first milk

'the farmers' business'

ANNUAL REPORT AND
FINANCIAL STATEMENTS
2020/2021

FIRST MILK LIMITED
ANNUAL RESULTS
YEAR ENDED 31 MARCH 2021

EXECUTIVE SUMMARY

Review of the year 2021

During the last year we have continued to make progress in strengthening and growing the business and I am pleased to report a good financial performance in line with expectations for the year ended 31 March 2021.

Financial highlights

• Group turnover	£299.5m	(2020: £282.8m)
• Operating profit (before exceptional items)	£8.1m	(2020: £7.5m)
• Net profit for the year	£5.6m	(2020: £4.5m)
• Net bank borrowings	£33.0m	(2020: £33.1m)
• Capital investment across all our sites	£7.8m	(2020: £5.3m)
• Total group capital and reserves	£38.1m	(2020: £39.8m)

Chairman's statement
Chris Thomas

Introduction
Despite the global pandemic that has impacted us all over the last year, I'm pleased to report that in the year ending March 31, 2021 First Milk has continued to perform in line with expectations, delivering solid progress for our members.

Our planned capital investment programme has continued, enabling us to secure operational capability and drive productivity and capacity, and we have continued to strengthen our commercial partnerships, supporting our customers through a time of rapidly changing consumer demand.

Governance
Our 2020 AGM saw the reappointment of Carl Ravenhall as non-executive director and myself as non-executive chairman. First Milk's rules require that all directors retire by rotation. As notified in last year's Annual Report, our longstanding farmer director and vice-chairman, Jim Baird, retired from the Board at the AGM and I would once again take the opportunity to thank Jim for his huge contribution to the business over many years. The AGM saw the appointment of Mike Smith as a new farmer-director, as well as the appointment of existing farmer director, Robert Craig, to the position of Vice-Chairman.

Post year end, Robert was required to stand for re-election by rotation and was unopposed, so has been re-appointed as a farmer director for a further term of two years, subject to ratification by members at the AGM. Robert will also continue to serve as vice-chairman.

In addition, Carl Ravenhall is coming to the end of his three terms as a non-executive director, and will retire from the board on 31 October. I would like to thank Carl for all his hard work and input into First Milk over many years and wish him all the best for the future. Carl's retirement creates a vacancy on the board for a non-executive director and, and I am pleased to report that we have appointed Michael Fletcher. Michael will take office on 1 November and accordingly his appointment will be subject to ratification at the 2022 AGM.

During the period, we also held contested Member Council elections. A vacancy arose on the Member Council due to Mike Smith becoming a farmer director and moving on to the Board. In addition, three Council positions became vacant by rotation, with Willie Campbell, Jessica Mills and Christine Kelsall all seeking re-election. After the election, we were pleased to welcome Willie, Jessica and Christine back to Council, along with Alan Trainer, a member from Lanarkshire. I would like to welcome Alan to the Council and look forward to working with him and all the Council members, as they continue to represent member views as an integral part of the governance of the co-operative.

Our ability to meet with members has been hampered in the last twelve months as a result of the COVID-19 restrictions, but the Member Council and Executive have continued to hold member meetings virtually to maintain member involvement and engagement, and these meetings have been well attended. We look forward to returning to face-to-face meetings as circumstances allow.

Outlook
The COVID-19 crisis has impacted on all elements of society and has accelerated some of the change that we were already seeing in food markets in terms of consumer expectations around sustainability and transparency.

With the evolution of our First4Milk sustainability programme, as well as our ongoing investment in capacity and productivity, First Milk remains well placed to serve our customer partners, as we work together to deliver dairy prosperity.

Undoubtedly, we face the same global challenges as all other organisations, but as we work together to adapt and decarbonise our supply chain, leveraging our co-operative values and exploring new opportunities, I am confident that we will continue to deliver value for our members.

I would like to take this opportunity to thank our members, Council, colleagues and the Board for their commitment and drive during the last year and look forward to continuing to work together.

CEO statement
Shelagh Hancock

A year dominated by COVID-19

The last twelve months has seen a set of circumstances unlike any that we could have imagined, as we have all had to adjust to the impact of living through a global pandemic. On top of this, we have also had the ongoing saga of Brexit, with uncertainty about our future trading relationship with the EU that continued right up until the 31 December deadline.

Like many businesses, our priority over the last year has been to keep our colleagues and members safe whilst maintaining our operational continuity. It has been a year of challenge - changing our working practices to adopt social distancing and regular sanitisation - whilst adapting to rapid shifts in consumer demand as a result of widespread lockdowns.

I would like to start by recognising the hard work and dedication of every single person working in First Milk and on First Milk members' farms during these unprecedented times. The combined effort of all staff and members has seen us deliver our business plan, continue to drive productivity improvements and deliver our capital plans, all whilst maintaining and enhancing our customer relationships, despite the challenges we've all faced. This would simply not have been possible without the commitment of our key workers and members, as well as the support from our suppliers, contractors and hauliers.

As part of our focus on colleague safety and wellbeing during the pandemic, we have introduced some new initiatives around mental health, including having mental health first aiders across the business, and launching a programme with the charity, Mates in Mind, to raise awareness and promote positive mental wellbeing. We have also continued our fundraising activity, this year supporting the Mental Health Foundation in their invaluable work during the pandemic.

The pandemic has also prompted us to review our working practices. To protect staff, we were obliged to close our main office during the first lockdown last year, with staff in head office functions moving to working from home. Using technology, we were able to work effectively throughout the period, and this stimulated a review of working practices that resulted in us announcing the downsizing of the office in Paisley, with our head office functions now permanently working remotely. We maintain a small administrative hub, which remains our registered office, but this development has helped us streamline central overheads, lowering costs and reducing environmental impact by reducing commuting. It has also delivered more flexible working practices for our colleagues.

Growth and investment

As you'd expect, our focus has remained on delivering for our commercial partners during the period and we have seen growth from many customers as a direct result of the COVID-19 pandemic. The various lockdowns during 2020 resulted in consumption moving into the home and away from foodservice sectors. This benefited retail sales, with strong volume growth in cheese of 15.4%, backed up by value growth of 1.0% in the 52 weeks ending 24 January 2021 (Source AHDB). This led to increased demand for cheddar from our largest customer, Ornua Foods, who supply the UK retail sector.

This growth has not been limited to the domestic market. Despite the uncertainty around trade with the EU in the early part of the year, and the additional administrative burden of exporting in the latter part, combined with the disruption to international trade during the COVID-19 pandemic, we have continued to grow our export cheese volumes, with sales continuing to more than 26 countries across the globe.

We also saw volume growth in our raw milk sales, with Nestlé benefitting from increased in-home demand of their chocolate and beverage products, as well as McQueen's Dairy benefitting from a surge in demand for doorstep deliveries. Due to our customer mix, we were not affected significantly from the drop off in foodservice demand, so we have been able to deliver growth through the year, even in these unusual circumstances.

But, whilst our focus has inevitably been on managing the short-term impact of the pandemic, our attention has also remained on the future, as we work to build long-term resilience for the benefit of our farmer member owners.

Our goal remains to deliver stability and maximise returns to our members for the long-term. Our capital investment plans have continued, with the completion of investment in a new rapid chill store and improvements to milk processing facilities at our Lake District Creamery, as well as a combined heat and power plant at Haverfordwest. At the end of the period, we also announced a further £14.4m capital investment in the coming year, taking our investment in operational efficiency and capacity to £30m since 2018. Overall, this programme of capital work will deliver capacity increases of around 20%, taking the capacity of our sites to around 40,000 tonnes each. It will also deliver operational stability, whilst improving efficiency and environmental footprint.

CEO statement (continued)

Growth and investment (continued)

In addition, at the start of the year, we completed the acquisition of the Lake District Biogas business. This operates an anaerobic digester on a site adjacent to our Lake District Creamery, supplying biogas to the national grid, as well as managing our effluent facilities and utilising whey permeate from the creamery as the feedstock for biogas production. This acquisition was important to ensure operational continuity at the Lake District Creamery site, securing our effluent treatment and providing the opportunity to leverage the closed-loop production of energy from renewable sources to help us drive the decarbonisation of cheese processing in the Lake District.

Alongside this continued investment in facilities, we have also been investing in developing our people capability. We have strengthened our people resource and have put in place a clear focus on learning and development, whilst also focusing on embedding a culture throughout the business that empowers people to drive success.

A leader in dairy sustainability

We have also been concentrating on delivering value for our customers by ensuring we provide what matters to them - from product quality to customer service and sourcing standards .

To this end, we have been developing our First4Milk programme to ensure we become a leader in dairy sustainability. Consumers are increasingly interested in where their food comes from, how it is produced, and its environmental impact. Research we commissioned from YouGov showed that 76% of UK adults are concerned about climate change, with almost one-third (29%) taking environmental factors into account when choosing food. Of particular relevance to First Milk is that 33% of UK adults think that dairy farming and the production of dairy foods significantly contributes to climate change, with almost two-thirds (63%) saying they are concerned about the welfare of dairy cows in the UK, and 78% most preferring to buy milk and dairy products guaranteed to come from cows that have access to pasture/ the outdoors. This reinforces the importance of these areas in the future and strengthens our commitment to sustainability.

That's why it has been so heartening to see 93% of our members sign up to our First4Milk Pledge, guaranteeing cows access to pasture for a minimum of 120 days a year, whilst committing members to antibiotic stewardship and no needless on-farm euthanasia, and I would like to thank all members who have signed up for their commitment to the Pledge, which gives us a fantastic foundation for the future.

We know that we live in a time of change, something that the COVID-19 pandemic has only accelerated. We face global challenges and a climate emergency. Consumers realise that rapid change is needed and are increasingly turning to companies to be the leading force of change on environmental and ethical issues. But companies can't achieve change on the scale that's required by working alone - the challenges we face are too big and the supply chains we are part of are too complex. That's why we need to lead in this area, to strengthen our partnerships with customers and work together to deliver commercial success in a new era of conscious consumption and supply chain transparency.

As part of this, we are openly sharing our sustainability journey, and you can see our latest progress in this area in the sustainability section of this report.

Delivering stability and progress for members

Each year we undertake a member survey to ensure that we understand member perceptions about their co-operative and the wider industry. It is great to see that more than 90% of our members are satisfied with First Milk's performance and the milk price and believe that First Milk provides long-term security for their farming business. But we do not rest, as we know that we need to do more.

The restrictions of the last year have meant that we have been unable to hold our normal member meeting roadshows or farmhouse meetings, but we have adapted to the situation to deliver these virtually, with excellent attendance and engagement from members.

Except for our net pension liability, we continue to strengthen our balance sheet and saw active share trading on the Asset Match trading platform, with nearly 2.9m shares traded in the year. We have also continued to deliver stability in milk price despite the volatile marketplace. Over the last year, we have further evolved our milk payment schedules to reflect member feedback, with all members being paid on a manufacturing contract from April 1, 2021 to ensure that the value of milk constituents is properly rewarded. Over the last year, our member milk price has increased by 1.5ppl including the 0.25ppl increase to the Member Premium, which resulted in a £3.2m pay-out to members in April 2021.

Our membership also continues to grow, with almost 60m litres of additional milk coming into full membership over the last twelve months, either from strategic recruitment or a transfer from direct supply, as well as year-on-year growth from our core membership.

CEO statement (continued)

Looking forward…

Despite the challenges of the last year, we have delivered promising progress in line with our plans and our vision remains clear - we are working together to deliver dairy prosperity.

First Milk is well-placed to deliver this vision, as we explore opportunities that leverage our strengths and add mutual value. Our capital investment programme continues, as outlined above, with significant spend at our Lake District Creamery in the coming twelve months, which will transform operational efficiency and capacity, whilst further improving product quality. Ongoing investment at our Haverfordwest Creamery, as well as at Lake District Biogas, will further enhance operational performance at these sites, future-proofing our operational capabilities.

At the end of the year, we also announced significant developments to our First4Milk programme, which see us commit to achieving net zero by 2040 at the latest, as well as the launch of an ambitious regenerative agriculture programme. Our aim is to regenerate the earth every day, to enrich life and nourish future generations. We are confident that through the adoption of regenerative principles, and with the prevalence of grazing in our milk pool, members can be part of the climate solution, rather than part of the problem. Soil carbon capture - sequestration - is something that has been talked about for some time but there is a lack of robust data on the sequestration potential on commercial UK dairy farms. That's why our world-leading project with Agricarbon to accurately measure soil carbon is so important, as it will enable us to prove the positive benefits of regenerative agriculture as we work together to decarbonise dairy.

But as well as being the right thing to do, taking our environmental responsibilities seriously is also a commercial imperative. Consumer attitudes are changing, and dairy is in the spotlight around concerns over environmental footprint and animal welfare. As such, we must adapt to enable consumers to continue to enjoy the great taste and nutrition of dairy, without any associated climate or animal welfare concerns.

We are not out of the woods with the COVID-19 pandemic either, despite the promising progress with the vaccination programme across the UK, so we must remain vigilant, protecting our colleagues and members and maintaining business continuity to ensure that we deliver our ambitious plans for the future.

As already stated, we would not have made the progress we have to date without the continued commitment and hard work of all First Milk colleagues, who have continued to deliver for our members despite the challenges of the last year, and I would like to extend my grateful thanks to them all.

I'd like to end by thanking my Board colleagues, our Member Council representatives, Executive team and, most of all, our members, for all their support and I look forward to continuing to work together to deliver dairy prosperity.

Sustainability report

The COVID-19 pandemic has dominated the last twelve months but, if anything, it has brought the future forward in terms of society's focus on sustainability, particularly around the environment and climate change.

We have continued to make good progress on our existing First4Milk sustainability commitments, as outlined in this report. In particular, our First4Milk Pledge, which was launched at the end of our previous financial year, has progressed well, with 93% of our members voluntarily signing the Pledge and committing to providing their cows with 120 days access to pasture each year for a minimum of 6 hours a day during the grazing season, as well as committing to sharing health and welfare data, further improving antibiotic stewardship, and guaranteeing that no healthy animal will ever be needlessly euthanised on farm.

But whilst we have made good progress on our sustainability initiatives to date, we believe we need to go further, faster. Dairy farming and food manufacturing are seen as carbon-intensive activities, and we know that this is coming under increasing scrutiny. As a result, at the end of the year, we announced ambitious new commitments, with a pledge to deliver net zero by 2040 at the latest.

These bold plans saw us set out our ambition to be a leader in dairy sustainability, driving the decarbonisation of our dairy supply chain from our members' farms through our logistics operations and processing.

These recent changes include:

- A commitment to net zero carbon emissions by 2040 at the latest, with a target to reduce carbon footprint at farm level by 50% 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% 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% by 2025.

These new commitments will see us build on our existing activity at our processing sites, which has seen us successfully drive down carbon emissions in recent years. Our major new focus will be on working with our members on the adoption of regenerative agricultural practices to enhance and quantify soil carbon sequestration.

This project has already started, with pioneering activity with our partner, Agricarbon, supported by Nestlé, to establish a comprehensive and scientifically-robust carbon baseline for First Milk farms. This initiative - the first of its kind in the world - uses state-of-the-art machinery designed for NASA to use on Mars to carry out intensive soil carbon analysis at a fraction of the usual cost. The project sees high intensity, field-by-field soil carbon stock quantified across 40 farms initially, with the intention to extend this to 100 farms by the end of 2022. We see this as critical to the successful delivery of our commitment to sequester 100,000t of CO_2 per annum by 2025.

To help inform the regenerative practices that our farmer members implement on their own farms, we'll be holding a series of regenerative agriculture workshops across the country during 2021, with support from the Farm Carbon Toolkit.

In this report, we've outlined our progress on our broad sustainability commitments as an update on last year's report. We have changed the way we are reporting carbon emissions so that moving forward we will transparently report our absolute emissions, expanded across Scope 1, 2 and where possible Scope 3, with explanatory notes. This will ensure full disclosure of our baseline emissions and total transparency about our progress towards net zero over the coming years. We have also signed up to the SME Climate Hub, which is recognised by the UK Government's Together for our Planet initiative, which provides an independent commitment to transparency in this area.

People – building social capital

Our initiatives around people have had to be delivered in a way that remained COVID-safe over the last twelve months, but whilst the implementation has been different, we continue to make good progress against our commitments.

Our Next Generation programme has continued to expand. In 2019, around 120 young people were taking part. Our Area Managers used the 2020 Farm Business Reviews as an opportunity to encourage further young people on our members' farms to get involved and we are pleased to report that we now have more than 200 members registered in the programme. Our target for 2025 is to have 20% of member businesses involved in some way by that point, and we are ahead of that target already.

Sustainability report (continued)

26 Next Generation participants are also part of the Nestlé supply group, and they submitted 42 vlogs about activity on their farms, which were shared throughout the First Milk and Nestlé businesses helping to drive awareness. They also engaged in 311 online chats through a WhatsApp chat group, with 22 attendees attending virtual First Milk meetings. During a year where circumstances have made it harder for young people to engage with others their own age across rural communities, this has been valuable.

In addition to our Next Generation programme, we have also launched a Women in Agriculture initiative. This has seen the development of five groups across the country over the last year. The groups involve 72 participants from 65 farms. Throughout 2020 they have taken part in 1,166 online chats, 51 vlogs and blogs and shared 103 photos/videos of their farms and families. Many have commented how much they have enjoyed engaging with other women who are integral to the running of dairy farms from around the country.

When it comes to our colleagues, we have accelerated our people agenda in the last year, expanding our Human Resources team. We have also worked on developing our culture, agreeing the behaviours that are expected to deliver that culture and launching these across the business. We have strengthened our focus on Learning and Development, and, although hampered by the restrictions arising from COVID-19, we delivered some dairy development training at our Haverfordwest Creamery, and Tamaki training at Lake District Creamery. We also have an individual at Haverfordwest who is now in year 2 of their Food and Drink Apprenticeship.

During the year we also implemented a 'lunch and learn' programme, providing an informal approach to learning about key topics for colleagues across the business.

Recognising the additional pressures that the last year has brought, we continued to celebrate success across the business with our Gold Star Award programme for colleagues.

To ensure colleagues could access additional support, we also launched an Employee Assistance Programme in partnership with BUPA to provide free, confidential support and counselling to employees and their families. We also agreed a 3-year partnership with Mates in Mind to raise awareness of mental health across the business, whilst promoting mental wellbeing. What's more, thirteen of our colleagues are now accredited Mental Health First Aiders, and our Head Office functions have all completed mental health awareness training. We have also conducted two colleague wellbeing surveys during the year.

Clearly, a major part of our people agenda is the health and safety of our colleagues. During the year, we improved on our already good performance, reducing accidents at our sites by a further 33%, whilst delivering a 9% increase in cheese volume produced. The COVID-19 pandemic added considerable pressure on health and safety at work, particularly with additional contractors on site as a result of our capital works, yet this has been managed well, with very low infection and absence rates across the business.

One of our People commitments is about being a good neighbour and raising funds for charity. Because of the importance of good Mental Health, our charity of the year was the Mental Health Foundation, and we launched a specific initiative to raise funds for this worthwhile cause. With large group activities curtailed due to COVID-19 we undertook the First Milk Distance Challenge, which saw around 100 individuals come together virtually over a two-week period to run, walk, cycle and swim an amazing 6,628 miles – the equivalent distance from First Milk's Glasgow office to the top of Mount Everest, via the Lake District and Haverfordwest Creameries. This was completed in just 11 days – three days ahead of schedule, with six of the team clocking up more than 200 miles each in that period. In addition, thirteen teams of five from Haverfordwest undertook a challenge to travel the distance from Haverfordwest to Glasgow – some 420 miles - in the quickest time, with two teams smashing it and completing it within two weeks. Overall, we raised more than £5,000 for the Mental Health Foundation in the year and have nominated them as our charity of the year for FY22 as well in recognition of the importance of mental health during the pandemic.

Animals – a life worth living

Animal health and welfare
Animal welfare remains an important consideration, with research commissioned by First Milk through YouGov in March 2021 showing that almost two-thirds of UK adults are concerned about the welfare of dairy cows in the UK, and 78% saying that they would most prefer to buy milk and dairy products guaranteed to come from cows that have access to pasture and the outdoors.

With that in mind, the fact that 93% of First Milk members have signed up to our First4Milk Pledge demonstrates our collective commitment to delivering high welfare dairy products. We believe that this number will continue to grow, as the benefits to First Milk are realised by more of our members.

Sustainability report (continued)

One of our commitments in this area is around the development of an automated health and welfare index. Our First4Milk app continues to be popular, with 438 members using the app and almost 600 accessing the information via our website. As well as accessing useful health and welfare and production data using this service, members are able to upload photographs and documents to demonstrate compliance with the First4Milk Pledge, with almost 1,000 uploads in the period.

In addition to the app, we are a project partner in a government-funded Innovate UK project along with Nestle, McQueens, SRUC and University of Strathclyde. This 18-month feasibility study looks to identify the best sensor technologies to deliver a verifiable automated health and welfare index on farm. The project mission statement is "Demonstrating to dairy customers and consumers that cows have a life worth living, by using the latest technology to independently monitor health and welfare". 26 farms are participating in the project, with sensors measuring positive welfare indicators such as rumination or lying time, and 16 of these farms are sharing data through the cloud. As part of this, we are actively engaging with three sensor companies - Afimilk, Icerobotics and Allflex - using a total of 8 different sensor technologies on participating farms. We are installing more than 500 leg tags and 410 collars on six member farms and will undertake Qualitative Behaviour Assessment (QBA) using an assessment of body language of cows as an overall indicator of welfare. This will provide a standardised welfare assessment that can be compared across farms, providing a link between assessments of cow behaviours (such as lying times and rumination times) recorded using different systems.

When it comes to the management of Johnes Disease, all of our members are now signed up to the National Johnes Management Action plan, tackling the disease in their herds with guidance from their vets.

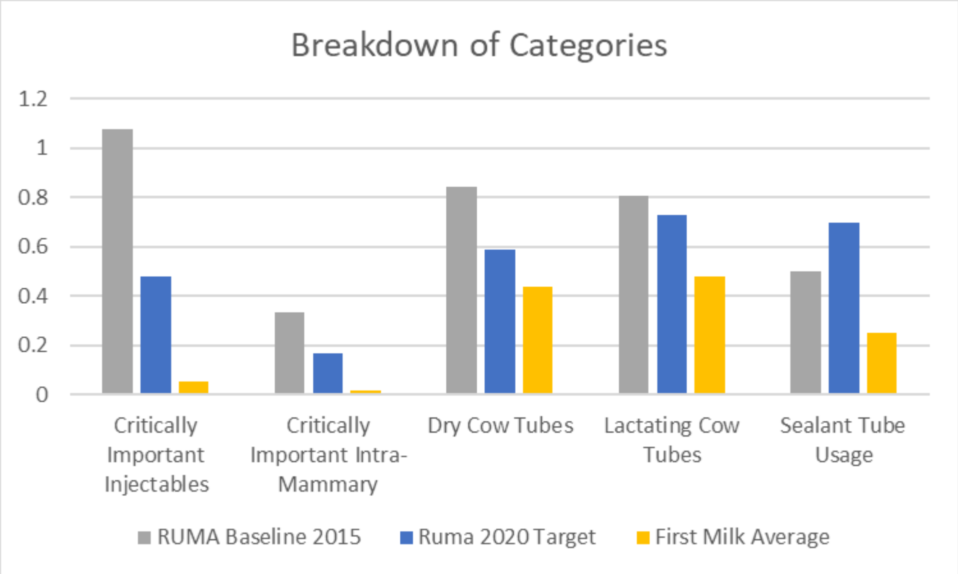
Farm business reviews
The team were unable to visit our members' farms for much of the period due to COVID-19 restrictions on travel. During last summer and autumn, however, when travel was allowed, the team completed 444 reviews, equating to 63% of member farms. During this period, we prioritised those farms who had not be visited recently, or any farms where issues needed to be resolved. The data collected from these FBRs has continued to inform business policy decisions and enable us to promote our members' business.

Antibiotic stewardship
We are committed to ensuring that antibiotics are used responsibly on members' farms. We launched our Antibiotic Stewardship programme in December 2019, and this was a significant development in our ability to monitor and report on antibiotic use within First Milk herds. The scheme is supported with funding from both Morrisons and Nestlé, with the scheme being operated on our behalf by Kingshay. It works by collating data of medicine purchase records via veterinary practices serving our members.

To the end of March 2021, 83% of First Milk members have participated in the programme and a summary of the analysed data is shown below:

Targets set by the Responsible Use of Medicines in Agriculture	RUMA 2020 Target	RUMA Baseline 2015	First Milk Average	First Milk top 25%
Critically Important Injectables	0.48	1.075	0.053	0.026
Critically Important Intra-Mammary	0.166	0.332	0.019	0.024
Dry Cow Tubes	0.586	0.842	0.439	0.353
Lactating Cow Tubes	0.727	0.808	0.481	0.308
Total Antimicrobial Usage	21.00	26.20	14.90	5.20

Sustainability report (continued)



As this shows, First Milk's average antimicrobial use is well below RUMA 2020 targets, with particularly low use of critically important antimicrobials.

Earth – protecting the planet

As already mentioned, we take our responsibilities for protecting and enhancing the environment very seriously and have extended our commitments in this area during the period.

Minimising CO_2e emissions
As part of our new commitment to achieve absolute net zero carbon equivalent emissions by 2040 at the latest, we have committed to reporting this data annually. In line with SECR requirements, we are reporting data 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.

As part of our commitment to transparency, we have signed up to the SME Climate Hub, and will be disclosing our progress towards our net zero 2040 target.

It has not been possible to include all Scope 3 emissions due to the availability of credible data, in particular in relation to cheese ingredients such as annatto, rennet and starter cultures. In addition, the emissions related to major capital projects in the period were not available. It is worth noting that the carbon impact from Lake District Biogas has been excluded this year as it was acquired during FY21 and we are not yet in a position to report verifiable data. However emissions data for LDB will be reported in future years.

In terms of an overall summary, our CO_2e emissions were made up as follows:

Emissions Sources	FY 21 (Tonnes)	%
Scope 1	16,980	1.9%
Scope 2	2,316	0.3%
Scope 3 (on-farm)	863,158	95.8%
Scope 3 (non-farm)	18,170	2.0%
Total CO2e Emissions	**900,624**	**100.0%**

An additional table containing further detail is available in the Strategic Report on page 7.

Overall, in FY21 our carbon intensity ratio was 0.03093 kg CO_2e per kg of milk. We intend to seek external assurance of carbon emissions in future years.

Sustainability report (continued)

As can be seen in the data, the majority of our carbon emissions fall into Scope 3 and come from on-farm emissions. As outlined in the introduction to the sustainability report, we have recently launched our plan to encourage every member to submit a regenerative farming action plan to us during 2021. At our online member meetings and follow-up farmhouse discussion groups we have been very encouraged by the level of member engagement. We know that healthy soils are the foundation to healthy life, and we are working with a number of partners to ensure our members have access to first class information and advice in this area.

As part of this, we have launched a project with Agricarbon to accurately determine soil carbon levels on First Milk farms. So far, this has focused on completing extensive soil sampling on 10 member farms. All stratification work and mapping is now complete, and sampling is also complete on 7 out of 10 farms. A roll out to a further 30 farms has been commissioned and will be carried out during 2021.

Whilst this will be a major focus area moving forward, we are, of course, also actively exploring and implementing ways to reduce emissions across our business operations, including at our processing sites and in our transport operations, as we race to zero emissions.

Reducing energy and water use and reducing waste to landfill
We have previously committed to targeting an annual 3% relative reduction in energy and water use at our processing sites, which combines into a 65% relative reduction in CO_2e, a 40% relative reduction in energy and a 30% relative reduction in water use by 2025 against 2008 baseline. Our CO_2e target has now been overtaken by our commitment to net zero by 2040, but we will continue reporting progress against our initial target until 2025.

A good energy performance in FY21 was assisted by increased utilisation of the sites and the result of key investments that have increased energy efficiency, including heat recovery equipment at Lake District Creamery, which has increased the energy efficiency of pasteurisation. During the year, we have also installed a new Rapid Chill Store at Lake District Creamery, although this was commissioned later in the year so has not shown an impact on energy use in this financial year. In addition, the start of the use of carbon desktop software at Lake District Creamery has helped highlight and harness energy monitoring and reduction targeting.

When it comes to CO_2e emissions, it should be noted that the figures below include Scope 1 and 2 emissions from the production sites at Haverfordwest and Lake District Creameries but excludes associated company cars and refrigerant losses. Any CO_2e conversion figures for electricity and gas have been backdated to 2008 to fully align with GOV.uk guidelines, whereas previously one constant conversion figure had been used. This does not change the energy use data from previous years but does alter the CO_2e calculated number for each year but ensures accuracy and consistency in our reporting.

Our food waste plan is on track although we lost some traction in the year, which will be addressed moving forward through an increased focus on this area.

Protecting watercourses
Our long-established nutrient offset programme around our Haverfordwest Creamery continues to deliver improvements in water quality in the local area. 33 farms continue to take part in this initiative and as a group they have achieved much greater potential savings in nutrient losses than the Creamery has actually discharged.

The tables below show the nitrates, phosphates and sediment discharged by the Creamery, as well as outlining the potential savings achieved on farm during 2020.

Discharge volume for period *1st December 2019 to 30th November 2020 (m^3)*	**Ammonium-N Discharge period** *1st December 2019 to 30th November 2020 (kg)*	**Phosphate Discharge** *for period 1st December 2019 to 30th November 2020 (kg)*	**Total Suspended Solids Discharge** *for period 1st December 2019 to 30th November 2020 (kg)*
486,566	48	343	1299

Farmscoper output for Farm group (33 farms)	Nitrate-N	Phosphorus	Solids
Potential farm reduction (kg)	30,241	1,245	152,644

Based on the ongoing success of this programme, we have recently launched a similar scheme with members around the Lake District Creamery. So far, 17 members have agreed to take part and their initial nutrient audits are ongoing, with 15 already completed.

Sustainability report (continued)

Enhancing the natural habitat
First Milk members in our Nestlé supply groups continue to undertake habitat improvement activity as part of our contribution to the delivery of the Nestlé UK Milk Plan. During 2020 this included new interventions that delivered:

- 10,521 metres of new hedge planting achieved.
- 805 metres of hedge laying.
- 947 metres of stone wall restoration.
- 8,419 metres of protecting vulnerable watercourses.
- 7,385 metres of protecting replanted hedgerows.
- 1,350 metres of fencing farm woodland.
- 1.6ha of new woodland planting (approx. 2,560 trees).

Recognising success
Unfortunately, during 2020 it has not been possible to complete our Responsible Farming Awards as judges were unable to visit the farms due to COVID-19 travel restrictions. All members on the shortlist for 2020 will be re-entered for the 2021 awards.

CFO report
Greg Jardine

In the year ended 31 March 2021 we continued to deliver stability in milk price while delivering strongly across the key financial metrics, growing turnover and operating profits, increasing our capital investment and maintaining bank borrowings at the same level as last year.

Financial highlights

	2021	2020
Group turnover	£299.5m	£282.8m
Operating profit (before exceptional items)	£8.1m	£7.5m
Net profit for the year	£5.6m	£4.5m
Net bank borrowings	£33.0m	£33.1m
Capital investment across all our sites	£7.8m	£5.3m
Total group capital and reserves	£38.1m	£39.8m

Turnover
Despite a global pandemic, sales for 2020-2021 increased by 6% to £300m through volume growth in all areas of the business. Sales of cheddar in the UK to our largest customer Ornua Foods, who supply the retail sector, benefited as a direct result of the COVID-19 pandemic and consumption moving into the home. We also continued to grow our export cheese volumes during a year where we saw uncertainty related to a trade agreement with the EU and additional administrative requirements after an agreement was in place. We saw some smaller fresh milk customers exposed to the foodservice sector reduce their volumes during the year, however, we saw our overall volume to fresh milk customers grow. Nestlé's chocolate and beverage products benefited from in-home demand while a surge in demand for doorstep deliveries benefited McQueen's Dairy.

Profitability
Our operating profit of £8.1m was consistent at 2.7% of turnover. Our strategic objective is to invest in our business for the future and deliver above market total returns to our farmer members, primarily through milk price. At the end of March 2021 our 12 month rolling averages Milk Price Index (MPI) which tracks our milk price against competitors stood at 103.5%. At the start of the year we acquired Lake District Biogas for a nominal sum. The business had been in administration and loss making, and while it has continued to be loss making since we acquired it the acquisition was key to ensure operational stability at the Lake District Creamery site as it manages our effluent and utilises whey by-products from the creamery as the raw material for biogas production. Further capital investment is planned for 2021-2022 to bring stability and improve financial performance. Sales volume growth, detailed above, along with strong operational efficiencies and a solid business performance ensured we continued to deliver our operating profit and provide stability in milk price. The improvement in net profit relative to operating profit year on year is due to higher exceptional costs, related to the closure of the Scottish creameries, in the prior year.

Exceptional items
In the year to 31 March 2021 we incurred, and have separately disclosed, three items considered to be non-recurring and exceptional in nature. The net charge (pre-tax) of these items was £65k.

The Board is of the opinion that the nature and materiality of these items makes it appropriate to classify these as 'exceptional' and this provides a more useful presentation of the underlying performance. This presentation is consistent with the way that financial performance is measured and reported to the Executive Team and to the Board and assists in providing a meaningful analysis of our operating profits.

Sale of Campbeltown and Arran Creameries (£0.6m credit, net of legal fees)
During the year we disposed of the sites of the former creameries at Campbeltown and Arran, both sites had been written down in a previous financial year.

Lake District Biogas Goodwill write-off (£0.3m charge)
The acquisition of the net liabilities of £0.3m in Lake District Biogas for a nominal sum created goodwill, however, as the business was loss making in the financial year we have made the decision to write this goodwill off in the financial year instead of carrying it on the balance sheet.

Guaranteed Minimum Pension benefits (£0.2m charge)
£0.2m charge relating to past service costs in respect of the equalisation of guaranteed minimum pension ("GMP") benefits. On 20 November 2020 there was a further High Court ruling which has provided clarification on the obligations of pension plan trustees to equalise past transfer values.

Member investment
Members contributed £0.5m to the business in the year to 31 March 2021 through the retention of 0.5 pence per litre until they reach their capital targets. The Asset Match share trading platform provides members with an alternative to the 0.5ppl retention and the opportunity to buy shares to reach their targets, throughout the year we continued to witness active share trading on the platform. In the year to March 2021, £0.3m of New Preference shares held by former members were cancelled as they were not sold within the three-year period following termination of membership. At the end of the year Member Capital stood at £76.7m compared to £76.5m the previous year.

CFO report (continued)

Capital investment
During the year, we increased our capital expenditure across the business with £7.8m invested (2020: £5.3m). At Haverfordwest we completed the combined heat and power plant turning gas into electricity used on site. At Lake District Creamery we installed a new energy efficient rapid chill store and palletiser and in the last quarter work commenced to milk processing improvements and replacement of cheese blockformers.

Our capital investment programme continues in 2021-22, £14.4m will be invested at Lake District Creamery, Haverfordwest and Lake District Biogas increasing production capacity, delivering operational stability, improving efficiencies and our environmental footprint.

Interest
On 6 April 2020 we renewed our long-term debt arrangement with Wells Fargo, extending the facility through to 31 July 2024 and increasing the maximum facility available from £62 million to £74 million. The amount available 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.

Net finance charges totalled £2.0m, with £1.6m paid to the Wells Fargo debt facility and £0.4m related to finance costs associated with the pension deficit.

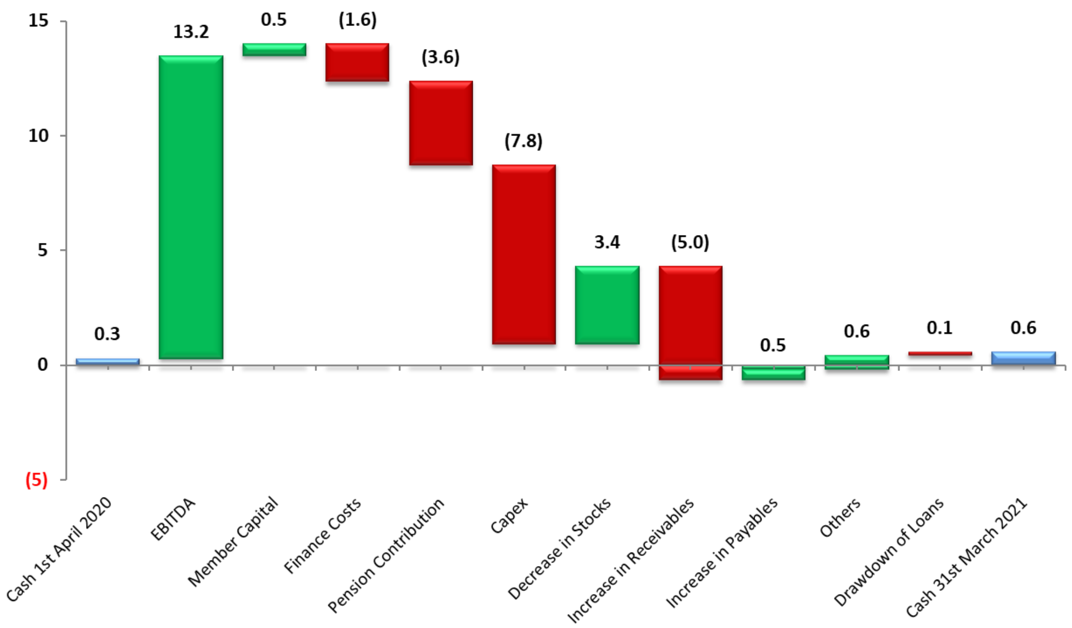
The constituent elements of the interest charged to the profit and loss account comprised:

	2021 Group	2020 Group
Bank loans, overdrafts and revolving facilities	£1.2m	£1.4m
Bank arrangement fees	£0.4m	£0.3m
Pension scheme net finance costs	£0.4m	£0.6m
Total Finance Costs	**£2.0m**	**£2.3m**

Balance sheet, cash flow and net debt

As a result of a £5.4m net increase in our pension liabilities (see below) our Group's balance sheet weakened slightly, with net assets falling by £1.8m to £38.1m. Excluding the change in pension liability we saw net assets increase by £3.6m through capital expenditure being ahead of depreciation and the continued profitable growth of the business.

Cash flow for year ended 31 March 2021



The cash earnings (EBITDA) within our operating profit of £13.2m, together with £0.5m from member capital proceeds, generated enough cash to allow us to service our various commitments. EBITDA in the above graph is defined as operating profit of £8.1m adding back non-cash depreciation of £4.8m charged to the profit and loss plus non-cash exceptional costs relating to the write off of LDB Goodwill and GMP pension equalisation costs and cash income relating to the sale of the Scottish creameries.

Cash was then required to make payments towards the pension deficit reduction agreements (£3.6m), invest at our creameries (£7.8m) and pay bank interest (£1.6m). The net inflow before working capital requirements was £0.6m.

CFO report (continued)

Working capital consumed £1.1m during the year, £4.5m consumed by receivables and payables was partially offset by £3.4m released due to lower stock levels with the remaining Scottish stocks sold out throughout the year. We only carry the necessary stock levels to fulfil committed future sales needs.

Our member premium was increased to 0.5ppl (from 0.25ppl) for all litres consigned in the year to 31 March 2021 for fully paid-up members and was paid out post year-end, on 20 April 2021, the average payment per member was just over £4,800.

Other income of £0.6m relates to the sale proceeds from the Scottish creameries.

Net Debt was maintained at the same level as last year at £33.0m.

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 2021 were £0.5m (2020: £0.5m).

In addition, First Milk Limited operates the Scottish Milk Limited Retirement Benefits Plan, and also 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 as a whole. Both schemes are closed to accrual of benefits.

In the year to 31 March 2021, total contributions of £2.4m, including contingent contributions relating to 2020 performance were paid to the Scottish Milk Limited Retirement Benefits Plan, while contributions of £1.3m were paid to the Milk Pension Fund.

During the year our total pension liabilities (net of deferred tax assets) increased from £1.5m to £6.9m. This was due primarily to the reversal of the benefit we experienced last year where a temporary increase in credit spreads, caused by market uncertainty stemming from the COVID-19 pandemic, resulted in the net deficit in the Scottish Scheme and the net surplus in the Milk Fund at 31 March 2020 being somewhat better than expected. The actuarial losses recognised in the year were £9.7m.

Annual Report
Year ended 31 March 2021

Contents	Page

OFFICERS AND PROFESSIONAL ADVISERS

Directors
Chris Thomas (chairman)
Robert Craig (vice chairman)
Mike Smith
Shelagh Hancock
Greg Jardine
Brian Mackie
Carl Ravenhall

Secretary
Angus Waugh

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G1 3BX

The directors of First Milk Limited ("First Milk", the "Society" or "Group") present their strategic report for the year ended 31 March 2021. 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 50 detail the trading results and financial position of the Group and Society which, in the year ending 31 March 2021, included The First Milk Cheese Company Limited, Scottish Milk Products Limited, Fast Forward FFW Limited, Lake District Biogas Limited and First Milk Energy Limited.

Key financial performance indicators

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

Financial KPIs	**2021**	**2020**
Group turnover	£299.5m	£282.8m
Operating profit (before exceptional items)	£8.1m	£7.5m
Profit for the year	£5.6m	£4.5m
Total capital and reserves	£38.1m	£39.8m
Net bank debt (external borrowings less cash)	£33.0m	£33.1m

Our operating profit of £8.1m was higher than last year and in line with our budget and expectations. Our strategic objective is to deliver long-term prosperity for members, primarily through milk price, whilst retaining sufficient profits to meet our business obligations and commitments. As well as increasing our operating profit the business performance has allowed us to provide stability in milk price and deliver above market total returns to our farmer members, measured by our 12 month rolling averages Milk Price Index (MPI) which tracks our milk price against competitors.

Net assets fell slightly to £38.1m however this reduction is primarily due to changes in pension valuation and the underlying position of the Group's balance sheet remains strong.

The Group's and Society's profit and loss accounts and balance sheets are shown on pages 20 and 21.

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 milk price relative to competitors and grow the value of the business, whilst meeting commitments to lenders.
- Positively develop customer relationships that continue to create value through growing our cheese and milk 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.
- Deliver value to members that builds First Milk's Member proposition.
- Enhance people's effectiveness throughout the business by building knowledge and understanding and developing skills and capability.

Review of the business – key events timeline

The COVID-19 lockdown that was implemented in March 2020 continued through most of the new financial year. As food producers, First Milk employees were categorised as key workers by the government. Office staff worked from home making use of video conferencing facilities for communication while sites continued to operate throughout the financial year with low COVID-19 related absence levels.

On 6 April 2020, First Milk renewed long-term debt arrangements with Wells Fargo Capital Finance (UK) Limited.

On 15 April 2020, First Milk disposed of the site of the former creamery at Campbeltown.

On 30 April 2020, First Milk, through its wholly owned subsidiary The First Milk Cheese Company Limited, purchased the entire share capital of Lake District Biogas Limited.

In April 2020, the first member premium payments were paid to members.

On 18 August 2020, First Milk disposed of the site of the former creamery at Arran.

On 6 August 2020, Robert Craig was appointed as vice-chairman of the Society.

Post balance sheet events

On 20 April 2021, the member premium payment of 0.5ppl for all litres consigned in the year to 31 March 2021 for fully paid-up members was paid, the average payment per member was just over £4,800.

On 27 May 2021, the Board resolved to appoint Michael Fletcher as a non-executive director of the Society with effect from 1 November 2021 when Carl Ravenhall retires from the Board.

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 and meeting 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. During the financial year most of these meetings took place through online video conferencing due to the COVID-19 related restrictions.

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 staff 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.

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.

Principal risks and uncertainties (continued)

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.

Brexit risk
The decision by the United Kingdom to leave the European Union created uncertainties about our future trading relationship with the EU right up until the 31 December deadline. Despite the uncertainty in the early part of the year, and the additional administrative burdens of exporting after the agreement, 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 (especially for 3rd party hauliers) and additional administration requirements to export products. The Board addresses these uncertainties by monitoring developments and government guidance and taking mitigating actions where appropriate.

COVID-19
The COVID-19 pandemic has created short-term and long-term risks. However, the financial year to 31 March 2021 has shown the pandemic did not have a material effect on First Milk's operational or financial performance. We maintained operational continuity throughout the year while ensuring our colleagues and members were safe and we continued to perform in line with expectations, delivering solid financial progress for our members,

The COVID-19 pandemic has accelerated some of the change that we were already seeing in food markets in terms of consumer expectations around sustainability and transparency. Our First4Milk sustainability programme, as well as our investment in capacity and productivity, mean First Milk remains well placed to serve our customer partners, as we work together to deliver dairy prosperity.

The long-term economic impact of the pandemic is not known. Undoubtedly, we face the same global challenges as all other organisations but the Board will address these risks by monitoring developments and will factor potential impacts into its decision making working together to adapt and decarbonise our supply chain, leveraging our co-operative values and exploring new opportunities to continue to deliver value for our members.

Energy and carbon reporting

Introduction, energy efficiency action undertaken and statement of intent

First4Milk – Regenerating the earth every day to enrich life and nourish future generations

We have an established sustainability programme, First4Milk, which incorporates our First4Milk Pledge. Under this programme we are already making a difference every day on a range of initiatives under three key themes – People, Animals, Earth.

When it comes to climate change, our existing targets around carbon emissions are already stretching. We've already committed to reducing relative CO_2e emissions by 65% by 2025 against a 2008 baseline, including a 40% relative reduction in energy use. We are making good progress against these targets.

But we know we need to do more.

Much is spoken about net zero 2050. But an emergency can't be addressed over the next 30 years – it needs more urgent action.

At First Milk we have the ambition to be the leader in dairy sustainability. And we are making some bold changes to our approach to deliver this.

Our farmer members already do much to enhance the natural capital on their farms, and we will build on this by becoming the champion for regenerative agriculture in dairy production, working with our members using climate-friendly farming practices to improve soil health, enhance biodiversity, improve water quality and enhance productivity whilst sequestering significant quantities of carbon in the soil.

Our aim is to sequester an additional 100,000 tonnes of carbon each year from 2021 by working together to create regenerative action plans for each of our members' farms. To give you an idea of the scale of this ambition, this would completely offset all our current carbon emissions from milk haulage and processing.

Energy and carbon reporting (continued)

But we won't stop there. We'll continue to drive down CO_2 emissions by increasing the efficiency of milk collection and processing, whilst helping our members reduce their reliance on imported feeds. We'll reduce waste, energy and water use and we'll promote the use of renewable or carbon-neutral energy sources. We'll go as far as we can, as quickly as we can, to play our part in addressing the climate emergency.

This is the shape of our journey towards net zero, with the ambition of becoming a zero-carbon business as soon as we can or at latest by 2040. This is a time for action and, as a co-operative business, we are committed to working together with industry partners, leading by example, to transform the environmental position of dairy, by treating climate change as the emergency that it undoubtedly is.

Prior to the year ended 31 March 2021, the group had already committed to targeting an annual 3% relative reduction in energy at our processing sites, which combines into a 65% relative reduction in CO_2e, a 40% relative reduction in energy and a 30% relative reduction in water use by 2025 against 2008 baseline. Performance against these targets in the year to 31 March 2021 was as follows:

Metric	Unit of measurement	Target Reduction Year on year	Actual Reduction	Target 2025	Actual FY21
Energy Efficiency	kWh per kg milk	3%	-2%	40%	31%
CO_2e	Kg CO_2e per kg Milk	3%	4%	65%	64%
Food waste	kg COD per kg Milk	3%	1%	40%	36%
Water Use	m^3 per kg Milk	3%	1%	30%	-12%
Waste to Landfill	% of cheese production	-	-	-	0.03%

Good energy efficiency and CO_2e performance were assisted by increased utilisation of both processing sites. The CO_2e conversion figures (for electricity and gas) have been restated to align with UK government statistics where previously a constant conversion figure was used. This does not change the quantity of energy used but does change the CO_2e figure each year. This restatement ensures consistency and reflects First Milk's increased use of cleaner fuels over time.

There was a slight reduction in water usage at sites but this remains greater than 2008 levels. This is due to increased capacity at the sites and the introduction of WPC (whey protein concentrate) manufacture in 2012. However water recovery across the sites is 30% higher than in 2008.

At the end of the year, the Group announced further pledges aimed at reducing carbon emissions. These pledges included:

- A commitment to net zero carbon emissions by 2040 at the latest, with a target to reduce carbon footprint at farm level by 50% 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% 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.

Where these pledges relate to activity within our organisational boundary, we will build on activity at our processing sites. Where they relate to activity on our members' farms, we will work in partnership with our members and will give them the tools to deliver them. We will also work with other partners in the delivery of these pledges. This includes a project with our partner, Agricarbon, supported by Nestlé, to establish a comprehensive and scientifically-robust carbon baseline for First Milk farms.

Underpinning all of this is the public commitment we have shown by signing up to the UN Race To Zero campaign.

Energy and carbon reporting (continued)

Organisational boundary

The group's organisational boundary has been set with reference to the Greenhouse Gas protocol. The following table lists the group entities that have been included in the above tables.

Entity name	Description	Ownership
First Milk Limited	Buys milk from First Milk members and other milk producers and sells milk to The First Milk Cheese Company Limited and third-party buyers	100% owned by 674 members
The First Milk Cheese Company Limited	Manufactures and sells cheese and other dairy products	100% owned by First Milk Limited
Fast Forward FFW Limited	Manufactures whey protein concentrate	100% owned by First Milk Limited

The Group includes Lake District Biogas Limited, a company that operates an anaerobic digestion plant and effluent treatment plant at the Lake District Creamery. Its emissions are not being reported for the year ended 31 March 2021 because the company was acquired during that year and First Milk is not yet in a position to report verifiable data. First Milk intends to include Lake District Biogas Limited in its energy and carbon reporting in future years.

Operational boundary

The Group's operational boundary defines the scope of direct and indirect emissions that fall within its above-noted organisational boundary.

The Group reports on Scope 1 and Scope 2 emissions, which fall within its organisational boundary. However it is recognised that upstream activities, including on-farm activities, are a consequence of our activities and form a vital element of our value chain. Only by reporting Scope 3 emissions do we provide a comprehensive picture of the greenhouse gas emissions in our value chain. Accordingly, the group has decided to report on Scope 3 emissions. These include:

- Gas and electricity transmission losses.
- Ingredients (salt).
- Packaging.
- Cleaning chemicals.
- Mains water.
- Waste to recycling.
- Employee commuting.
- Road freight.
- Leased assets.
- On-farm emissions relating to the production of milk.

Base year and reporting period

The First Milk Cheese Company Limited, a subsidiary of the Society, reported its Scope 1 and Scope 2 emissions for the years ended 31 March 2019 and 31 March 2020 in its Annual Report and Financial Statements for the year ended 31 March 2020. Accordingly the base year for reporting of these emissions is the year ending 31 March 2019.

Scope 3 emissions for the Group are being reported this year for the first time and so the base year for the reporting of these emissions is the year ending 31 March 2021.

The intensity ratio reported below for the year ending 31 March 2021 is much higher because it includes Scope 3 emissions for the first time.

As noted above, the emissions of Lake District Biogas Limited are not being reported for the year ended 31 March 2021 because the company was acquired during that year and First Milk is not yet able to report verifiable data. Accordingly, First Milk's intention is that the base year for reporting of emissions for Lake District Biogas Limited will be the year ending 31 March 2022.

Energy and carbon reporting (continued)

Greenhouse gas inventory summary

A summary of emissions data, in tonnes of CO_2e, for 2019, 2020 and 2021 is provided in the following table:

		FY19 *	FY20	FY21 **
Emissions of carbon dioxide equivalent from activities for which the company is responsible involving combustion of gas (Scope 1)	Tonnes CO_2e	15,677	14,189	16,980
Emissions of carbon dioxide equivalent from the purchase of electricity (Scope 2)	Tonnes CO_2e	7,094	6,968	2,316
Scope 3 (off-farm)	Tonnes CO_2e	-	-	18,170
Scope 3 (on-farm)	Tonnes CO_2e	-	-	863,158
Energy consumption used to calculate above emissions	kWh (UK)	93,994,320	98,911,762	98,603,145
Total GHG emissions				900,624
Intensity ratio	Total GHG emissions per kg milk	0.042	0.037	0.03

* Base year for reporting Scopes 1 and 2

** Base year for reporting Scope 3

Detailed emissions data for 2021 are set out in the following table:

	Tonnes CO2e
Emissions sources	**FY21**
Scope 1	
Natural gas	16,256
Company cars	700
Refrigerant gas	24
Scope 2	
Electricity	2,316
Scope 3	
On-farm emissions	863,158
Road freight (milk)	8,626
Electricity T&D and gas WTT losses	2,503
Road freight (out-bound products)	1,944
Process chemicals	1,746
Packaging	977
Haverfordwest ETP	888
Leased assets - cheese storage	608
Ingredients	403
Road freight (in-bound materials)	246
Mains water	150
Employee commuting	69
Waste disposal	10
Total CO2e emissions	**900,624**

Energy and carbon reporting (continued)

Methodologies and uncertainties

- Emission releasing activities are categorised into Scope 1, Scope 2 and Scope 3 as defined by the World Resources Institute / World Business Council for Sustainable Development.
- Scope 1 figures include fuel combustion and process emissions taking measurements in Kwh (of gas), then converting these values to CO_2e.
- Scope 2 figures include consumption of purchased electricity in Kwh, then converting these values to CO_2e.
- Scope 3 figures include emissions that are a consequence of the Group's actions but which occur at sources it does not own or control and are not classed as Scope 2 emissions.
- The intensity ratio is kg of CO_2e per kg of milk processed.
- As noted above, the emissions relating to Lake District Biogas Limited are not being reported for the year ended 31 March 2021 because the company was acquired during that year and First Milk is not yet in a position to report verifiable data.
- No emissions data is available for annatto, rennet and starter cultures (all cheese ingredients) or for major capital projects.
- The metric and measurements for Scope 1 and Scope 2 emissions and Scope 3 emissions relating to on-farm emissions, road freight (milk), electricity T&D and gas WTT losses, road freight (out-bound products), packaging, leased assets (cheese storage) and mains water are taken from DEFRA or from supplier data.
- The metric and/or conversion factor for the remaining Scope 3 items listed are either estimated or extrapolated. The data for on-farm emissions is extrapolated from an analysis of 75 farms, representing 13% of all milk purchased by weight.

As the Group develops its sustainability programme, we expect to improve our measurement of carbon emissions in the future. Where appropriate, we will restate emissions figures and we will explain why we are doing so.

Greenhouse gas inventory assurance
First Milk intends to seek external assurance of carbon emissions in future years.

Approved by the Directors
and signed by order of the Board

Angus Waugh

Angus Waugh
Company Secretary
30 June 2021

The directors present their report and the audited financial statements of First Milk Limited for the year ended 31 March 2021.

Business performance and future developments

The business performance and future developments of the Group are highlighted in the strategic report set out on page 2 and the executive summary.

Dividends

No dividends were paid during the year (2020: £nil) and no recommendation is made in respect of dividends or dividends to be paid (2020: £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 induction process for new employees, team briefings, newsletters, a company intranet and any other appropriate means of individual or collective consultation.

Disabled employees

It is the Board of Directors' policy to ensure that continuous employment is offered to employees who become temporarily or permanently disabled where it is practicable to do so within the scope of the business activities of the Group and Society.

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 2021 and up to the date of signing the financial statements were as follows:

Chris Thomas	-	non-executive director and chairman
Jim Baird	-	non-executive farmer director and vice-chairman (resigned on 6 August 2020)
Robert Craig	-	non-executive farmer director and vice-chairman (appointed as vice-chairman on 6 August 2020)
Mike Smith	-	non-executive farmer director (appointed on 6 August 2020)
Shelagh Hancock	-	executive director
Greg Jardine	-	executive director
Brian Mackie	-	non-executive director
Carl Ravenhall	-	non-executive director

The non-executive farmer directors' capital account balance and interests in the preference shares of the Society at 31 March 2021 and 31 March 2020 were:

	31 March 2021		31 March 2020	
	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	186,537	16,332

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 2021 are referred to in the key events timeline in the strategic report.

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.

Research and development activities

Research and development activities are detailed in the CEO statement at the front of this document.

Going concern

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

Current Trading and Borrowings

The year to 31 March 2021 saw a fifth consecutive profitable year at both the Operating Profit and Net Profit levels, and despite a global pandemic profits were delivered in line with plans. The Group's operating profit before exceptional items was £8.1m (2020: £7.5m). Net profit for the year was £5.6m, compared to a profit of £4.5m in 2020.

In the first quarter of the year to 31 March 2022 trading and operational performance continues to track in line with expectations. Last years' experience of COVID-19 has shown the pandemic did not have a material effect on First Milk's operational and financial performance and, while we had to ensure our colleagues and members were safe, we maintained operational continuity throughout the year. Lockdowns during 2020 resulted in consumption moving into the home and away from foodservice sectors. Our customer mix meant we did not suffer too much from the drop off in foodservice demand, and with retail cheese sales experiencing strong volume growth this led to increased demand for cheddar from our largest customer, Ornua Foods. Growth has not been limited to the domestic market as we have continued to grow our export cheese volumes, with sales continuing to more than 26 countries across the globe. Raw Milk sales also grew as Nestlé benefitted from in-home demand for their chocolate and beverages while McQueen's Dairy benefitted from a surge in demand for doorstep deliveries.

The Group's net bank debt was maintained at the same level as last year at £33.0m. Borrowings have increased since year-end, however, this is due to the normal seasonal flow of funds and net debt and facility headroom remains consistent 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 £0.5m.

On 6 April 2020 we renewed our long-term debt arrangement with Wells Fargo, extending the facility through to 31 July 2024 and increasing the maximum facility available from £62 million to £74 million. 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 30 June 2021 was £57.7m (31 March 2021: £52.8m). The term loan is based on fixed asset values and at 30 June 2021 was £7.5m (31 March 2021: £7.7m). The Board's forecasts show that there is adequate headroom within the facilities over the next year.

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, primarily through milk price, are maximised whilst also retaining sufficient profits to meet our business obligations and commitments;
- there is no material adverse impact in the bank facilities available to the Group as a result of the market value of stock falling, given this is a key feature in establishing the amount of borrowing facilities available to the Group, or other adverse working capital movements;
- key customer and supplier contracts continue as per their existing commercial arrangements over the contractually agreed periods; and
- COVID-19 continues not to have a material effect on First Milk's financial and operational performance.

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 projections and the existence of debt facilities available through to 31 July 2024, 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.

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 18 and 19.

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 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
30 June 2021

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 16 and 17.

Members

Members' powers include the power to:

- ratify (or vote not to ratify) the appointment of directors at the Annual General Meeting;
- remove a director at an Annual General meeting or a Special General Meeting (by a two-thirds majority);
- bring any matter for a member decision at a Special General Meeting that has the support of one-tenth of the membership;
- approve Rule changes that relate to key matters such as Board or Council governance and changes to the member capital structure;
- in groups of 10 or more members, bring matters of interest to the Council (members may still raise matters relating to their own individual situations with the Society); and
- approve acquisitions and disposals in excess of £25m.

The Council

The Council has a range of powers, including:

- holding the Board to account on behalf of members;
- recommending candidates for the roles of Board chair and vice-chair for election by members at the Annual General Meeting;
- approving the Nomination process for non-executive directors;
- removing directors from office;
- approving non-executive directors' remuneration;
- approving the annual budget and business plan for the Society;
- approving acquisitions and disposals (in the case of transactions with a value in excess of £25m, prior to approval by members);
- approving certain matters relating to member capital, such as the setting of capital targets;
- approving certain Rule changes; and
- making representations to the Board with regard to matters concerning members.

The Council comprises seven members who are elected directly by members of First Milk. 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. Members are informed of elections and are encouraged to consider standing for election to the Council in newsletters, member meetings and other communications. The election voting process is run by Civica, who facilitate an online voting platform. Members who have elected to continue to receive First Milk communications in hard copy receive paper voting forms. Civica provide independent verification of election results.

Mike Smith stepped down from his role as a Council member on his appointment to the Board in August 2020. In 2021, Willie Campbell, Christine Kelsall and Jess Mills retired. In a contested election between five candidates, Willie Campbell, Christine Kelsall and Jess Mills were re-elected and Alan Trainer was also elected as a Council member.

The Council is chaired by an independent chairman, Dr Séan Rickard, who does not have a vote. The Council members are: Scott Calderwood, Willie Campbell, Louise Davies, Jess Mills, Christine Kelsall, Alan Trainer and David Walker.

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.

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 particular, the Board is responsible for:

- determining the strategy of the Society (subject to its approval by the Council);
- making recommendations for strategic acquisitions and disposals (subject to approval by the Council and where appropriate, the members);
- overseeing the business of the Society in accordance with the strategy;
- motivating and retaining the executive management;
- holding the executive management to account;
- ensuring adequate succession planning;
- overseeing a risk and internal audit framework;
- setting the milk price paid to members;
- setting capital targets (subject to Council approval); and
- approving the business for the AGM.

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. Members are informed of farmer director vacancies and are encouraged to consider nominating themselves or other members in newsletters, member meetings and other communications.

Jim Baird reached the end of his third term of office in 2020. Accordingly in early 2020 a selection process took place. The process was overseen by a Nomination Committee set up for this purpose that comprised directors and Council members. Three candidates were nominated for the farmer director vacancy. They were assessed against set criteria and each candidate was interviewed by the Nomination Committee and by the Member Council. On a recommendation from the Nomination Committee and taking into account the views of the Council, the Board agreed to appoint Mike Smith as a farmer director with effect from the date of the 2020 Annual General Meeting. His appointment was ratified by members at the AGM on 6 August 2020.

Carl Ravenhall will reach the end of his third term of office in October 2021. In late 2020, a selection process took place. The process was overseen by the Nomination and Remuneration Committee and an external agency was engaged to identify potential candidates on the basis of agreed criteria and support the interview and selection process. In May 2021, on the recommendation of the Committee, the Board agreed to appoint Michael Fletcher as a non-executive director of the Society. His appointment will take effect on 1 November 2021 following Carl Ravenhall's retirement from the Board.

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

Director	**External Appointments**	
Chris Thomas	Street Eats Food Ltd G's Convenience Foods	Insepa A/S Denmark Tiffin Sandwiches Ltd
Robert Craig	Peepy Farm Ltd Royal Association of British Dairy Farmers (The)	Cairnhead Farm Limited Dairy UK Limited
Mike Smith	LAM Smith & Sons Ltd	Blue Flag Farming Limited
Shelagh Hancock	Dairy UK Limited*	
Brian Mackie	Scottish Milk Pension Fund Trustee* The Gipsy Hill Brewing Company Ltd	YPeople
Carl Ravenhall	CER Business Consultancy Limited	
	* denotes office held as nominated First Milk director/trustee	

Board (continued)
The Board has ten scheduled meetings each year and meets at other times as required. At each meeting, it receives reports which enable it to review the Group's performance. In addition to financial, commercial and operational information and regular reports on safety, health and environment, the Board considers strategic matters and other issues that affect members' interests.

During the year to 31 March 2021, most Board meetings were held via video conference due to the COVID-19 related restrictions.

The Board meetings (excluding conference calls between meetings) held in the year to 31 March 2021 and director attendance at each meeting was as follows:

	2020							2021		
	30/4	**28/5**	**25/6**	**5/8**	**24/9**	**29/10**	**26/11**	**28/1**	**24/2**	**26/3**
Chris Thomas	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
Robert Craig	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
Jim Baird	yes	yes	yes	yes	n/a	n/a	n/a	n/a	n/a	n/a
Mike Smith	n/a	n/a	n/a	n/a	yes	yes	yes	yes	yes	yes
Brian Mackie	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
Carl Ravenhall	yes	yes	yes	yes	yes	no	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

The implementation of strategy and day-to-day operational matters are delegated to First Milk's Executive Team, which operates under terms of reference set by the Board. However the matters for which the Board is responsible, as noted above, are reserved to the Board.

In order to be able to devote sufficient time to strategic issues, the Board delegates certain tasks to its standing committees, which operate under set terms of reference. Each committee comprises non-executive directors only.

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

Audit, Finance and Risk Committee
The Audit, Finance and Risk Committee is chaired by Brian Mackie and also comprises Robert Craig, Mike Smith and Carl Ravenhall.

The Committee's roles include overseeing the annual external audit, the annual internal audit plan, reviewing the effectiveness of internal controls and risk management and monitoring First Milk's budget process, ongoing forecasts of financial performance and capital requirements. A report on the activities of the Audit, Finance and Risk Committee can be found on page 16.

The committee meetings held in the year to 31 March 2021 and director attendance at each meeting was as follows:

	2020		
	28/5	**25/6**	**26/11**
Brian Mackie	yes	yes	yes
Jim Baird	yes	yes	n/a
Robert Craig	yes	yes	yes
Mike Smith	n/a	n/a	yes
Carl Ravenhall	n/a	n/a	yes

Mike Smith and Carl Ravenhall became members of the Committee in August 2020. In addition, Scott Calderwood attends Committee meetings as Member Council representative.

Nomination and Remuneration Committee
The Nomination and Remuneration Committee is chaired by Carl Ravenhall and also comprises Chris Thomas, Robert Craig and Mike Smith.

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 17.

The committee meetings held in the year to 31 March 2021 and director attendance at each meeting was as follows:

	2020	2021	
	5/11	**24/2**	**26/3**
Carl Ravenhall	yes	yes	yes
Chris Thomas	yes	yes	yes
Robert Craig	yes	yes	yes
Mike Smith	no	yes	yes

Board (continued)

Robert Craig and Mike Smith became members of the Committee in August 2020. In addition, Willie Campbell attends Committee meetings as Member Council representative.

Sustainability Committee

The Sustainability Committee's role is to review First Milk's compliance with legal requirements on health & safety, environment and employment matters and to review and approve First Milk's Health and Safety strategy.

Currently the Board fulfils the remit of the Committee.

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 Sustainability Director, 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.

Board and Council training and evaluation

First Milk's Rules provide that the Board and the chair of Council must ensure that a formal and rigorous evaluation of the Board and Council's performance takes place annually. This evaluation must include a review of working practices, information flows, the interaction between the Council and the Board and must make recommendations for developmental requirements that arise from the evaluation.

Individual performance and development reviews for the chairman and other Board directors took place in 2020. Similar reviews also took place for the Council chair and Council members in 2020.

A review and evaluation of the Board's and Council's effectiveness took place during July 2019. This included a review of how the Board and Council work together and as a result of the review changes were made to the Council meeting structure to ensure that there is more interaction between the Council and the chairman and the other two non-farmer non-executive directors. A follow-up review will take place in 2021.

Newly appointed directors and Council members go through a comprehensive and tailored induction process. The Board also receives periodic training as a group on areas such as health & safety and directors' legal duties.

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% 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 executive due to his additional roles of general counsel, administration of member capital and provision of secretariat support to the Executive Team.

For and on behalf of the Board

Angus Waugh

Angus Waugh
Secretary
30 June 2021

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 2020. 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. In 2020 this included the risks associated with the COVID-19 pandemic. 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. No third-party internal audit reviews have been instructed in the last three years.

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

Brian Mackie
Chairman of the Audit, Finance and Risk Committee
30 June 2021

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 First Milk's milk price relative to the published milk prices of other milk buyers.

These principles apply to executives across the Group.

Details of the remuneration of the Chief Executive Officer and Chief Financial Officer in the years to 31 March 2020 and 31 March 2021 can be found in note 5 to the financial statements.

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 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.

The Council reviewed non-executive directors' fees in August 2019 and approved changes to the fees paid to non-executive directors other than the chairman that took effect on 1 October that year. The Council reviewed the fees paid to the chairman in early 2021 and agreed the fee paid to him would increase from £90,000 per annum to £95,000 per annum.

Brian Mackie receives £10,000 per annum in respect of work he carries out on behalf of First Milk in relation to the Scottish Milk Limited Retirement Benefits Plan and the Milk Pension Fund in addition to his director's duties.

For and on behalf of the
Nomination and Remuneration Committee

Carl Ravenhall
Chairman of the Nomination and Remuneration Committee
30 June 2021

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 2021 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 account;
- the consolidated and society statement of comprehensive income;
- the consolidated and society balance sheet;
- the consolidated and society statement of changes in equity;
- the consolidated and society cash flow statement; and
- 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 the 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.

Report on the audit of the financial statements (continued)

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 about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory framework 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; 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.

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 2021 and April 2021 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.

Deloitte LLP

Deloitte LLP
Statutory Auditor, Glasgow
30 June 2021

Profit and loss accounts for the year ended 31 March 2021

	Note	2021 Group £'000	2021 Society £'000	2020 Group £'000	2020 Society £'000
Turnover - continuing operations	2	299,468	255,115	282,803	247,489
Less: share of joint ventures' turnover	12	-	-	(1,957)	-
Total turnover		299,468	255,115	280,846	247,489
Cost of sales		(283,167)	(244,747)	(264,186)	(236,909)
Gross profit		16,301	10,368	16,660	10,580
Administrative expenses					
- Recurring		(8,219)	(7,426)	(9,176)	(7,656)
- Exceptional items	3	65	(225)	(643)	(964)
		(8,154)	(7,651)	(9,819)	(8,620)
Operating profit					
- Continuing operations		8,147	2,717	6,841	1,960
Share of operating profit in joint ventures					
- Continuing operations	12	-	-	458	-
Profit before interest		8,147	2,717	7,299	1,960
Finance income	7	54	-	31	1
Finance costs	8	(2,003)	(624)	(2,316)	(1,621)
Profit before taxation		6,198	2,093	5,014	340
Tax on profit	9	(600)	(595)	(518)	(501)
Profit / (loss) for the financial year		5,598	1,498	4,496	(161)

Statements of comprehensive income for the year ended 31 March 2021

	Note	2021 Group £'000	2021 Society £'000	2020 Group £'000	2020 Society £'000
Profit / (loss) for the financial year:					
Group / Society		5,598	1,498	4,038	(161)
Associates and joint ventures		-	-	458	-
		5,598	1,498	4,496	(161)
Other comprehensive income:					
Actuarial (loss) / gain relating to the pension schemes	24	(9,740)	(9,740)	3,076	3,076
UK deferred tax attributable - current year		1,850	1,850	(274)	(274)
Other comprehensive income for the year net of tax		(7,890)	(7,890)	2,802	2,802
Total comprehensive (loss) / income for the year		(2,292)	(6,392)	7,298	2,641

Balance sheet as at 31 March 2021

	Note	2021		2020	
		Group £'000	Society £'000	Group £'000	Society £'000
Fixed Assets					
Intangible fixed assets	10	-	-	-	-
Property, plant and equipment	11	37,371	437	32,432	497
Investments in subsidiary undertakings	12	-	34,703	-	34,703
Total fixed assets		37,371	35,140	32,432	35,200
Current assets					
Inventories	14	46,835	107	50,230	158
Trade and other receivables	15	32,590	46,532	24,936	75,127
Cash and cash equivalents		570	154	290	160
		79,995	46,793	75,456	75,445
Trade and other payables amounts falling due within one year	16	(38,671)	(39,402)	(66,078)	(71,434)
Net current assets		41,324	7,391	9,378	4,011
Total assets less current liabilities		78,695	42,531	41,810	39,211
Trade and other payables amounts falling due after more than one year	17	(32,118)	(2,511)	(142)	-
Total net assets employed excluding pension liability		46,577	40,020	41,668	39,211
Pension liability	24	(8,513)	(8,513)	(1,833)	(1,833)
Net assets		38,064	31,507	39,835	37,378
Capital and reserves					
Called up share capital	22	76,699	76,699	76,483	76,483
Profit and loss reserve		(38,635)	(45,192)	(36,648)	(39,105)
Total capital and reserves		38,064	31,507	39,835	37,378

The financial statements on pages 20 to 50 were approved by the Board of Directors on 30 June 2021 and signed on its behalf by:

Shelagh Hancock

Shelagh Hancock – **Director**

Greg Jardine

Greg Jardine – **Director**

Angus Waugh

Angus Waugh – **Secretary**

Group statement of change in equity for the year ended 31 March 2021

	Note	Called up share capital £'000	Profit and loss reserve £'000	Total £'000
Balance as at 1 April 2019		76,133	(44,317)	31,816
Profit for the financial year		-	4,496	4,496
Other comprehensive income for the year:				
Actuarial gain relating to the pension schemes	24	-	3,076	3,076
UK deferred tax attributable to actuarial gain	9	-	(274)	(274)
Total comprehensive income for the year		-	7,298	7,298
Shares issued	22	721	-	721
Shares cancelled	22	(371)	371	-
Total transactions with owners recognised directly in capital		350	371	721
Balance as at 31 March 2020		**76,483**	**(36,648)**	**39,835**
Profit for the financial year		-	5,598	5,598
Other comprehensive income for the year:				
Actuarial loss relating to the pension schemes	24	-	(9,740)	(9,740)
UK deferred tax attributable to actuarial loss	9	-	1,850	1,850
Total comprehensive loss for the year		-	(2,292)	(2,292)
Shares issued	22	521	-	521
Shares cancelled	22	(305)	305	-
Total transactions with owners recognised directly in capital		216	305	521
Balance as at 31 March 2021		**76,699**	**(38,635)**	**38,064**

Society statement of changes in equity for the year ended 31 March 2021

	Note	Called up share capital £'000	Profit and loss reserve £'000	Total £'000
Balance as at 1 April 2019		76,133	(42,117)	34,016
Loss for the financial year		-	(161)	(161)
Other comprehensive income for the year:				
Actuarial gain relating to the pension schemes	24	-	3,076	3,076
UK deferred tax attributable to actuarial gain	9	-	(274)	(274)
Total comprehensive income for the year		-	2,641	2,641
Shares issued	22	721	-	721
Shares cancelled	22	(371)	371	-
Total transactions with owners recognised directly in capital		350	371	721
Balance as at 31 March 2020		**76,483**	**(39,105)**	**37,378**
Profit for the financial year		-	1,498	1,498
Other comprehensive income for the year:				
Actuarial loss relating to the pension schemes	24	-	(9,740)	(9,740)
UK deferred tax attributable to actuarial loss	9	-	1,850	1,850
Total comprehensive loss for the year		-	(6,392)	(6,392)
Shares issued	22	521	-	521
Shares cancelled	22	(305)	305	-
Total transactions with owners recognised directly in capital		216	305	521
Balance as at 31 March 2021		**76,699**	**(45,192)**	**31,507**

Statements of cash flows for the year ended 31 March 2021

	Note	2021 Group £'000	2021 Society £'000	2020 Group £'000	2020 Society £'000
Net cash inflow / (outflow) from operating activities	23	8,446	41,558	15,051	(40,733)
Taxation paid		-	-	(329)	-
Net cash generated from / (used in) operating activities		8,446	41,558	14,722	(40,733)
Cash flow from investing activities					
Finance income	7	54	-	31	1
Purchase of property, plant and equipment	11	(7,813)	(135)	(5,264)	(201)
Proceeds from sales of Creameries		655	-	-	-
Acquisition of Fast Forward FFW Ltd net of cash		-	-	(815)	(2,044)
Acquisition of Lake District Biogas Ltd net of cash		153	-	-	-
Repayment of grant		(194)	-	-	-
Net cash used in investing activities		(7,145)	(135)	(6,048)	(2,244)
Cash from financing activities					
Finance costs		(1,685)	(266)	(1,396)	(986)
Net proceeds from members	22	521	521	721	721
Increase / (repayment) of loans		143	(41,684)	(8,485)	42,849
Net cash (used in) / generated from financing activities		(1,021)	(41,429)	(9,160)	42,584
Net increase / (decrease) in cash and cash equivalents		280	(6)	(486)	(393)
Cash and cash equivalents at the beginning of the year		290	160	776	553
Cash and cash equivalents at the end of the year		570	154	290	160

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 Glasgow Airport Business Park, 9 Marchburn Drive, Paisley, PA3 2SJ.

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 2021 saw a fifth consecutive profitable year at both the Operating Profit and Net Profit levels, and despite a global pandemic profits were delivered in line with plans. The Group's operating profit before exceptional items was £8.1m (2020: £7.5m). Net profit for the year was £5.6m compared to a profit of £4.5m in 2020.

In the first quarter of the year to 31 March 2022 trading and operational performance continues to track in line with expectations. Last years' experience of COVID-19 has shown the pandemic did not have a material effect on First Milk's operational and financial performance and, while we had to ensure our colleagues and members were safe, we maintained operational continuity throughout the year. Lockdowns during 2020 resulted in consumption moving into the home and away from foodservice sectors. Our customer mix meant we did not suffer too much from the drop off in foodservice demand, and with retail cheese sales experiencing strong volume growth this led to increased demand for cheddar from our largest customer, Ornua Foods. Growth has not been limited to the domestic market as we have continued to grow our export cheese volumes, with sales continuing to more than 26 countries across the globe. Raw Milk sales also grew as Nestlé benefitted from in-home demand for their chocolate and beverages while McQueen's Dairy benefitted from a surge in demand for doorstep deliveries.

The Group's net bank debt was maintained at the same level as last year at £33.0m. Borrowings have increased since year-end, however, this is due to the normal seasonal flow of funds and net debt and facility headroom remains consistent 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 £0.5m.

On 6 April 2020 we renewed our long-term debt arrangement with Wells Fargo, extending the facility through to 31 July 2024 and increasing the maximum facility available from £62 million to £74 million. 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 30 June 2021 was £57.7m (31 March 2021: £52.8m). The term loan is based on fixed asset values and at 30 June 2021 was £7.5m (31 March 2021: £7.7m). 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, primarily through milk price, are maximised whilst also retaining sufficient profits to meet our business obligations and commitments;
- there is no material adverse impact in the bank facilities available to the Group as a result of the market value of stock falling, given this is a key feature in establishing the amount of borrowing facilities available to the Group, or other adverse working capital movements;
- key customer and supplier contracts continue as per their existing commercial arrangements over the contractually agreed periods; and
- COVID-19 continues not to have a material effect on First Milk's financial and operational performance.

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 projections and the existence of debt facilities available through to 31 July 2024, 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 2021.

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% 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.

A jointly controlled entity is a joint venture that involves the establishment of a corporation, partnership or other entity in which each venture has an interest. The entity operates in the same way as other entities, except that a contractual arrangement between the ventures establishes joint control over the economic activity of the entity.

In the consolidated financial statements, shares in joint ventures are accounted for using the equity method. The consolidated income statement includes the Group's share of the pre-tax profits or losses and attributable taxation of the joint venture based on the latest available financial statements for these undertakings.

The Group's share of the net assets of these undertakings is shown in the consolidated balance sheet. The Group's share of joint venture revenue is included in total revenue in the income statement.

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 and lifestyle nutritional 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 liability recognised in the balance sheet in respect of each defined benefit plan is the present value of the defined benefit obligation at the end of the reporting date less the fair value of the plan assets at the reporting date.

1. Accounting policies (continued)

Employee benefits (continued)

iii) Defined benefit pension plans (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.

1. Accounting policies (continued)

Business combinations and goodwill (continued)

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.

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 'Other operating (losses)/gains'.

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.

ii) Investment in joint venture entities

Investment in joint venture entity 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.

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.

1. Accounting policies (continued)

Financial instruments (continued)

i) Financial assets (continued)

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 and key source of estimation uncertainty

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. There were no critical judgements or key sources of estimation uncertainty made by the directors in applying the company's accounting policies in the current year.

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 £2.8m (2020: £3.3m) relating to services supplied during the year.

The majority of turnover is to the UK with £50.0m (2020: £44.5m) being to Continental Europe. Sales to the rest of the world were £nil (2020: £0.01m).

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

Total exceptional income of £65k in the Group profit and loss account for 2021 comprise income net of professional fees of £614k in relation to the sale of the Scottish Creameries, net income of £34k relating to the write off of subsidiary intercompany balances, expense of £225k relating to past service costs in respect of the equalisation of guaranteed minimum pension ("GMP") benefits and £358k in relation to goodwill written off on the purchase of Lake District Biogas Limited.

Total exceptional costs of £643k in the Group profit and loss account for 2020 comprise professional fees of £390k in relation to the potential sale of the Scottish Creameries, income of £212k relating to a historical rent claim and compensation and £465k in relation to payroll and redundancy costs.

Total exceptional costs of £225k in the Society profit and loss account for 2021 comprise past service costs in respect of the equalisation of GMP benefits .

The exceptional costs of £964k in the Society profit and loss account for 2020 comprise professional fees of £301k in relation to the potential sale of the Scottish Creameries, income of £212k relating to a historical rent claim and compensation and £875k non-cash entry for the strike off of Scottish Milk Dairies Limited (£357k), Kingdom Cheese Company Ltd (£5k), KCSUBCO 1 Limited (£508k) and Kingdom 99 (£5k).

4. Operating profit

	2021		2020	
	Group £'000	Society £'000	Group £'000	Society £'000
Operating profit is stated after charging / (crediting):				
Depreciation of property, plant and machinery (note 11)	4,812	195	4,401	119
Impairment of property, plant and machinery (note 11)	194	-	-	-
Loss on disposal of property, plant and equipment	118	-	-	-
Operating lease rentals	236	170	248	168
Auditor's remuneration:				
Audit Services:				
-audit of Society financial statements	58	58	58	58
-audit of subsidiary companies	79	-	77	-
Non-Audit services:				
-tax services	86	52	37	22
Government grants released	(56)	-	(345)	-

5. Directors' remuneration

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

					2021	2020
	Salary £	Pension contributions £	Car allowances and benefits in kind £	Bonuses £	Total £	Total £
Shelagh Hancock	235,343	28,241	13,697	203,572	480,853	415,570
Greg Jardine	170,000	17,000	11,018	85,680	283,698	239,421
	405,343	45,241	24,715	289,252	764,551	654,991

The remuneration received by the non-executive and farmer elected and selected directors, who were all employed by the Society, was as follows:

	2021 £	2020 £
Chris Thomas	90,000	90,000
Jim Baird (to 6 August 2020)	17,460	50,000
Robert Craig	46,548	37,500
Carl Ravenhall	45,000	40,000
Brian Mackie	55,000	50,000
Mike Smith (from 6 August 2020)	26,190	-
	280,198	267,500

5. Directors' remuneration (continued)

In the year to 31 March 2021, Brian Mackie received £10,000 (2020: £10,000) in addition to his remuneration as a director for the work he carried out in relation to the Scottish Milk Limited Retirement Benefits Plan and the Milk Pension Fund.

The aggregate emoluments paid to directors in the year to 31 March 2021 were £1,045k (2020: £922k).

No directors (2020: none) accrued benefits during the year under defined benefit pension schemes. No directors (2020: 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 is shown below:

	2021	2020
	£'000	£'000
Executive Team (excluding executive directors listed above)	1,041	1,038

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:

	2021		2020	
	Group	Society	Group	Society
	£'000	£'000	£'000	£'000
Staff costs				
Wages and salaries	10,036	4,134	9,062	3,561
Social security costs	1,013	460	917	389
Other pension costs	490	210	469	188
	11,539	4,804	10,448	4,138
Employee numbers				
Administration	53	47	65	59
Production	163	-	171	-
	216	47	236	59

7. Finance income

	2021		2020	
	Group	Society	Group	Society
	£'000	£'000	£'000	£'000
Interest on short-term deposits with banks	54	-	31	1
Total finance income on financial assets not measured at fair value through the profit and loss account	54	-	31	1
Total finance income	54	-	31	1

8. Finance costs

	2021		2020	
	Group £'000	Society £'000	Group £'000	Society £'000
Bank loans, overdrafts and revolving credit facilities	1,645	266	1,681	986
Pension scheme net finance cost (note 24)	358	358	635	635
Total finance costs	2,003	624	2,316	1,621

9. Tax on profit

	2021		2020	
	Group £'000	Society £'000	Group £'000	Society £'000
Current tax				
Tax charge for the current period	-	-	(86)	(128)
Adjustments in respect of prior periods	59	13	(107)	(138)
	59	13	(193)	(266)
Deferred tax				
Origination and reversal of timing differences	595	582	602	621
Adjustments in respect of prior periods	(54)	-	(31)	-
Effect of changes in tax rates	-	-	140	146
Total deferred tax	541	582	711	767
Total tax per income statement	600	595	518	501

Tax credit included in other comprehensive income:

	2021		2020	
	Group £'000	Society £'000	Group £'000	Society £'000
Deferred tax - current year charge	(1,850)	(1,850)	274	274
Deferred tax - prior year credit	-	-	-	-
	(1,850)	(1,850)	274	274

9. Tax on profit (continued)

The standard rate of tax for the year, based on the UK standard rate of corporation tax, is 19% (2020: 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:

	2021		2020	
	Group £'000	Society £'000	Group £'000	Society £'000
Profit on ordinary activities before tax	6,198	2,093	5,014	340
Tax on profit on ordinary activities at standard rate of 19% (2020: 19%)	1,178	398	953	65
Expenses not deductible	(1)	-	469	277
Income not taxable	(38)	(47)	(269)	-
Trading losses extinguished on cessation of trade	-	-	10	-
Effects of group relief / other reliefs	-	85	-	105
Utilisation of tax losses not recognised	-	-	(663)	46
Adjustments in respect of prior periods	6	13	(122)	(138)
RDEC step 2 restriction not recognised	54	-	-	-
Movement in deferred tax not recognised	(599)	-	-	-
Tax rate changes	-	146	140	146
Total tax charge	600	595	518	501

The rate used to calculate deferred tax in these Financial Statements is 19% (2020: 19%), since this is the expected rate that will apply when the deferred tax timing differences reverse.

10. Intangible fixed assets – Group

	2021 £'000	2020 £'000
Goodwill		
Cost/Valuation		
At 1 April	10,637	10,637
Additions	358	-
At 31 March	10,995	10,637
Accumulated amortisation and impairment		
At 1 April	10,637	10,637
Amortised in year	-	-
Impairment	358	-
At 31 March	10,995	10,637
Net book value		
At 31 March	-	-

On 30 April 2020, The First Milk Cheese Company Limited purchased the entire share capital of Lake District Biogas Limited. The cash consideration paid was £2k, generating goodwill of £358k which was written off in the year.

11. Property, plant and equipment – Group

	Freehold land and buildings	Plant, equipment and vehicles owned	Plant, equipment and vehicles leased	Total
	£'000	£'000	£'000	£'000
Cost / valuation				
At 1 April 2020	8,104	70,267	1,180	79,551
Additions	-	7,813	-	7,813
Acquisition	-	2,250	-	2,250
Disposals	(1,486)	(6,565)	-	(8,051)
Impairment	-	(2,008)	-	(2,008)
Transfers	297	(297)	-	-
At 31 March 2021	6,915	71,460	1,180	79,555
Accumulated depreciation				
At 1 April 2020	3,001	42,938	1,180	47,119
Charge for the year	395	4,417	-	4,812
Disposals	(1,429)	(6,504)	-	(7,933)
Impairment	-	(1,814)	-	(1,814)
At 31 March 2021	1,967	39,037	1,180	42,184
Net book value				
At 31 March 2021	4,948	32,423	-	37,371
At 31 March 2020	5,103	27,329	-	32,432

There are no outstanding liabilities in respect of leased assets.

On 30 April 2020, The First Milk Cheese Company Limited purchased Lake District Biogas Limited. Plant and equipment with a valuation of £2,250k was acquired as part of the acquisition.

11. Property, plant and equipment – Society

	Land and buildings	Plant, equipment and vehicles	Total
	£'000	£'000	£'000
Cost/Valuation			
At 1 April 2020	34	1,783	1,817
Additions	-	135	135
At 31 March 2021	34	1,918	1,952
Accumulated depreciation			
At 1 April 2020	3	1,317	1,320
Charge for the year	1	194	195
At 31 March 2021	4	1,511	1,515
Net book value			
At 31 March 2021	29	407	437
At 31 March 2020	30	466	497

Property, plant and vehicles of the Group amounting to £37.4m (2020: £32.4m) are pledged as security against bank borrowings.

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.

	2021		2020	
	Group	Society	Group	Society
	£'000	£'000	£'000	£'000
Historical cost of				
Freehold land and buildings	6,707	-	6,707	-

12. Investments

Society	Shares in subsidiary undertakings	Investment in Joint Ventures	Total
	£'000	£'000	£'000
Cost			
At 1 April 2020	42,679	-	42,679
Additions	-	-	-
Disposals	-	-	-
At 31 March 2021	42,679	-	42,679
Impairments			
At 1 April 2020	7,976	-	7,976
Additions	-	-	-
Disposals	-	-	-
At 31 March 2021	7,976	-	7,976
Net book value			
At 31 March 2021	34,703	-	34,703
At 31 March 2020	34,703	-	34,703

Details of the subsidiary undertakings in the Group at 31 March 2021 are as follows:

	Registered Office Address	Proportion of ordinary shares held
Scottish Milk Products Limited	Glasgow Airport Business Park, 9 Marchburn Drive, Paisley, PA3 2SJ	100%
The First Milk Cheese Company Limited	The Lake District Creamery, Station Road, Aspatria, Wigton, Cumbria, CA7 2AR	100%
Kingdom Dairy Company Limited	Glasgow Airport Business Park, 9 Marchburn Drive, Paisley, PA3 2SJ	100%
Fast Forward FFW Limited	The Lake District Creamery, Station Road, Aspatria, Wigton, Cumbria, CA7 2AR	100%
Lake District Biogas Limited	Glasgow Airport Business Park, 9 Marchburn Drive, Paisley, PA3 2SJ	100%
First Milk Energy Limited	Glasgow Airport Business Park, 9 Marchburn Drive, Paisley, PA3 2SJ	100%

12. Investments (continued)

All subsidiary undertakings and joint ventures are incorporated in the UK. The directors consider the value of investments to be supported by their underlying assets.

Group	Fast Forward FFW Limited 2021 £'000	Fast Forward FFW Limited 2020 £'000
Total assets	-	-
Total liabilities	-	-
Net Assets	-	-
Society share of net assets (49%)	-	-
Turnover	-	3,993
Profit	-	934
Share of turnover in the year (49%)	-	1,957
Society share of profit in the year (49%)	-	458

13. Acquisition

On 30 April 2020, The First Milk Cheese Company Limited purchased the entire share capital of Lake District Biogas Limited. The cash consideration paid was £2k, generating goodwill of £358k which was written off in the year.

A summary of the assets and liabilities acquired is provided below. There were no differences between the book value and the fair value of the assets and liabilities acquired.

	£'000
Tangible fixed assets	2,250
Trade debtors	1,205
Cash at bank and in hand	151
Trade creditors	(3,964)
	(358)

Since acquisition, Lake District Biogas Limited has generated turnover of £2,150k and a loss before tax of £(1,251)k.

14. Inventories

	2021		2020	
	Group £'000	Society £'000	Group £'000	Society £'000
Raw materials and consumables	2,622	107	3,055	158
Finished goods and goods for resale	44,213	-	47,175	-
	46,835	107	50,230	158

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 2021 was £44,213k (2020: £47,175k).

The amount of inventory recognised as an expense during the year was £218,741k (2020: £195,281k) for the Group and £244,747k (2020: £237,551k) for the Society.

15. Trade and other receivables

	2021		2020	
	Group £'000	Society £'000	Group £'000	Society £'000
Due within one year:				
Trade receivables	26,857	10,731	22,905	10,636
Amounts owed by subsidiary undertakings	-	32,163	-	62,300
Other receivables	770	726	381	808
Value added tax	830	253	416	226
Corporation tax	248	326	234	339
RDEC debtor	308	-	-	-
Prepayments and accrued income	1,834	717	566	470
Due after one year:				
Deferred tax (note 20)	1,743	1,616	434	348
	32,590	46,532	24,936	75,127

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

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

	2021		2020	
	Group £'000	Society £'000	Group £'000	Society £'000
Amounts due to debt providers (note 18)	1,286	-	33,181	44,195
Trade payables: amounts due to members	20,256	20,256	16,530	16,530
Trade payables: other	9,651	5,539	5,171	4,704
Amounts owed to subsidiary undertakings	-	8,967	-	83
Other taxes and social security	331	293	482	430
Other payables	321	182	215	53
Accruals and deferred income	6,826	4,165	10,499	5,439
	38,671	39,402	66,078	71,434

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. There are no fixed repayment dates for amounts owed to subsidiary undertakings.

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

	2021		2020	
	Group £'000	Society £'000	Group £'000	Society £'000
Amounts due to debt providers (note 18)	31,999	2,511	-	-
Deferred income	119	-	142	-
	32,118	2,511	142	-

18. Borrowings

Amounts due to debt providers are repayable as follows:

	2021		2020	
	Group £'000	Society £'000	Group £'000	Society £'000
Within one year	1,286	-	33,427	44,195
Due in more than one year	32,284	2,511	-	-
Unamortised issue costs	(285)	-	(246)	-
	33,285	2,511	33,181	44,195

Borrowings at 31 March 2021 of £33,570k (2020: £33,427k) 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.

At 31 March 2020, all borrowings were shown as due within one year as the final repayment date of the facilities was 31 January 2021. In April 2020 the facilities were amended and extended to 31 July 2024.

At 31 March 2020, borrowings of £44,195k at were shown in the Society since this debt amount was drawn down by the Society and not The First Milk Cheese Company. This debt was offset by an increase in amounts owed by subsidiary undertakings from The First Milk Cheese Company (note 14). During the year £40,000k debt was repaid by The First Milk Cheese Company.

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:

	2021	
	Group £'000	Society £'000
Opening balance at 1 April 2020	33,181	44,195
Increase / (decrease) in bank borrowing	143	(41,684)
Movement in unamortised issue costs	(39)	-
Closing balance at 31 March 2021	33,285	2,511

19. Financial instruments

The Group has the following financial instruments:

	Note	2021 Group £'000	2020 Group £'000
Financial assets at fair value through profit or loss			
Derivative financial instruments		-	-
Financial assets that are debt instruments measured at amortised cost			
Trade receivables	15	26,857	22,905
Other receivables	15	770	381
		27,627	23,286
Financial liabilities measured at amortised cost			
Amounts due to debt providers	16, 18	1,286	33,181
Trade payables: amounts due to members	16	20,256	16,530
Trade payables: other	16	9,651	5,171
Other trade payables	16	321	215
Accruals	16	6,826	10,499
		38,340	65,596

Derivative financial instruments – forward contracts

The Group has previously entered into forward foreign currency contracts to mitigate the exchange rate risk for certain foreign currency receivables. No such contracts were outstanding as at 31 March 2021 or 2020.

20. Provisions for liabilities and charges

Deferred tax asset

The movement on the deferred tax asset account for both the Group and the Society is shown below. The asset is presented within debtors (note 15).

	2021		2020	
	Group £'000	Society £'000	Group £'000	Society £'000
Opening balance	(434)	(348)	(1,390)	(1,390)
Profit and loss account charge (note 9)	595	582	622	622
Deferred tax charge in SOCI for the period	(1,850)	(1,850)	420	420
Balance on acquisition of Fast Forward FFW Ltd	-	-	(28)	-
Origination and reversal of timing differences	-	-	(21)	-
Effect of changes in tax rates	-	-	(7)	-
Adjustment in respect of prior periods - income statement	(54)	-	(30)	-
Closing balance (note 15)	(1,743)	(1,616)	(434)	(348)

20. Provisions for liabilities and charges (continued)

	2021		2020	
	Group £'000	Society £'000	Group £'000	Society £'000
Deferred tax (assets) recognised				
Recoverable within 12 months	(1,767)	(1,616)	(434)	(348)
Recoverable after 12 months	(119)	-	-	-
	(1,886)	(1,616)	(434)	(348)
Deferred tax liabilities recognised				
Payable within 12 months	143	-	-	-
Deferred tax (assets) not recognised at the closing rate of 19% (2020: 19%)				
Fixed assets	(2,932)	(522)	(2,350)	(480)
Timing differences - trading	(41)	(41)	(19)	(159)
Losses	(7,913)	(3,513)	(5,767)	(3,309)
	(10,886)	(4,076)	(8,136)	(3,948)

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.

21. Financial commitments

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

	2021		2020	
	Group £'000	Society £'000	Group £'000	Society £'000
Commitments under non-cancellable operating leases not provided in the financial statements:				
within one year	236	170	234	154
within two to five years	234	148	148	91
later than five years	19	-	20	-
	489	318	402	245

22. 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 2019	1	2	1	4	6,254	6,254	69,873	69,873	76,133
Shares issued	-	-	-	-	-	-	721	721	721
Share cancellations	-	-	-	-	(371)	(371)	-	-	(371)
At 1 April 2020	1	2	1	4	5,883	5,883	70,594	70,594	76,483
Shares issued	-	-	-	-	-	-	521	521	521
Share cancellations	-	-	-	-	(305)	(305)	-	-	(305)
At 31 March 2021	1	2	1	4	5,578	5,578	71,115	71,115	76,699

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 new web platform, Asset Match, to encourage share trading.

The Board introduced a members' premium from April 2019, paid annually to members. This payment, made in April 2020, was 0.25ppl for all litres consigned in the year to 31 March 2020 for someone that is fully invested in the business (100% 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% of their target therefore a maximum pay out of 0.5ppl was possible. The member premium will increase to 0.5ppl from April 2020, with payment due to members in April 2021.

23. Reconciliation of operating profit to operating cash flows

	2021		2020	
	Group £'000	Society £'000	Group £'000	Society £'000
Operating profit	8,147	2,717	6,842	1,960
Depreciation, amortisation and impairment charges	4,812	195	4,401	119
Sale of Creameries	(655)	-	-	-
Loss on sale of property, plant and equipment	118	-	52	-
Impairment of property, plant and equipment	194	-	-	-
Pension shortfall correction	(3,644)	(3,644)	(3,906)	(3,906)
Subsidiaries struck-off	-	-	-	875
Decrease / (increase) in inventories	3,395	51	230	(158)
(Increase) / decrease in receivables	(4,970)	29,853	7,897	(41,706)
Increase / (decrease) in payables	466	12,161	(465)	2,083
Goodwill written off	358	-	-	-
Pension exceptional cost	225	225	-	-
Net cash inflow / (outflow) from operating activities	8,446	41,558	15,051	(40,733)

24. 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.

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 May 2019, following finalisation of the triennial valuation of 2018, a revised pattern of contributions was agreed by the Trustees and First Milk. Shortfall-correction contributions of at least £1.6m per annum, increasing annually by RPI, from 1 June 2019 to 31 May 2029 inclusive will be paid.

In addition to the shortfall-correction contributions the Trustees and First Milk also agreed an arrangement whereby additional contributions will be paid to the plan contingent on the performance in 2 areas:

- Relative Milk Price
- Profit Sharing

In the year to 31 March 2021, total contributions of £2.4m (2020: £2.7m), including contingent contributions relating to 2020 performance were paid to the Scottish Milk Limited Retirement Benefits Plan.

The Milk Fund
The Schedule of Contributions agreed following the 31 March 2018 actuarial valuation of the Milk Fund requires minimum annual contributions of £1.2m (increasing by 3.4% per annum) to be paid to the fund. In the year to 31 March 2021, total contributions of £1.3m (2020: £1.2m) were paid to the Milk Pension Fund.

During 2021, the Scottish Plan and the Milk Fund will both be subject to a triennial actuarial valuation as at 31st March 2021.

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 2021 were £0.5m (2020: £0.5m).

The figures below for the defined benefits schemes have been based on the most recent actuarial valuations at 31 March 2018, updated to the current year-end by qualified independent actuaries. It was noted last year that the net deficit in the Scottish Plan and the net surplus in the Milk Fund as at 31 March 2020 were somewhat better than expected due to the temporary increase in credit spreads caused by market uncertainty stemming from COVID-19.

24. Pension schemes (continued)

The major assumptions used for the actuarial valuation were:

Assumptions at 31 March	Scottish Plan % pa		Milk Fund % pa	
	2021	2020	2021	2020
Discount rate	2.1	2.4	2.1	2.5
Rate of increase in pensions in payment	3.1	2.7	2.1 to 2.7	1.7 to 1.9
Rate of increase in pensions in deferment	2.9	2.2	2.7	1.9
Inflation assumption (RPI)	3.4	2.7	3.2	2.6
Inflation assumption (CPI)	2.9	2.2	2.7	1.9
Mortality				
Longevity at age 65 for current pensioners				
Men	23	23	23	23
Women	25	25	25	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	
	2021	2020	2021	2020
Equities, diversified growth and hedge funds	3,534	2,172	21,000	17,700
Gilts / LDI funds	47,663	52,282	15,942	18,800
Bonds	-	-	14,800	12,300
Direct lending	-	-	4,500	2,300
Index-linked Gilts	-	-	400	1,100
Property	-	-	5,500	5,600
Unrecognised asset	-	-	-	(2,300)
Cash	3,713	1,918	700	600
	54,910	56,372	62,842	56,100

Liabilities	Scottish Plan £'000		Milk Fund £'000	
	2021	2020	2021	2020
Opening	(58,205)	(58,754)	(56,100)	(59,300)
Interest cost	(1,370)	(1,383)	(1,400)	(1,500)
Benefits paid	2,267	2,254	2,800	2,500
Past service costs	(25)	-	(200)	-
Actuarial (losses) / gains	(5,232)	(322)	(8,800)	2,200
Closing	(62,565)	(58,205)	(63,700)	(56,100)

24. Pension schemes (continued)

	Scottish Plan £'000		Milk Fund £'000	
	2021	2020	2021	2020
Total market value of assets	54,910	56,372	62,842	56,100
Present value of scheme liabilities	(62,565)	(58,205)	(63,700)	(56,100)
Deficit in the scheme	(7,655)	(1,833)	(858)	-
Related deferred tax asset	1,454	348	163	-
Net pension liability	(6,201)	(1,485)	(695)	-

Assets	Scottish Plan £'000		Milk Fund £'000	
	2021	2020	2021	2020
Opening	56,372	50,576	56,100	59,300
Expected return on scheme assets	1,112	848	642	1,300
Actuarial (losses) / gains	(2,678)	4,528	7,628	(1,530)
Benefits paid	(2,267)	(2,254)	(2,800)	(2,500)
Change in effect of the asset ceiling	-	-	-	(1,700)
Employer contributions	2,371	2,674	1,272	1,230
Closing	54,910	56,372	62,842	56,100

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

	2021		2020		2019	
	Scottish Plan £'000	Milk Fund £'000	Scottish Plan £'000	Milk Fund £'000	Scottish Plan £'000	Milk Fund £'000
Opening cumulative SOCI:	(11,565)	(15,571)	(15,771)	(14,441)	(16,422)	(13,851)
Actuarial (losses) / gains	(7,910)	(1,830)	4,206	(1,130)	651	(590)
Closing cumulative SOCI	(19,475)	(17,401)	(11,565)	(15,571)	(15,771)	(14,441)

24. Pension schemes (continued)

	2021		2020	
Analysis of movement in the scheme deficit during the year:	Scottish Plan £'000	Milk Fund £'000	Scottish Plan £'000	Milk Fund £'000
Past service cost	(25)	(200)	-	-
Total included within operating surplus	(25)	(200)	-	-
Contributions	2,371	1,272	2,674	1,230
Amounts included as other finance income:				
Expected return on pension scheme assets	1,112	1,300	848	1,300
Interest cost on pension scheme liabilities	(1,370)	(1,400)	(1,383)	(1,500)
(Gain) / loss on curtailments and settlements	-	-	-	100
Net finance cost	(258)	(100)	(535)	(100)
Analysis of the actuarial gains and losses in the statement of comprehensive income:				
Actual return less expected return on pension scheme assets				
Amount	(2,678)	7,628	4,528	(1,130)
Percentage of scheme assets	-5%	12%	8%	-2%
Experience gains and losses arising on the scheme liabilities				
Amount	-	600	-	-
Percentage of present value of scheme liabilities	0%	-1%	0%	0%
Changes in financial assumptions underlying the scheme liabilities				
Amount	(5,232)	(10,058)	(322)	-
Percentage of present value of scheme liabilities	-8%	17%	0%	0%
Total actuarial gains and (losses) recognised in the statement of comprehensive income	(7,910)	(1,830)	4,206	(1,130)
Deficit at 1 April 2020	(1,833)	-	(8,178)	-
Movement in year:				
Employer contributions	2,371	1,272	2,674	1,230
Unrecognised asset	-		-	-
Net finance cost (note 8)	(258)	(100)	(535)	(100)
Past service cost	(25)	(200)	-	-
Actuarial (loss) / gain	(7,910)	(1,830)	4,206	(1,130)
Deficit at 31 March 2021	(7,655)	(858)	(1,833)	-

25. 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 £3,370k (2020: £3,218k). The outstanding balance owing to the directors at 31 March 2021 was £305k (2020: £300k).

During the year the Group made payments to its two related pension funds of £3.6m (2020: £3.9m). For a breakdown of these amounts between the pension funds see note 24.

Amounts due to members at 31 March 2021 and 31 March 2020 for the purchase of milk are disclosed in note 16.

26. Capital and other financial commitments

	2021 Group £'000	2020 Group £'000
Contracts placed for future capital expenditure not provided in the financial statements	10,600	982

Capital commitment figures include investment at the Lake District Creamery will see new high-capacity cheese blockformers installed, as well as new water, milk, cream and whey handling processes. Investment at the Haverfordwest Creamery will see a new chilled-water plant delivered, as well as a significant upgrade to the whey process. Further capital investment at Lake District Biogas Limited will bring stability and improve financial performance.

27. Post balance sheet events

On 20 April 2021, the member premium payment of 0.5ppl for all litres consigned in the year to 31 March 2021 for fully paid-up members was paid, the average payment per member was just over £4,800.

On 27 May 2021, the Board resolved to appoint Michael Fletcher as a non-executive director of the society with effect from 1 November 2021 when Carl Ravenhall retires from the Board.