Rules provide that the member Council has the power to set director remuneration.

The Board has overall responsibility for remuneration and has delegated its duties relating to their remuneration to the Nomination and Remuneration Committee under agreed terms of reference. The Board sets the remuneration of Council members.

The member Council has delegated the power to set executive remuneration to the Nomination and Remuneration Committee.

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 Limited as a member owned co-operative; and
- 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 excellent corporate and individual performance. In particular the bonus scheme must take account of the absence of any share option scheme. The bonus scheme must also align the interests of employees with that of members of First Milk. This is achieved by basing a significant proportion of the rewards potentially payable under the scheme on improvements in (i) First Milk's milk price relative to the published milk prices of other milk buyers (ii) First Milk's net assets.

These principles apply to executives across the Group.

All employees of the Group are given the opportunity to participate in a defined contribution pension scheme. First Milk Limited participates in the Scottish Milk Limited Retirement Benefits Plan and the Milk Pension Fund, both of which are defined benefit schemes and are closed to new entrants and future accrual.

Non-executive remuneration

The Member Council, in consultation with the Nomination and Remuneration Committee, reviews the fees of non-executive directors periodically to ensure that the level of fees paid is appropriate for the duties, responsibilities and time commitment of directors. These reviews also ensure that non-executive directors' fees are not out of step with fees paid in comparable businesses.

In early 2023, the Council reviewed non-executive director fees, which had remained unchanged since 2019, with the exception of the chairman's fee, which was increased in 2021 having remained at the same level since 2018. The Council considered available benchmarking information on businesses of similar size and the desire to avoid significant increases at a future date should it prove difficult to recruit new directors. Accordingly the Council agreed to increase non-executive director fees by 5 per cent with effect from 1 April 2023.

The Board agreed to increase Council fees, which had not been reviewed since 2020, by 5 per cent from 1 April 2023.

For and on behalf of the
Nomination and Remuneration Committee

Michael Fletcher
Chairman of the Nomination and Remuneration Committee
28 June 2023

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of First Milk Limited (the 'society') and its subsidiaries (the 'group'):

- give a true and fair view of the state of the group's and of the society's affairs as at 31 March 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014.

We have audited the financial statements which comprise:

- the consolidated and society profit and loss accounts;
- the consolidated and society statements of comprehensive income;
- the consolidated and society balance sheets;
- the consolidated and society statements of changes in equity;
- the consolidated and society cash flow statements;
- the related notes 1 to 27.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and society in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and of the society's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and society's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or society or to cease operations, or have no realistic alternative but to do so.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the group and society's industry and its control environment, and reviewed the group and society's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and the directors about their own identification and assessment of the risks of irregularities, including those that are specific to the group's business sector.

We obtained an understanding of the legal and regulatory frameworks that the group and society operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the Co-operative and Community Benefit Societies Act 2014, pensions legislation, tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the group and society's ability to operate or to avoid a material penalty. These included carbon reporting, animal wellbeing and GDPR laws.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our specific procedures performed to address it are described below:

- Revenue recorded around year-end when the contractual obligations may not be met: we have selected a sample of sales recorded during March 2023 and April 2023 and inspected the corresponding goods deliver notes in order to conclude if the sample has been recorded in the correct period.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and external legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

Report on other legal and regulatory requirements

Matters on which we are required to report by exception

Under the Co-operative and Community Benefit Societies Act 2014 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the society's members, as a body, in accordance with section 87 of the Co-operative and Community Benefit Societies Act 2014. Our audit work has been undertaken so that we might state to the society's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the group and society and the society's members as a body, for our audit work, for this report, or for the opinions we have formed.

Paul Hazelton, CA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Glasgow
28 June 2023

Profit and loss accounts for the year ended 31 March 2023

	Note	2023 Group £'000	2023 Society £'000	2022 Group £'000	2022 Society £'000
Turnover - continuing operations	2	456,243	433,438	331,077	292,704
Cost of sales		(442,047)	(423,825)	(317,446)	(284,676)
Gross profit		14,196	9,613	13,631	8,028
Administrative expenses					
- Recurring		(9,330)	(8,395)	(9,194)	(7,900)
Other operating income		217	-	667	-
Operating profit					
- Continuing operations		5,083	1,218	5,104	128
Finance income	7	14	-	9	-
Finance costs	8	(4,101)	(461)	(2,091)	(748)
Profit / (loss) before taxation		996	757	3,022	(620)
Tax on profit / (loss)	9	(915)	(822)	(699)	(858)
Profit / (loss) for the financial year		81	(65)	2,323	(1,478)

Statements of comprehensive income for the year ended 31 March 2023

		2023 Group £'000	2023 Society £'000	2022 Group £'000	2022 Society £'000
Profit / (loss) for the financial year:					
Group / Society		81	(65)	2,323	(1,478)
Other comprehensive income:					
Actuarial (loss) / gain relating to the pension schemes	23	(3,776)	(3,776)	8,351	8,351
UK deferred tax attributable - current year		944	944	(759)	(759)
Other comprehensive income for the year net of tax		(2,832)	(2,832)	7,592	7,592
Total comprehensive (loss) / income for the year		(2,751)	(2,897)	9,915	6,114

All results relate to continuing operations.

Balance sheet as at 31 March 2023

	Note	2023 Group £'000	2023 Society £'000	2022 Group £'000	2022 Society £'000
Fixed Assets					
Intangible fixed assets	10	-	-	-	-
Property, plant and equipment	11	48,641	342	47,095	356
Investments in subsidiary undertakings	12	-	34,698	-	34,703
Other investments	12	500	500	500	500
Total fixed assets		49,141	35,540	47,595	35,559
Current assets					
Inventories	13	88,506	305	55,973	149
Trade and other receivables	14	30,682	61,015	34,010	43,254
Cash and cash equivalents		5,469	150	1,219	404
		124,657	61,470	91,202	43,807
Trade and other payables amounts falling due within one year	15	(59,142)	(59,286)	(49,031)	(43,153)
Net current assets		65,515	2,184	42,171	654
Total assets less current liabilities		114,656	37,724	89,766	36,213
Trade and other payables amounts falling due after more than one year	16	(68,880)	(2,452)	(43,389)	(194)
Total net assets employed excluding pension liability		45,776	35,272	46,377	36,019
Pension asset	23	924	924	2,279	2,279
Net assets		46,700	36,196	48,656	38,298
Capital and reserves					
Called up share capital	21	77,962	77,962	77,204	77,204
Profit and loss reserve		(31,262)	(41,766)	(28,548)	(38,906)
Total capital and reserves		46,700	36,196	48,656	38,298

The financial statements on pages 24 to 50 were approved by the Board of Directors on 28 June 2023 and signed on its behalf by:

Shelagh Hancock – **Director**

Greg Jardine – **Director**

Angus Waugh – **Secretary**

Group statement of change in equity for the year ended 31 March 2023

	Note	Called up share capital £'000	Profit and loss reserve £'000	Total £'000
Balance as at 1 April 2021		76,699	(38,635)	38,064
Profit for the financial year		-	2,323	2,323
Other comprehensive income for the year:				
Actuarial gain relating to the pension schemes	23	-	8,351	8,351
UK deferred tax attributable to actuarial gain	9	-	(759)	(759)
Total comprehensive income for the year		-	9,915	9,915
Shares issued	21	677	-	677
Shares cancelled	21	(172)	172	-
Total transactions with owners recognised directly in capital		505	172	677
Balance as at 31 March 2022		**77,204**	**(28,548)**	**48,656**
Profit for the financial year		-	81	81
Other comprehensive income for the year:				
Actuarial loss relating to the pension schemes	23	-	(3,776)	(3,776)
UK deferred tax attributable to actuarial loss	9	-	944	944
Total comprehensive loss for the year		-	(2,751)	(2,751)
Shares issued	21	795	-	795
Shares cancelled	21	(37)	37	-
Total transactions with owners recognised directly in capital		758	37	795
Balance as at 31 March 2023		**77,962**	**(31,262)**	**46,700**

Society statement of changes in equity for the year ended 31 March 2023

	Note	Called up share capital £'000	Profit and loss reserve £'000	Total £'000
Balance as at 1 April 2021		76,699	(45,192)	31,507
Loss for the financial year		-	(1,478)	(1,478)
Other comprehensive income for the year:				
Actuarial gain relating to the pension schemes	23	-	8,351	8,351
UK deferred tax attributable to actuarial gain	9	-	(759)	(759)
Total comprehensive income for the year		-	6,114	6,114
Shares issued	21	677	-	677
Shares cancelled	21	(172)	172	-
Total transactions with owners recognised directly in capital		505	172	677
Balance as at 31 March 2022		**77,204**	**(38,906)**	**38,298**
Loss for the financial year		-	(65)	(65)
Other comprehensive income for the year:				
Actuarial loss relating to the pension schemes	23	-	(3,776)	(3,776)
UK deferred tax attributable to actuarial loss	9	-	944	944
Total comprehensive loss for the year		-	(2,897)	(2,897)
Shares issued	21	795	-	795
Shares cancelled	21	(37)	37	-
Total transactions with owners recognised directly in capital		758	37	795
Balance as at 31 March 2023		**77,962**	**(41,766)**	**36,196**

Statements of cash flows for the year ended 31 March 2023

	Note	2023 Group £'000	2023 Society £'000	2022 Group £'000	2022 Society £'000
Net cash (outflow) / inflow from operating activities	22	(10,265)	(2,894)	5,624	2,570
Taxation paid		-	-	-	-
Net cash (used in) / generated from operating activities		(10,265)	(2,894)	5,624	2,570
Cash flow from investing activities					
Finance income	7	14	-	9	-
Purchase of property, plant and equipment	11	(7,415)	(176)	(14,938)	(83)
Proceeds from sales of assets		104	-	20	-
Investment in Agricarbon	12	-	-	(500)	(500)
Net cash used in investing activities		(7,297)	(176)	(15,409)	(583)
Cash from financing activities					
Finance costs		(3,761)	(238)	(1,354)	(97)
Net proceeds from members	21	795	795	677	677
Increase in / (repayment of) loans		24,778	2,259	11,111	(2,317)
Net cash generated from / (used in) financing activities		21,812	2,816	10,434	(1,737)
Net increase / (decrease) in cash and cash equivalents		4,250	(254)	649	250
Cash and cash equivalents at the beginning of the year		1,219	404	570	154
Cash and cash equivalents at the end of the year		**5,469**	**150**	**1,219**	**404**

1. Accounting policies

General information
First Milk Limited is a dairy farmers' co-operative registered under the Co-operative and Community Benefit Societies Act 2014 and is incorporated in Scotland. The registered office is 1 George Square, Glasgow, G2 1AL.

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 and lifestyle nutritional products.

Statement of compliance
The Group and individual financial statements of First Milk Limited have been prepared in compliance with United Kingdom Accounting Standards, including Financial Reporting Standard 102, ''The Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland'' (''FRS 102'') and in accordance with the Co-operative and Community Benefit Societies Act 2014 and the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969.

Summary of significant accounting policies
The principal accounting policies applied in the preparation of these consolidated and separate financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation
These consolidated and parent company financial statements have been prepared, on the going concern basis, under the historical cost convention, modified to include the revaluation of certain fixed assets, and in accordance with applicable United Kingdom Accounting Standards. The financial statements have been prepared in accordance with the Co-operative and Community Benefit Societies Act 2014 and the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Society's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in the 'Critical accounting judgements and key source of estimation uncertainty' section of this note.

Going concern
The consolidated financial statements have been prepared on a going concern basis.

Current Trading and Borrowings
The year to 31 March 2023 saw a seventh consecutive profitable year at both the Operating Profit and Net Profit levels. The Group's operating profit before exceptional items was £5.1m (2022: £5.1m). Net profit for the year was £0.1m, compared to a profit of £2.3m in 2022.

We have built strong, stable relationships with our customers that have resulted in secure and profitable contracts where we can recover market movements and, in many cases inflationary increases in our costs to deliver long term stability to our members. In the past 18 months we have seen significant inflationary costs and market price increases. Due to the speed and magnitude of change we managed working capital appropriately paying out to members in milk price what was affordable.

Milk price increases of 14ppl during FY23 translated into increased working capital needs, especially stocks that increased by £33m to £89m without a significant increase in volume. As a result, the Group's net bank debt increased to £64m as of 31 March 2023. Borrowings have reduced since year-end as milk price reductions since March 23 have lowered our working capital. Net debt and facility headroom remains in line with expectations.

Funding
The business is financed through a combination of members' capital contributions and debt facilities. Members' capital contributions are collected through the retention of 0.5 pence per litre from each member's milk payment until they reach their capital target. In the financial year members' capital contributions totalled £0.8m.

On 18 November 2022, we amended our long-term debt arrangement with Wells Fargo, increasing the facility limit from £90m to £120m and bringing HSBC in as a lender. The amount available is dependent on the value of stock and debtors, based on a percentage draw-down specified in the facility agreement, and a term loan on our fixed assets. These facilities are secured by fixed securities over certain Group assets, a floating charge over Scottish Milk Products Limited and a debenture over First Milk Limited, The First Milk Cheese Company Limited, Fast Forward FFW Limited and Lake District Biogas Limited. There are financial covenants applicable to the facilities, with which we have been complying since inception and we continue to comply with throughout the forecast period, that ensure there is a specified minimum level of headroom with the facility on any business day. The amount available from the revolving facility at 28 June 2023 was £94.1m (31 March 2023: £74.2m). The term loan is based on fixed asset values and at 28 June 2023 was £8.3m (31 March 2023: £8.6m). The Board's forecasts show that there is adequate headroom within the facilities over the next year.

1. Accounting policies (continued)

Going concern (continued)
Forecasts
The Board has undertaken a thorough review of the Group's forecasts and associated risks. These forecasts extend for a period beyond one year from the date of approval of these financial statements. The forecasts make key assumptions based on information available to the directors at the time of the approval of these financial statements that:

- the business will ensure profitability is achieved and returns to members, through milk price and net asset value, are maximised whilst also retaining sufficient profits to meet our business obligations and commitments;
- key customer and supplier contracts continue as per their existing commercial arrangements over the contractually agreed periods; and
- there is no material adverse impact in the bank facilities available to the Group or other adverse working capital movements. Stock and debtors provide additional collateral against which we can draw down further loans from our facilities with Wells Fargo and HSBC, increases in working capital are supported by the amended facility signed in November 2022 that increased the facility from £90m to £120m.

The directors have based their conclusions regarding going concern upon these forecasts.

Conclusion on going concern
At the date of these financial statements, the directors consider that, based upon the information available, financial forecasts and the existence of debt facilities available through to 31 July 2026, the Group will have adequate resources to continue in operational existence for the foreseeable future (being at least twelve months from the approval of these accounts) and consider it appropriate to adopt the going concern basis in preparing the financial statements.

Exemptions for qualifying entities under FRS 102
FRS 102 allows a qualifying entity certain disclosure exemptions if certain conditions have been complied with. A qualifying entity is defined as a member of a Group that prepares publicly available financial statements, which give a true and fair view, in which that member is consolidated. First Milk Limited can take exemptions in its standalone financial statements.

As a qualifying entity, the Society has taken advantage of the following exemption:

i) from the requirement to present certain financial instrument disclosures as required by sections 11 and 12 of FRS 102.

Basis of consolidation
The Group financial statements incorporate the financial statements of First Milk Limited and its subsidiary undertakings made up to 31 March 2023.

A subsidiary is an entity controlled by the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Where the Group owns less than 50 per cent of the voting powers of an entity but controls the entity by virtue of an agreement with other investors which give it control of the financial and operating policies of the entity it accounts for that entity as a subsidiary.

Where a subsidiary has different accounting policies to the Group, adjustments are made to those subsidiary financial statements to apply the Group's accounting policies when preparing the consolidated financial statements.

Any subsidiary undertakings sold or acquired during the year are included up to, or from, the dates of change of control.

Where control of a subsidiary is lost, the gain or loss is recognised in the consolidated income statement at cost. The cumulative amounts of any exchange differences on translation, recognised in equity, are not included in the gain or loss on disposal and are transferred to income and expenditure. The gain or loss also includes amounts included in other comprehensive income that are required to be reclassified to profit or loss but excludes those amounts that are not required to be reclassified.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

1. Accounting policies (continued)

Foreign currency

i) Functional and presentation currency

The Group financial statements are presented in pounds sterling and rounded to thousands.

The Society's functional and presentation currency is the pound sterling (£).

ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance (expense)/ income'. All other foreign exchange gains and losses are presented in the income statement within 'Other operating (losses)/gains'.

Revenue recognition

Group and Society

Revenue, which is stated net of value added tax, represents amounts invoiced to third parties for goods or services supplied during the year and is recognised on the sale of milk and other ingredients products at the point of collection and on dispatch of cheese. Revenue 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.

Society

The revenue and operating surplus relate to continuing operations within the UK. For the Society, these include intra group transactions which are eliminated on consolidation in the Group figures.

Exceptional items

The Group classifies certain charges or credits that have a significant impact on the Group's financial results as 'exceptional items'. These are disclosed separately to provide further understanding of the financial performance of the Group.

Employee benefits

The Group provides a range of benefits to employees, including annual bonus arrangements, paid holiday arrangements and defined benefit and defined contribution pension plans.

i) Short term benefits

Short term benefits, including holiday pay and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

ii) Defined contribution pension plans

The Group operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. Once the contributions have been paid the Group has no further payment obligations. The contributions are recognised as an expense when they are due. Amounts not paid are shown in accruals in the balance sheet. The assets of the plan are held separately from the Group in independently administered funds.

iii) Defined benefit pension plans

The Group operates two defined benefit plans for certain employees. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including age, length of service and remuneration. A defined benefit plan is a pension plan that is not a defined contribution plan. Both plans are now closed to new members and to future accrual.

The asset recognised in the balance sheet in respect of the Scottish Milk fund is the fair value of the plan assets at the reporting date less the present value of the defined benefit obligation at the end of the reporting date. We do not have rights to any surpluses within the Milk Pension Fund and no surplus has been recognised for this fund.

1. Accounting policies (continued)

Employee benefits (continued)

The defined benefit obligation is calculated using the projected unit credit method. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and that have terms approximating the estimated period of the future payments ('discount rate').

The fair value of plan assets is measured in accordance with the FRS 102 fair value hierarchy and in accordance with the Society's policy for similarly held assets. This includes the use of appropriate valuation techniques.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts, together with the return on plan assets less amounts included in net interest, are disclosed as 'Remeasurement of net defined benefit liability'.

The cost of the defined benefit plan, recognised in profit or loss as employee costs, except where included in the cost of an asset, comprise the cost of plan introductions, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in profit or loss as 'Finance expense'.

Taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case tax is also recognised in other comprehensive income or directly in equity respectively.

Current or deferred taxation assets and liabilities are not discounted.

i) Current tax

Current tax is the amount of income tax payable in respect of the taxable profit for the year or prior years. Tax is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the period end.

ii) Deferred tax

Deferred tax arises from timing differences that are differences between taxable profits and total comprehensive income as stated in the financial statements. These timing differences arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in financial statements.

Deferred tax is recognised on all timing differences at the reporting date except for certain exceptions. Unrelieved tax losses and other deferred tax assets are only recognised when it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is measured using tax rates and laws that have been enacted or substantively enacted by the period end and that are expected to apply to the reversal of the timing difference.

Business combinations and goodwill

Business combinations are accounted for by applying the purchase method.

The cost of a business combination is the fair value of the consideration given, liabilities incurred or assumed and of equity instruments issued plus the costs directly attributable to the business combination. Where control is achieved in stages the cost is the consideration at the date of each transaction.

On acquisition of a business, fair values are attributed to the identifiable assets, liabilities and contingent liabilities unless the fair value cannot be measured reliably, in which case the value is incorporated in goodwill. Where the fair value of contingent liabilities cannot be reliably measured they are disclosed on the same basis as other contingent liabilities.

Goodwill recognised represents the excess of the fair value and directly attributable costs of the purchase consideration over the fair values to the Group's interest in the identifiable net assets, liabilities and contingent liabilities acquired.

On acquisition, goodwill is allocated to cash-generating units ('CGUs') that are expected to benefit from the combination.

Goodwill is amortised over its expected useful life. Where the Group is unable to make a reliable estimate of useful life, goodwill is amortised over a period not exceeding 5 years. Goodwill is assessed for impairment when there are indicators of impairment and any impairment is charged to the income statement. Reversals of impairment are recognised when the reasons for the impairment no longer apply.

1. Accounting policies (continued)

Property, plant and equipment
All property, plant and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance expenditures are charged to the income statement during the financial year in which they are incurred.

Depreciation is calculated to write off the cost or valuation of property, plant and equipment 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 4 and 15 years. Land is not depreciated.

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in profit or loss and included in administrative expenses.

Leases
At inception the Group assesses agreements that transfer the right to use assets. The assessment considers whether the arrangement is, or contains, a lease based on the substance of the arrangement.

i) Operating leased assets

Leases that do not transfer all the risk and rewards of ownership are classified as operating leases. Payments under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

ii) Lease incentives

Incentives received to enter into an operating lease are credited to the income statement, to reduce the lease expense, on a straight-line basis over the period of the lease.

Impairment of non-financial assets
At each balance sheet date non-financial assets not carried at fair value are assessed to determine whether there is an indication that the asset (or asset's cash generating unit) may be impaired. If there is such an indication the recoverable amount of the asset (or asset's cash generating unit) is compared to the carrying amount of the asset (or asset's cash generating unit).

The recoverable amount of the asset (or asset's cash generating unit) is the higher of the fair value less costs to sell and value in use. Value in use is defined as the present value of the future cash flows before interest and tax obtainable as a result of the asset's (or asset's cash generating unit) continued use. These cash flows are discounted using a pre-tax discount rate that represents the current market risk-free rate and the risks inherent in the asset.

If the recoverable amount of the asset (or asset's cash generating unit) is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the income statement, unless the asset has been revalued when the amount is recognised in other comprehensive income to the extent of any previously recognised revaluation. Thereafter any excess is recognised in profit or loss.

If an impairment loss is subsequently reversed, the carrying amount of the asset (or asset's cash generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the revised carrying amount does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the income statement.

Goodwill is allocated on acquisition to the cash generating unit expected to benefit from the synergies of the combination. Goodwill is included in the carrying value of cash generating units for impairment testing.

Interest income
Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

1. Accounting policies (continued)

Investments - Society

i) Investment in subsidiary company

Investment in a subsidiary company is held at cost less accumulated impairment losses.

At each reporting date investments are assessed to determine whether there is an indication that the asset may be impaired. If there is such an indication the recoverable amount of the investments is compared to the carrying amount of the asset. If the recoverable amount of the investments is estimated to be lower than the carrying amount, the carrying amount is reduced to its recoverable amount. An impairment loss is recognised in the income statement immediately.

Government grants

Government grants relating to property, plant and equipment are treated as deferred income and released to the profit and loss account over the expected useful lives of the assets concerned. Other grants are credited to the profit and loss account as the related expenditure is incurred.

Inventories

Inventories of milk are valued at the lower of cost and estimated selling price less costs to sell. Cost is the prevailing monthly payment for milk purchased. Inventories of cheese and other inventories are valued at the lower of cost and estimated selling price less cost to sell. Where applicable, cost includes direct costs, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Provision is made for obsolete, slow moving or defective items where appropriate.

Cost is determined on the basis of standard cost, adjusted for production and price variances.

At the end of each reporting period inventories are assessed for impairment. If an item of inventory is impaired, the identified inventory is reduced to its selling price less costs to complete and sell and an impairment charge is recognised in the income statement. Where a reversal of the impairment is required the impairment charge is reversed, up to the original impairment loss, and is recognised as a credit in the income statement.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts, when applicable, are shown within borrowings in current liabilities.

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 and when the amount of the obligation can be estimated reliably. 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.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations might be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as a finance cost.

1. Accounting policies (continued)

Financial instruments
The Group has chosen to adopt sections 11 and 12 of FRS 102 in respect of financial instruments.

i) Financial assets

Basic financial assets, including trade and other receivables and cash and bank balances, are initially recognised at transaction price unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method where applicable.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in profit or loss.

Financial assets are derecognised when (i) the contractual rights to the cash flows from the asset expire or are settled or (ii) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (iii) despite having retained
some significant risks and rewards of ownership, control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

ii) Financial liabilities

Basic financial liabilities, including trade and other payables and loans from fellow Group companies, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Debt instruments are subsequently carried at amortised cost, using the effective interest rate method.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in finance costs or income as appropriate.

The Group does not currently apply hedge accounting for interest rate and foreign exchange derivatives.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires.

iii) Offsetting

Financial assets and liabilities are offset and the net amount presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Critical accounting judgements
The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of the estimation means that actual outcomes could differ from those estimates. In applying the Company's accounting policies in the current year, the defined benefit pension scheme is subject to estimation by the directors in determining the net pension obligation in the balance sheet. The cost of the pension benefits and the present value of the obligation depends on several factors including, life expectancy, inflation, increases in pension payments, asset valuations and discount rates. The assumptions reflect historical experience and current trends. See note 23 for the disclosures relating to he defined benefit pension scheme.

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

The majority of turnover relates to the sale of goods with £2.9m (2022: £1.2m) relating to services supplied during the year.

The majority of turnover is to the UK with £131.7m (2022: £61.9m) being to Continental Europe. Sales to the rest of the world were £nil (2022: £nil).

Society

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

3. Exceptional items

There were no exceptional costs or income for the Group or Society in 2023 or 2022.

4. Operating profit

	2023		2022	
	Group £'000	Society £'000	Group £'000	Society £'000
Operating profit is stated after charging / (crediting):				
Depreciation of property, plant and machinery (note 11)	5,811	190	4,863	164
(Gain) / loss on disposal of property, plant and equipment	(46)	-	331	-
Operating lease rentals	77	18	109	42
Auditor's remuneration:				
Audit Services:				
- audit of Society financial statements	110	110	100	100
- audit of subsidiary companies	64	-	60	-
Non-Audit services:				
- tax services	84	56	99	71
Government grants released	(12)	-	(32)	-

5. Directors' remuneration

The directors are all employed by the Society and their remuneration was as follows:

	2023	2022
	£	£
Directors' remuneration:		
Emoluments	1,047,831	929,594
Pension	32,681	30,074
	1,080,512	959,668
Number of directors in pension scheme	2	2
Highest paid director:		
Emoluments	515,722	425,818
Pension	4,000	4,000
	519,722	429,818

No directors (2022: none) accrued benefits during the year under defined benefit pension schemes. No directors (2022: none) accrued post-employment benefits under defined contribution pension schemes.

Key management includes the executive directors and members of the Executive team. The compensation paid or payable to key management for employee services (excluding executive directors included with the directors' remuneration) is £1,311k (2022: £1,170k).

6. Employee Information

Staff costs and the average monthly number of persons (including executive directors) employed by the Group and Society during the year was:

	2023		2022	
	Group	Society	Group	Society
	£'000	£'000	£'000	£'000
Staff costs				
Wages and salaries	11,318	4,650	10,436	4,255
Social security costs	1,243	578	1,080	492
Other pension costs	539	269	513	241
	13,100	5,497	12,029	4,988
Employee numbers				
Administration	61	51	57	50
Production	159	-	163	-
	220	51	220	50

7. Finance income

	2023		2022	
	Group £'000	Society £'000	Group £'000	Society £'000
Interest on short-term deposits with banks	14	-	9	-
Total finance income on financial assets not measured at fair value through the profit and loss account	14	-	9	-
Total finance income	14	-	9	-

8. Finance costs

	2023		2022	
	Group £'000	Society £'000	Group £'000	Society £'000
Bank loans, overdrafts and revolving credit facilities	3,886	246	1,440	97
Pension scheme net finance cost (note 24)	215	215	651	651
Total finance costs	4,101	461	2,091	748

9. Tax on profit

	2023		2022	
	Group £'000	Society £'000	Group £'000	Society £'000
Current tax				
Adjustments in respect of prior periods	40	-	-	-
Deferred tax				
Origination and reversal of timing differences	665	625	(61)	29
Adjustments in respect of prior periods	-	-	-	829
Effect of changes in tax rates	210	197	760	-
Total deferred tax	875	822	699	858
Total tax per income statement	915	822	699	858

Tax credit included in other comprehensive income:

	2023		2022	
	Group £'000	Society £'000	Group £'000	Society £'000
Deferred tax - current year (credit) / charge	(944)	(944)	759	759

9. Tax on profit (continued)

The standard rate of tax for the year, based on the UK standard rate of corporation tax, is 19% (2022: 19%). 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:

	2023		2022	
	Group £'000	Society £'000	Group £'000	Society £'000
Profit / (loss) on ordinary activities before tax	996	757	3,022	(620)
Tax on profit / (loss) on ordinary activities at standard rate of 19% (2022: 19%)	189	144	574	(118)
Expenses not deductible	218	8	119	-
Income not taxable	(76)	-	(47)	(5)
Effects of group relief / other reliefs	-	-	-	767
Utilisation of deferred tax not recognised	-	-	-	(615)
Adjustments in respect of prior periods	40	-	-	-
RDEC step 2 restriction not recognised	-	-	(115)	-
Movement in deferred tax not recognised	334	473	(593)	-
Tax rate changes	210	197	761	829
Total tax charge	915	822	699	858

The March 2021 Budget announced an increase to the main rate of corporation tax to 25% from April 2023. This rate had been substantively enacted at the balance sheet date and as a result, deferred tax balances as at 31 March 2023 are measured at 25% (2022: 25%).

10. Intangible fixed assets – Group

	2023 £'000	2022 £'000
Goodwill		
Cost/Valuation		
At 1 April	10,995	10,995
Additions	-	-
At 31 March	10,995	10,995
Accumulated amortisation and impairment		
At 1 April	10,995	10,995
Impairment	-	-
At 31 March	10,995	10,995
Net book value		
At 31 March	-	-

11. Property, plant and equipment

Group	Freehold land and buildings	Plant and equipment	Assets in the course of construction	Total
	£'000	£'000	£'000	£'000
Cost / valuation				
At 1 April 2022	5,505	61,225	5,596	72,326
Additions	-	3,054	4,361	7,415
Disposals	-	(1,201)	-	(1,201)
Transfers between asset classes	310	2,875	(3,185)	-
At 31 March 2023	5,815	65,953	6,772	78,540
Accumulated depreciation				
At 1 April 2022	401	24,830	-	25,231
Charge for the year	458	5,288	65	5,811
Disposals	-	(1,143)	-	(1,143)
At 31 March 2023	859	28,975	65	29,899
Net book value				
At 31 March 2023	4,956	36,978	6,707	48,641
At 31 March 2022	5,104	36,395	5,596	47,095

There are no outstanding liabilities in respect of leased assets.

Society	Land and buildings	Plant and equipment	Assets in the course of construction	Total
	£'000	£'000	£'000	£'000
Cost/Valuation				
At 1 April 2022	34	1,963	38	2,035
Additions	-	-	176	176
Disposals	-	(1,069)	-	(1,069)
Transfers between asset classes	-	16	(16)	-
At 31 March 2023	34	910	198	1,142
Accumulated depreciation				
At 1 April 2022	5	1,674	-	1,679
Charge for the year	1	189	-	190
Disposals	-	(1,069)	-	(1,069)
At 31 March 2023	6	794	-	800
Net book value				
At 31 March 2023	28	116	198	342
At 31 March 2022	29	289	38	356

Property, plant and equipment of the Group amounting to £48.6m (2022: £47.1m) are pledged as security against bank borrowings.

11. Property, plant and equipment (continued)

Land and buildings of the Group and Society were valued on an open market basis at 31 October 1994. The Group elected to adopt the transitional rules of FRS 102 for its revalued assets and consequently these valuations have not been updated.

	2023		2022	
	Group £'000	Society £'000	Group £'000	Society £'000
Historical cost of				
Freehold land and buildings	6,707	-	6,707	-

12. Investments

Society	Shares in subsidiary undertakings £'000
Cost	
At 1 April 2022	42,679
Additions	-
Disposals	(5)
At 31 March 2023	42,674
Impairments	
At 1 April 2022	7,976
Impairment charge	-
At 31 March 2023	7,976
Net book value	
At 31 March 2023	34,698
At 31 March 2022	34,703

Kingdom Dairy Company Limited was dissolved on 5 April 2022.

Details of the subsidiary undertakings in the Group at 31 March 2023 are as follows:

	Registered Office Address	Proportion of ordinary shares held
Scottish Milk Products Limited	1 George Square, Glasgow, G2 1AL	100%
The First Milk Cheese Company Limited	The Lake District Creamery, Station Road, Aspatria, Wigton, Cumbria, CA7 2AR	100%
Fast Forward FFW Limited	The Lake District Creamery, Station Road, Aspatria, Wigton, Cumbria, CA7 2AR	100%
Lake District Biogas Limited	1 George Square, Glasgow, G2 1AL	100%
First Milk Energy Limited	1 George Square, Glasgow, G2 1AL	100%

All subsidiary undertakings are incorporated in the UK and are directly owned by First Milk Limited with the exception of Lake District Biogas Limited which is owned by The First Milk Cheese Company Limited. The directors consider the value of investments to be supported by their underlying assets.

13. Inventories

	2023		2022	
	Group £'000	Society £'000	Group £'000	Society £'000
Raw materials and consumables	4,391	305	3,464	149
Finished goods and goods for resale	84,115	-	52,509	-
	88,506	305	55,973	149

Inventory is valued on the basis of standard cost, adjusted for price and production cost variances. Inventory is pledged as security for bank borrowings. The carrying amount of inventory pledged as security at 31 March 2023 was £84,115k (2022: £52,509k).

The amount of inventory recognised as an expense during the year was £417,867k (2022: £247,035k) for the Group and £403,701k (2022: £284,677k) for the Society.

14. Trade and other receivables

	2023		2022	
	Group £'000	Society £'000	Group £'000	Society £'000
Due within one year:				
Trade receivables	20,941	5,675	30,800	12,020
Amounts owed by subsidiary undertakings	-	47,870	-	29,166
Other receivables	3,093	3,068	568	462
Value added tax	833	264	672	234
Corporation tax	-	326	-	326
RDEC debtor	159	-	153	-
Prepayments and accrued income	4,789	3,441	830	668
Deferred tax asset (note 19)	642	325	587	273
Due after one year:				
Prepayments	46	46	242	105
Deferred tax asset (note 19)	179	-	158	-
	30,682	61,015	34,010	43,254

The directors consider that the carrying amount of trade and other receivables approximates to their fair value. Amounts owed by group undertakings are unsecured, bear no interest and are repayable on demand.

15. Trade and other payables: amounts falling due within one year

	2023		2022	
	Group £'000	Society £'000	Group £'000	Society £'000
Amounts due to debt providers net of unamortised issue costs (note 17)	1,165	-	1,200	-
Trade payables: amounts due to members	35,042	35,042	26,855	26,855
Trade payables: other	15,361	8,836	13,044	6,731
Amounts owed to subsidiary undertakings	-	11,332	-	5,358
Other taxes and social security	373	338	332	306
Other payables	252	207	1,040	172
Accruals and deferred income	6,482	3,328	6,099	3,458
Deferred tax liability (note 19)	467	203	461	273
	59,142	59,286	49,031	43,153

Trade payables: amounts due to members represents purchases of milk at the prevailing monthly price, which are payable according to standard terms of trade. The directors consider that the carrying amount of trade payables approximates to their fair value. Amounts owed to group undertakings are unsecured, bear no interest and are repayable on demand.

16. Trade and other payables: amounts falling due after more than one year

	2023		2022	
	Group £'000	Society £'000	Group £'000	Society £'000
Amounts due to debt providers net of unamortised issue costs (note 17)	67,890	2,452	43,281	194
Other creditors	903	-	-	-
Deferred income	87	-	108	-
	68,880	2,452	43,389	194

17. Borrowings

Amounts due to debt providers are repayable as follows:

	2023		2022	
	Group £'000	Society £'000	Group £'000	Society £'000
Within one year	1,286	-	1,286	-
Due in more than one year	68,173	2,452	43,395	194
Unamortised issue costs	(404)	-	(199)	-
	69,055	2,452	44,482	194

Borrowings at 31 March 2023 of £69,458k (2022: £44,681k) are secured by fixed securities over certain Group assets, a floating charge over Scottish Milk Products Limited and a debenture over First Milk Limited, The First Milk Cheese Company Limited, Fast Forward FFW Limited and Lake District Biogas Limited. These facilities are subject to financial covenants.

Borrowings increased as rising milk prices resulted in higher working capital. While debt has increased, our asset base grew in value too. Stocks, without a significant change in volume, have risen in value by £32.5m as milk price rises have increased the cost of production which will be recovered when the maturing cheese is sold profitability in the future.

To support the increasing working capital cash demands on the business we extended our debt facility through to 31 July 2026 and increased the maximum available from £74m to £90m in April 2022. In November 2022, as working capital demands continued to rise, we increased the facility further to £120m and introduced a new lender, HSBC, into our banking relationship. The amount available to borrow is dependent on the value of stock and debtors and is based on a percentage draw-down specified in the facility agreement, and a term loan on our fixed assets.

At 31 March 2023, all revolving credit facilities are shown as due in more than one year as the final repayment date of the facilities is 31 July 2026. Borrowings due within one year represent fixed term loan repayments.

The amount available under the revolving credit facility is dependent on the value of our debtors and stock and is based on a percentage draw-down specified in the facility agreement. The term loan is based on fixed asset values. Financial covenants remain in place to ensure that there is a set minimum level of headroom maintained daily, throughout the year we were covenant compliant.

The directors consider that the carrying amount of bank borrowings approximates to their fair value.

An analysis of the changes in net debt during the year is presented below:

	2023	
	Group £'000	Society £'000
Opening balance at 1 April 2022	44,482	194
Increase in bank borrowing	24,777	2,258
Movement in unamortised issue costs	(205)	-
Closing balance at 31 March 2023	69,055	2,452

18. Financial instruments

The Group has the following financial instruments:

	Note	2023 Group £'000	2022 Group £'000
Financial assets that are debt instruments measured at amortised cost			
Trade receivables	14	20,941	30,800
Other receivables	14	3,093	567
		24,034	31,367
Financial liabilities measured at amortised cost			
Amounts due to debt providers net of unamortised issue costs	15, 17	1,165	1,200
Trade payables: amounts due to members	15	35,042	26,855
Trade payables: other	15	15,361	13,044
Other trade payables	15	252	1,040
Accruals	15	6,482	6,099
		58,302	48,238

19. Provisions for liabilities and charges

Deferred tax (asset) / liability

The movement on the deferred tax asset / (liability) account for both the Group and the Society is shown below. The asset is presented within trade and other receivables (note 14) and the liability is presented within trade and other payable (note 15).

	2023		2022	
	Group £'000	Society £'000	Group £'000	Society £'000
Opening balance	(284)	-	(1,743)	(1,616)
Profit and loss account charge (note 9)	875	822	699	858
Deferred tax charge in SOCI for the period	(944)	(944)	759	759
Origination and reversal of timing differences	(1)	-	1	(1)
Closing balance (notes 14 and 15)	(354)	(122)	(284)	-

	2023		2022	
	Group £'000	Society £'000	Group £'000	Society £'000
Deferred tax (assets) recognised				
Recoverable within 12 months	(642)	(325)	(587)	(273)
Recoverable after 12 months	(179)	-	(158)	-
	(821)	(325)	(745)	(273)
Deferred tax liabilities recognised				
Payable within 12 months	467	203	461	273
Deferred tax amounts not recognised at the closing rate of 25% (2022: 25%)				
Fixed assets	(2,303)	(762)	(472)	(714)
Timing differences - trading	(410)	-	461	-
Losses	(11,947)	(4,770)	(273)	(3,811)
	(14,660)	(5,532)	(284)	(4,525)

Except in relation to pensions (balances shown as recoverable after 12 months above) no deferred tax assets have been recognised due to the uncertainty of the timing of the recoverability of these amounts.

The March 2021 Budget announced an increase to the main rate of corporation tax to 25% from April 2023. This rate had been substantively enacted at the balance sheet date and as a result, deferred tax balances as at 31 March 2023 are measured at 25%.

20. Financial commitments

The Group and Society had the following future minimum lease payments under non-cancellable operating leases for each of the following periods:

	2023		2022	
	Group £'000	Society £'000	Group £'000	Society £'000
Commitments under non-cancellable operating leases not provided in the financial statements:				
within one year	77	18	213	146
within two to five years	147	7	202	-
later than five years	19	-	19	-
	243	25	434	146

21. Share and loan capital

Share capital (Group and Society)	Ordinary shares of £5 each		Ordinary shares of £10 each		New Preference shares of £1 each		C' Preference shares of £1 each		Total
	No. '000	£'000	No. '000	£'000	No. '000	£'000	No. '000	£'000	£'000
Called up, allotted and fully paid									
At 1 April 2021	1	2	1	4	5,578	5,578	71,115	71,115	76,699
Shares issued	-	-	-	-	-	-	677	677	677
Share cancellations	-	-	-	-	(172)	(172)	-	-	(172)
At 1 April 2022	1	2	1	4	5,406	5,406	71,792	71,792	77,204
Shares issued	-	-	-	-	-	-	795	795	795
Share cancellations	-	-	-	-	(37)	(37)	-	-	(37)
At 31 March 2023	1	2	1	4	5,369	5,369	72,587	72,587	77,962

First Milk Limited is a Society established under the Co-operative and Community Benefit Societies Act 2014. It is governed by its rules that require all members, on joining, to purchase a £10 ordinary share (previously a £5 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. When a member leaves, their ordinary share is cancelled.

Each member has a capital target (currently seven pence per litre) based on annual volume supplied averaged over the three years to 31 March 2018. Members can reach their capital target through monthly contributions, lump sum investment or by buying capital from former members. Monthly contributions and lump sum investments are paid to loan capital accounts that are then converted immediately to C Preference shares. Most members also hold New Preference Shares that were allocated as bonus shares in 2013 on the basis of capital held at that time.

Members and former members have certain rights to trade capital. In particular, former members are entitled to sell their New Preference shares for a period of three years at which point, if not sold, they are cancelled. Shareholders now have access to a web platform, Asset Match, to encourage share trading.

The members' premium payment, introduced in April 2019 and paid annually, is 0.5ppl for all litres consigned in the year for someone that is fully invested in the business (100 per cent of capital target), with the payment being pro-rata adjusted based on achievement of the members' capital target. Members are allowed to hold up to 200 per cent of their target therefore a maximum pay out of 1ppl is possible. The member premium for the year to 31 March 2023 was paid to members in April 2023.

22. Reconciliation of operating profit to operating cash flows

	2023		2022	
	Group £'000	Society £'000	Group £'000	Society £'000
Operating profit	5,083	1,218	5,104	128
Depreciation, amortisation and impairment charges	5,811	190	4,863	164
Dissolution of Kingdom Dairy Company Limited	-	5	-	-
(Gain) / loss on sale of property, plant and equipment	(46)	-	331	-
Pension shortfall correction	(2,636)	(2,636)	(3,089)	(3,089)
Increase in inventories	(32,533)	(157)	(9,139)	(42)
Decrease / (increase) in receivables	3,363	(17,709)	(2,421)	1,930
Increase in payables	10,693	16,195	9,975	3,479
Net cash (outflow) / inflow from operating activities	(10,265)	(2,894)	5,624	2,570

23. 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 schemes are closed to accrual of benefits.

In the event of participating employers ceasing to participate in the Milk Fund, the assets and liabilities previously associated with this employer are allocated to the remaining employers.

Both are defined benefit pension schemes funded by sponsoring employers and (up to the date of closure to future accrual) by contributions from employees.

Both pension funds were subject to triennial actuarial valuations as at 31 March 2021 and the financial position of both funds improved.

During the year, our pension liabilities (net of deferred tax assets) worsened by £1.0m, reducing the pension asset to £0.7m. This was mainly a result of inflation and discount rate assumptions. The actuarial losses in the year were £6.7m. We do not have rights to any surpluses within the Milk Pension Fund and no surplus has been recognised for this fund. While the accounting valuation at year-end shows a worse position this does not change the contributions to the schemes and the latest funding report for both schemes demonstrates that the hedging policies in place for inflation and interest rates are ensuring the deficit continues to reduce due to the contributions made.

The Scottish Plan

The Scottish Plan is structured such that the Society and other participating Group companies cannot separately identify their share of the underlying assets and liabilities of the scheme. As a consequence the deficit of this scheme was previously only reflected in the Group financial statements. Under FRS 102 rules there is a requirement to estimate the share of the deficit for each participating employer, and since the majority of the liabilities of this scheme relate to First Milk Limited, the decision was made to allocate 100% of the deficit to the Society.

In January 2022, following the finalisation of the Scottish Milk Limited Retirement Benefits Plan triennial valuation of 2021, a revised schedule of contributions (SOC) was agreed by the trustees and First Milk. Shortfall contributions of at least £2.1m per annum, increasing annually by RPI (with the first increase applying from April 2023), plus a £348k contribution to expenses, from 1 January 2022 to 31 May 2026 will be paid.

In the year to 31 March 2023, total contributions of £2.5m (2022: £2.9m), were paid to the Scottish Milk Limited Retirement Benefits Plan.

The Milk Fund

The Milk Pension Fund triennial valuation resulted in a slight surplus therefore the trustees do not require any deficit payment to be made to the scheme and only £0.1m of expense contributions will be made annually. In the year to 31 March 2023, total contributions of £0.1m (2022: £0.2m) were paid to the Milk Pension Fund.

The Group also operates a defined contribution scheme, a Stakeholder Group Pension Plan with Standard Life. The contributions to the defined contribution scheme charged to the profit and loss account in the year ended 31 March 2023 were £0.5m (2022: £0.5m).

The figures below for the defined benefits schemes have been based on the most recent actuarial valuations at 31 March 2021, updated to the current year-end by qualified independent actuaries.

23. Pension schemes (continued)

The major assumptions used for the actuarial valuation were:

Assumptions at 31 March	Scottish Plan % pa		Milk Fund % pa	
	2023	2022	2023	2022
Discount rate	4.9	2.8	4.8	2.8
Rate of increase in pensions in payment	3.2	3.4	2.0 to 2.9	2.2 to 3.2
Rate of increase in pensions in deferment	3.0	3.4	2.9	3.1
Inflation assumption (RPI)	3.4	3.9	3.3	3.7
Inflation assumption (CPI)	3.0	3.4	2.9	3.2
Longevity at age 65 for current pensioners				
Men	23	23	22	23
Women	25	25	24	25
Longevity at age 65 for future pensioners				
Men	24	24	24	24
Women	26	26	26	26

The fair value of assets in the schemes and the present value of liabilities in the schemes at each balance sheet date were:

Assets	Scottish Plan £'000		Milk Fund £'000	
	2023	2022	2023	2022
Equities, diversified growth and hedge funds	1,609	3,919	7,700	11,900
Gilts / LDI funds	33,816	46,200	18,100	24,000
Bonds	-	-	8,600	13,000
Direct lending	-	-	5,200	4,800
Index-linked Gilts	-	-	-	400
Property	-	-	3,600	5,300
Cash	3,118	3,753	600	800
Asset not recognised	-	-	(5,200)	(8,100)
	38,543	53,872	38,600	52,100

Liabilities	Scottish Plan £'000		Milk Fund £'000	
	2023	2022	2023	2022
Opening	(51,593)	(62,565)	(52,100)	(63,700)
Interest cost	(1,408)	(1,292)	(1,400)	(1,300)
Benefits paid	2,634	2,055	2,600	2,500
Actuarial gains / (losses)	12,748	10,209	12,300	10,400
Closing	(37,619)	(51,593)	(38,600)	(52,100)

23. Pension schemes (continued)

	Scottish Plan £'000		Milk Fund £'000	
	2023	2022	2023	2022
Total market value of assets	38,543	53,872	38,600	52,100
Present value of scheme liabilities	(37,619)	(51,593)	(38,600)	(52,100)
Surplus in the scheme	924	2,279	-	-
Related deferred tax (liability) / asset	(231)	(570)	-	-
Net pension asset / (liability)	693	1,709	-	-

Assets	Scottish Plan £'000		Milk Fund £'000	
	2023	2022	2023	2022
Opening	53,872	54,910	52,100	62,842
Expected return on scheme assets	1,193	741	1,400	(1,200)
Actuarial (losses) / gains	(16,388)	(2,580)	(15,336)	826
Change in effect of the asset ceiling	-	-	2,900	(8,100)
Benefits paid	(2,634)	(2,055)	(2,600)	(2,500)
Employer contributions	2,500	2,856	136	232
Closing	38,543	53,872	38,600	52,100

Cumulative actuarial gains and losses recognised in the statements of other comprehensive income ("SOCI") are:

	2023		2022		2021	
	Scottish Plan £'000	Milk Fund £'000	Scottish Plan £'000	Milk Fund £'000	Scottish Plan £'000	Milk Fund £'000
Opening cumulative SOCI:	(11,846)	(8,575)	(19,475)	(17,401)	(11,565)	(15,571)
Actuarial (losses) / gains	(3,640)	(3,036)	7,629	8,826	(7,910)	(1,830)
Closing cumulative SOCI	(15,486)	(11,611)	(11,846)	(8,575)	(19,475)	(17,401)

23. Pension schemes (continued)

Analysis of movement in the scheme deficit during the year:	2023 Scottish Plan £'000	2023 Milk Fund £'000	2022 Scottish Plan £'000	2022 Milk Fund £'000
Past service cost	-	-	-	-
Total included within operating surplus	-	-	-	-
Contributions	2,500	136	2,856	232
Amounts included as other finance income:				
Expected return on pension scheme assets	1,193	1,400	741	1,200
Interest cost on pension scheme liabilities	(1,408)	(1,400)	(1,292)	(1,300)
Net finance cost	(215)	-	(551)	(100)
Analysis of the actuarial gains and losses in the statement of comprehensive income:				
Actual return less expected return on pension scheme assets				
Amount	(16,388)	(15,336)	(2,580)	826
Percentage of scheme assets	(4)%	(40)%	(5)%	1%
Experience gains and losses arising on the scheme liabilities				
Amount	(405)	(1,500)	3,530	(400)
Percentage of present value of scheme liabilities	1%	4%	(7)%	1%
Changes in financial assumptions underlying the scheme liabilities				
Amount	13,153	13,800	6,679	8,400
Percentage of present value of scheme liabilities	35%	36%	13%	16%
Total actuarial gains and (losses) recognised in the statement of comprehensive income	(3,640)	(3,036)	7,629	8,826
Surplus / (deficit) at 1 April 2022	2,279	-	(7,655)	(858)
Movement in year:				
Employer contributions	2,500	136	2,856	232
Unrecognised asset	-	2,900	-	(8,100)
Net finance cost (note 8)	(215)	-	(551)	(100)
Actuarial (loss) / gain	(3,640)	(3,036)	7,629	8,826
Surplus at 31 March 2023	924	-	2,279	-

Despite a decline in our pension liabilities during the year we maintain a small pension asset in relation to the Scottish Milk fund. We do not have rights to any surpluses within the Milk Pension Fund and no surplus has been recognised for this fund.

24. Related party transactions

During the year, the directors supplied raw milk from their farms to the Group and the Society at normal commercial rates totalling £5,566k (2022: £3,759k). The outstanding balance owing to the directors at 31 March 2023 was £502k (2022: £346k).

During the year the Group made payments to its two related pension funds of £2.6m (2022: £3.1m). For a breakdown of these amounts between the pension funds see note 23.

Amounts due to members at 31 March 2023 and 31 March 2022 for the purchase of milk are disclosed in note 15.

25. Capital and other financial commitments

	2023		2022	
	Group £'000	Society £'000	Group £'000	Society £'000
Contracts placed for future capital expenditure not provided in the financial statements	2,936	-	4,437	-

Capital commitments include investment at the Haverfordwest Creamery in the salting conveyer and at the Lake District Creamery in the milk silo manifold system and the store roof.

26. Ultimate controlling body

First Milk Limited is a dairy farmers' co-operative registered under the Co-operative and Community Benefit Societies Act 2014. As such, the Society is controlled by its members.

27. Post balance sheet events

On 20 April 2023, the member premium payment of 0.5ppl for all litres consigned in the year to 31 March 2023 for fully paid-up members was paid. The average payment per member was over £5,200.

On 25 May 2023, the board resolved to appoint Scott Calderwood as a non-executive director of First Milk Limited with effect from 30 October 2023, in place of Robert Craig, who is due to retire from the board, having served the maximum two three-year terms.