first milk
'the farmers' business'

ANNUAL REPORT AND FINANCIAL STATEMENTS 2021 / 2022

Annual Report
Year ended 31 March 2022

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The directors of First Milk Limited ("First Milk", the "Society" or "Group") present their strategic report for the year ended 31 March 2022. The Group includes First Milk Limited and the subsidiaries listed in note 12.

The business and principal activities

First Milk Limited is a dairy farmers' co-operative registered under the Co-operative and Community Benefit Societies Act 2014 (number: 29199R). The principal activities of the Group and Society are the marketing of milk on behalf of its members and the manufacture and sale of dairy products.

Results

The financial statements on pages 20 to 46 detail the trading results and financial position of the Group and Society which, in the year ending 31 March 2022, included The First Milk Cheese Company Limited, Fast Forward FFW Limited and Lake District Biogas Limited.

Key financial performance indicators and review of business

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

Financial KPIs	**2022**	**2021**
Group turnover	£331m	£300m
Operating profit (before exceptional items)	£5.1m	£8.1m
Profit for the year	£2.3m	£5.6m
Total capital and reserves	£48.7m	£38.1m
Net bank debt (external borrowings less cash)	£43.4m	£33.0m

In the year ended 31 March 2022 we continued to deliver against our strategic objectives, improving total returns to our farmer members through milk price and net asset value. During the period, we have improved milk price by 5.8ppl and increased net asset value by 28%. We have also increased our turnover, delivered profitable growth, and delivered a significant capital investment programme as we invest in our business to secure the future.

Turnover

Sales for 2021-2022 increased by 11% to £331m through a combination of volume growth and increased values. During the year we continued to see growth in both brokerage, through a broader base of growing customers, and cheese as we continue to grow export sales through our export partnership with sales now extending to more than 26 countries. The growth in cheese sales means that cheese now accounts for over 70% of the milk handled.

Profitability

We continue to deliver profitable growth, however, our operating profit of £5.1m was impacted year on year by rapidly rising costs due to inflation, loss making performance at Lake District Biogas and the urgent need to return milk price to members as soon as possible to offset increasing costs on farm. Over the longer term our contracts recover market movements and a number of inflationary costs, however, the speed at which we can recover these costs has adversely impacted results in the short term.

Our strategic objective is to improve total returns to our farmer members, including milk price. By March 2022 we had increased our member milk price by 5.8ppl, equivalent to paying out almost £50m annually compared to April 2021. Our member premium remained at 0.5ppl for all litres supplied in the year to 31 March 2022 for fully paid-up members and was paid out post year-end, on 20 April 2022, with the average payment per member being just over £4,900.

The cash earnings (EBITDA) within our operating profit are £10.3m. EBITDA is defined as operating profit of £5.1m adding back non-cash depreciation of £4.9m charged to the profit and loss, plus non-cash losses on the disposal of redundant fixed assets of £0.3m.

Capital investment

During the year we almost doubled our capital expenditure at sites to £14.9m (2021: £7.8m), investing in additional processing capacity, improving efficiencies, and providing further operational stability. At Lake District Creamery we replaced and installed five high capacity, automatic blockformers, a total investment of £9m. This has increased cheese production capacity and improved efficiencies at site. At Haverfordwest, we installed a new chilled water plant and duplexed whey equipment to allow longer production runs, increasing capacity without compromising quality. In addition, at Lake District Biogas we invested £2m to improve the operational stability of the digesters and biogas plant.

We will continue to invest at our sites in 2022-23, spending £8m across the sites to increase production capacity further through the addition of two additional cheese vats at Haverfordwest, delivering operational stability, while also further improving efficiencies and our environmental footprint.

Key financial performance indicators and review of business (continued)

Balance sheet, cash flow and net debt
During the year, our balance sheet strengthened, with net assets increasing 28% (£10.6m) to £48.7m as a result of ongoing delivery of profits along with significant capital expenditure ahead of depreciation and an improved pension position.

Net debt has increased by £10.4m to £43.4m to facilitate the higher capital spend as we invest for the future.

Member investment
Cash contributions of £0.7m were made by members in the year to 31 March 2022 through the retention of 0.5 pence per litre until they reach their capital target of 7ppl. The Asset Match share trading platform continues to give members an alternative to the 0.5ppl retention and the opportunity to buy shares to reach their targets. Throughout the year we continued to see active share trading on the platform. In the year to March 2022, £0.2m 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 £77.2m compared to £76.7m the previous year.

Investment in Agricarbon
During the year we acquired a 5% share in Agricarbon for £0.5m as we strengthen further our position in dairy sustainability. Their technology is key to proving soil carbon levels in our journey to achieving net zero and our investment, and investment by other shareholders, allows them to scale up their business and accelerate their growth plans.

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 2022 were £0.5m (2021: £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 2022, total contributions of £2.9m (£2.4m), including contingent contributions relating to 2021 performance were paid to the Scottish Milk Limited Retirement Benefits Plan, while contributions of £0.2m (2021: £1.3m) were paid to the Milk Pension Fund as deficit recovery payments stopped in May 2021 in line with the previous recovery plan.

Both pension funds were subject to triennial actuarial valuations as at 31 March 2021, these were completed during the year and the financial position of both funds has improved since the last valuation.

The Milk Pension Fund has a slight surplus therefore the trustees do not require any deficit payment to be made to the scheme and only £0.1m of expense contributions will be made annually.

In January 2022, following the finalisation of the Scottish Milk Limited Retirement Benefits Plan triennial valuation of 2021, a revised schedule of contributions (SOC) was agreed by the trustees and First Milk. Shortfall contributions of at least £2.1m per annum, plus a £348k contribution to expenses, from 1 January 2022 to 31 May 2026 will be paid. As a result of the new SOC there will be no contingent payments due and contributions are forecast to stop three years earlier than under the previous SOC.

During the year our pension liabilities (net of deferred tax assets) improved by £7.9m and we now have a small pension asset in relation to the Scottish Milk fund of £1.7m. This was mainly a result of updated assumptions in mortality rates and the impact of new census data. The actuarial gains in the year were £16.5m. We do not have rights to any surpluses within the Milk Pension Fund and no surplus has been recognised for this fund.

Interest and Debt Facility
Net finance charges totalled £2.1m, with £1.3m paid in cash to the Wells Fargo debt facility, and £0.7m relating to finance costs associated with the pension deficit.

Working capital
Working capital consumed £1.6m during the year. Our stock levels remained broadly flat, carrying only stock levels to fulfil committed future sales. However, value increased by £9.1m because of higher milk prices increasing the value of cheese and co-product stocks. The stock increase was offset by a £10.0m release due to an increase in payables as milk price increases the balance due to members, paid the following month, and inflationary costs being passed on by suppliers. A small increase in receivables due to higher value of sales increased our working capital needs by a further £2.4m.

To support the increasing working capital cash demands on the business, post year-end on 29 April 2022, we renewed our long-term debt arrangement with Wells Fargo, extending the facility through to 31 July 2026 and increasing the maximum available from £74m to £90m. The amount available to borrow is dependent on the value of stock and debtors and is based on a percentage draw-down specified in the facility agreement, and a term loan on our fixed assets.

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

Review of the business – key events timeline

As the restrictions imposed during the COVID-19 lockdown eased, we continued to monitor outbreaks of the virus through the year and remind staff of the importance of taking appropriate precautions to keep them and others safe and to ensure the continuing operation of the business.

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 on Carl Ravenhall's retirement from the board.

On 18 August 2021, First Milk Limited acquired a 5% stake in Agricarbon, a soil carbon measurement company.

On 1 November 2021, Michael Fletcher was appointed as a director of First Milk Limited.

Post balance sheet events

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

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

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

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

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

Principal risks and uncertainties

Loss of milk production volumes

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

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

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.

Principal risks and uncertainties (continued)

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. In the latter half of the financial year to 31 March 2022, a range of input costs began to increase substantially, the impact of some of these costs had been addressed by forward buying and hedging. Over the longer term our commercial sales contracts recover a number of inflationary costs, however, the speed at which we can recover these costs has adversely impacted results in the short term.

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

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

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

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

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

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

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

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

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

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

There remain some minor risks in relation to labour (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
During the financial year to 31 March 2022, the COVID-19 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 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

The Group's sustainability commitments in the area of energy and carbon are as follows:

- 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_2e 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.

During the last year we have revised our vision to 'enriching life every day to secure the future'. Ensuring we have a positive impact on the earth is central to this and we take our responsibilities for protecting and enhancing the environment very seriously.

The group has previously 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 2022 was as follows:

Metric	Unit of measurement	Target Reduction Year on year	Actual Reduction / (Increase) Year on year	Target 2025	Actual Reduction / (Increase) to FY22
Energy Efficiency	kWh per kg milk	3%	(9%)	40%	33%
CO_2e	Kg CO_2e per kg Milk	3%	(7%)	65%	61%
Food waste	kg COD per kg Milk	3%	(12%)	40%	28%
Water Use	m^3 per kg Milk	3%	(2%)	30%	(14%)
Waste to Landfill	% of cheese production	-	-	-	0.05%

Greenhouse gas intensity represents a 61% reduction since FY09. We did see a slight increase in FY22 in the CO_2e metric and energy metric, due to the full year impact of installing the CHP system at Haverfordwest. We envisage further reductions in the coming financial year and are exploring longer term options in order achieve our goal of total renewable energy by 2030.

Whilst we have made significant progress on reducing food waste in recent years, we saw an increase in the reporting year. This will be due to the short term uplift in effluent loadings following a period of significant investment at both creameries. As new equipment is commissioned and then optimised, losses to drain can often be higher. In the long term these impacts will be negated through overall improvements in productivity alongside other initiatives that will further reduce our factory wastage.

Water usage at sites 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, we are continuing to reduce the amount of extracted water we use per kg of milk. This has mainly been achieved by recovering and reusing water within our processes. Recovered water now represents over 30% of water used.

Minimising CO_2e emissions

In 2021 we included a summary of our carbon equivalent emissions in our Annual Report for the first time, in line with SECR requirements. We will continue to report this data annually 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

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 676 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
Lake District Biogas Limited	Produces biomethane on a site at the Lake District Creamery using waste product from the creamery	100% owned by The First Milk Cheese Company Limited

Energy and carbon reporting (continued)

Methodologies and uncertainties

- The First Milk GHG emissions are reported in line with the World Business Council for Sustainable Development and World Resources Institute Greenhouse Gas Protocol Corporate Accounting and Reporting Standard.
- The emissions inventory is developed using the "Operational Control" approach, with scope 3 emissions evaluated on the basis of cradle to gate, to the point at which our products reach the customer.
- The emissions inventory includes scopes 1, 2 and 3 emissions associated with the Lake District Creamery and Haverfordwest Creamery. Scope 2 emissions are reported using the location-based methodology (as the market-based emissions are not currently available from our electricity supplier), with standard grid factors for UK electricity. The Anaerobic Digestion plant and Effluent treatment plant at Lake District Biogas (LDB) are operated under contract by a 3rd party, as is the Effluent Treatment Plant at Haverfordwest. The scope 1 & 2 emissions from these facilities are included within our scope 3 reporting.
- The annual emissions inventory is based on the First Milk financial reporting year that runs from 1 April to 31 March.
- Most of the emissions inventory has been produced using activity data. The emissions factors used are taken from a range of sources. Where suppliers are able to provide factors for the products and services they supply, these have been used. The majority of the other emissions factors are taken from the UK Government GHG Conversion Factors for Company Reporting, with the factor covering the majority of our financial year being used for the full 12 months (e.g. 2021 factors used for the First milk financial year from 1 April 2021 to 31 March 2022). Where neither of these options are available, publicly available online sources have been used to estimate emissions using secondary data and financial spend to estimate emissions.
- A detailed methodology, including an assessment of uncertainty around each element of the GHG inventory was provided to SLR for assessment as part of the limited assurance exercise.
- The table below provides an evaluation of scope 3 emissions against the requirements of the WBCSD/WRI GHG Protocol Corporate Value Chain (Scope 3) Accounting and Reporting Standard, with an explanation of the rationale for inclusion and exclusion of emissions within the 15 scope 3 categories, along with the use of primary or secondary data.

Category		Relevant?	Material?	Sources	Data source (Primary)	Data Source (Secondary)	Calculation possible?	Reason for exclusions
1	Purchased goods and services	Yes	Yes	Milk for production Milk brokered Ingredients – salt, starter cultures, rennet, annatto Packaging materials (cardboard, plastic & wooden pallets) Mains water Process chemicals (Hygiene) Repairs and maintenance Energy consumption at HAV Effluent treatment plant and LDB	Activity data for all elements except for repairs and maintenance	Repairs and maintenance based on financial spend and generic emissions factor from US EPA database	Yes	Items excluded – some minor ingredients on de-minimis (e.g. rennet added at a rate of 0.00009% of milk weight, and starter cultures at 0.004% of milk weight. Similar for annatto that is only used in a small number of products)
2	Capital goods	Yes	Yes	Capital projects	N/A	Based on financial spend and GHG Protocol online Quantis model	Yes	Included
3	Other fuel and energy related emissions	Yes	Yes	Well to Tank and Transmission and Distribution associated with scope 1 & 2 energy and fuel use	Activity data (energy consumption)	N/A	Yes	Included
4	Upstream transportation and distribution	Yes	Yes	Transport for: Milk (for production and brokered) Products to customers (Cheese, Whey Concentrate, WPC80, Cream)	Activity data (fuel cost)	N/A	Yes	Included (scope 1 & 2 emissions from transport providers)
5	Waste generated	Yes	Yes	Waste from 2 manufacturing sites	Activity data (waste tonnages)	N/A	Yes	Included. Optional element (transport for waste) is not included
6	Business travel	Yes	Yes	Travel for business purposes by private car	Activity data (mileage)	N/A	Yes	Included
7	Employee commuting	Yes	Yes	Travel to and from work for colleagues at LDC & Haverfordwest	Activity data (mileage)	N/A	Yes	Included. Optional element of employee teleworking is not included
8	Upstream leased assets	No	N/A	N/A	N/A	N/A	N/A	No upstream leased assets
9	Downstream transportation and distribution	No	N/A	N/A	N/A	N/A	N/A	Cradle to gate approach
10	Processing of sold products	No	N/A	N/A	N/A	N/A	N/A	Cradle to gate approach
11	Use of sold products	No	N/A	N/A	N/A	N/A	N/A	Cradle to gate approach
12	End of life treatment of sold products	No	N/A	N/A	N/A	N/A	N/A	Cradle to gate approach
13	Downstream leased assets	No	N/A	N/A	N/A	N/A	N/A	Cradle to gate approach
14	Franchises	No	N/A	N/A	N/A	N/A	N/A	Cradle to gate approach
15	Investments	No	N/A	N/A	N/A	N/A	N/A	Cradle to gate approach

Energy and carbon reporting (continued)

GHG Emissions Summary FY22 v FY21

To ensure that our emissions data is robust we commissioned SLR Consulting Limited to undertake a limited assurance exercise on the greenhouse gas data collated and reported against the GHG Protocol Standards: GHG Protocol Corporate Accounting and Reporting Standard and Corporate Value Chain (Scope 3) Accounting and Reporting Standard. This limited assurance exercise has been undertaken using the process prescribed in the International Standard on Assurance Engagements (IAASB) and confirms that the data outlined above meets the necessary reporting standards.

GHG reporting scope	FY22 (Tonnes CO_2e)	FY21 (Tonnes CO_2e)	Change (Tonnes CO_2e)
Scope 1 - Direct Emissions	**18,426**	**16,999**	**1,427**
Scope 2 - Electricity indirect emissions	**1,623**	**2,354**	**(731)**
Scope 3.1 - Purchased goods and services	819,336	866,269	(46,933)
Scope 3.2 - Capital goods	14,387	6,708	7,679
Scope 3.3 - Other fuel and energy related	3,759	3,577	182
Scope 3.4 - Upstream transport and distribution	10,207	11,280	(1,073)
Scope 3.5 - Waste generated	1,146	735	411
Scope 3.6 - Business travel	64	-	64
Scope 3.7 - Employee commuting	142	142	-
Scope 3 Total	**849,041**	**888,711**	**(39,670)**
Total Scope 1,2 and 3 GHG Emissions	**869,090**	**908,064**	**(38,974)**
Scope 4 - Lake District Biogas (LDB) benefit *	3,797	-	3,797
Net Scope 1,2 and 3 GHG Emissions	**865,293**	**908,064**	**(42,771)**

* LDB emissions were not included in previous years.

This table shows some key changes in the year. Our Scope 1 emissions have increased as a result of an increase in gas consumption due to the use of a CHP plant at Haverfordwest Creamery. This was only in for part of the year last year but the full year in FY22. This is used to generate electricity, steam and hot water for use in the creamery.

Whilst this has increased our Scope 1 emissions, it has also led to a corresponding reduction in our Scope 2 emissions due to a reduction in electricity used at the site, with CHP-generated electricity being used in place of grid electricity.

Scope 3.1 shows a significant reduction, largely as a result of a fall in on-farm emissions of 5.4% in the year, accounting for a reduction of 46,465 tonnes year on year. We've also seen a reduction in Scope 3.4 as a result of transport optimisation, whilst Scope 3.2 and 3.5 have increased as a result of increased capital spend and the addition of Lake District Biogas and the CO_2e associated with the electricity consumption used to run this plant.

We have also included the benefit of Lake District Biogas in this year's calculation for the first time, showing a net benefit of almost 4,000 tonnes of carbon equivalent emissions from biogas exports to the national grid.

Overall, our emissions have fallen by around 43,000 tonnes in the year – a reduction of almost 5%.

Energy and carbon reporting (continued)

As the data shows, the majority of our carbon equivalent emissions occur at farm level and that is why we are focused on delivering our regenerative farming programme to help our members significantly reduce the carbon footprint of milk production.

Adopting a regenerative approach to farming
The last year has seen us deliver significant developments to our regenerative agriculture approach, including the commencement of soil carbon baseline sampling with Agricarbon, the delivery of 11 on-farm regenerative workshops across the country and the launch of our regenerative agriculture bonus.

We started working with Agricarbon in March 2021 when we launched a pioneering soil carbon capture programme – the first of its kind. As part of our net zero commitments, we have pledged to sequester an additional 100,000 tonnes of carbon into soil each year from 2025 through the implementation of regenerative farming practices. We are working with, and have invested in, Agricarbon as we believe their approach is unique in being able to deliver comprehensive and scientifically robust soil carbon data at scale and for a fraction of the usual cost. To date we have sampled 57 farms, delivering over 60,000 samples, with average results showing 131 tonnes of carbon per hectare. This programme will be accelerated across our membership base as we move forward, to deliver a robust baseline for soil carbon, with further sampling in the future to demonstrate progress against our targets.

To help promote the adoption of regenerative principles on farm, during the summer of 2021 we held a round of 11 Regenerative Farm workshops across the country, which saw more than 300 members attend to understand more about the benefits of this approach. These covered subjects including soil health, climate resilience, water, plant diversity and soil biology. Since these workshops, we have provided all members with access to video guides about regenerative farming, as well as a technical booklet on how to implement regenerative farming plans.

In addition, in order to assist members in managing nutrients and minimising fertiliser applications, we arranged for each member to have three free soil samples analysed. 180 members have used this service to date and have submitted over 900 samples for analysis.

During the year we have launched our Regenerative Farming programme, with the introduction of a 0.5ppl bonus from 1 April 2022 for completion of regenerative farming plans by each member. To assist with this, we have developed a unique mapping tool for members to record cropping and regenerative actions.

This programme sees each member complete a field-level plan for their farm, including crop type for each field and the regenerative interventions that they intend to complete by field. This data allows us to monitor progress but also to share our leadership position on regenerative farming.

96% of First Milk milk volume has been signed up to the Regenerative Farming programme, demonstrating our members' commitment to delivering our sustainability goals.

Approved by the Directors
and signed by order of the Board

Angus Waugh
Company Secretary
23 June 2022

The directors present their report and the audited financial statements of First Milk Limited for the year ended 31 March 2022.

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.

Dividends

No dividends were paid during the year (2021: £nil) and no recommendation is made in respect of dividends or dividends to be paid (2021: £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 2022 and up to the date of signing the financial statements were as follows:

Chris Thomas	-	non-executive director and chairman
Robert Craig	-	non-executive farmer director and vice-chairman
Mike Smith	-	non-executive farmer director
Shelagh Hancock	-	executive director
Greg Jardine	-	executive director
Brian Mackie	-	non-executive director
Carl Ravenhall	-	non-executive director (retired 31 October 2021)
Michael Fletcher	-	non-executive director (appointed 1 November 2021)

The non-executive farmer directors' capital account balance and interests in the preference shares of the Society at 31 March 2022 and 31 March 2021 were:

	31 March 2022		31 March 2021	
	C Preference Shares £	New Preference Shares £	C Preference Shares £	New Preference Shares £
Robert Craig	473,670	155,500	473,670	155,500
Mike Smith	187.083	46,580	187,083	46,580

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

Post balance sheet events

Events after 31 March 2022 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.

Going concern

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

Current Trading and Borrowings

The year to 31 March 2022 saw a sixth consecutive profitable year at both the Operating Profit and Net Profit levels. The Group's operating profit before exceptional items was £5.1m (2021: £8.1m). Net profit for the year was £2.3m, compared to a profit of £5.6m in 2021.

Over the last few years, we have worked hard to build strong, stable relationships with our customers to deliver long term stability to our members. As part of this, we've built secure, profitable contracts with our customers where we can recover market movements and, in many cases inflationary increases in our costs. In recent months we have seen significant changes in inflationary costs and in market movements, due to the speed of change we are managing working capital appropriately and only paying out to members, in milk price, what is affordable.

The Group's net bank debt increased to £43m as of 31 March 2022 as we invest for the future with higher capital spend. Borrowings have increased since year-end, due to the normal seasonal flow of funds, and as milk price increases translate into increased working capital. Net debt and facility headroom remain in line with expectations.

Funding

The business is financed through a combination of members' capital contributions and debt facilities. Members' capital contributions are collected through the retention of 0.5 pence per litre from each member's milk payment until they reach their capital target. In the financial year members' capital contributions totalled £0.7m.

On 29 April 2022, we amended and extended our long-term debt arrangement with Wells Fargo, extending the facility through to 31 July 2026 and increasing the maximum facility available from £74m to £90m. 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 23 June 2022 was £71.7m (31 March 2022: £59.1m). The term loan is based on fixed asset values and at 23 June 2022 was £6.2m (31 March 2022: £6.5m). 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, through milk price and net asset value, are maximised whilst also retaining sufficient profits to meet our business obligations and commitments;
- key customer and supplier contracts continue as per their existing commercial arrangements over the contractually agreed periods; and
- there is no material adverse impact in the bank facilities available to the Group or other adverse working capital movements. Stock and debtors provide additional collateral against which we can draw down further loans from our facilities with Wells Fargo, increases in working capital are supported by the amended facility signed in April 2022 that increased the facility from £74m to £90m.

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 2026, the Group will have adequate resources to continue in operational existence for the foreseeable future (being at least twelve months from the approval of these accounts) and consider it appropriate to adopt the going concern basis in preparing the financial statements.

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).

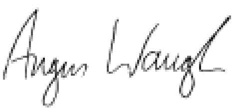
Legislation requires the directors to prepare such financial statements for each financial year which give a true and fair view of the state of affairs of the Group and Society and of the surplus or deficit of the Group and Society for that year and comply with UK GAAP and the Co-operative and Community 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
Secretary
23 June 2022

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.

The Council

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

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

Each year, either three or four Council members are required to retire by rotation and may stand for re-election, subject to the rules on term limits. In 2022, Louise Davies was re-elected unopposed due to the requirement in First Milk's Rules that the Council must have at least one member from England, Scotland and Wales. Also in 2022, David Walker was re-elected to the Council and Andrew Smith was elected as a new Council member.

Board

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

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

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

In October 2021, Carl Ravenhall reached his maximum three terms in office. Following a selection process, the board agreed to appoint Michael Fletcher as a director and he took office on 1 November 2021.

Board (continued)

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	Right There Buck and Birch Limited
Michael Fletcher	Nisa Limited Cellars International Limited Co-operative Community Investment Foundation Nisa (Northern Ireland) Limited Nisa-Today's Central Buying Company Limited	Nisa Retail Limited Nisa Wholesale Limited Nisa-Today's (Ireland) Limited Nisa Retail Services Limited Premier Drinks (UK) Limited
	* denotes office held as nominated First Milk director / trustee	

The Board has ten scheduled meetings each year and meets at other times as required. Board meetings held in the year to 31 March 2022 and director attendance at each meeting was as follows:

	2021							2022		
	29/4	27/5	24/6	4/8	1/10	28/10	6/12	24/1	1/3	24/3
Chris Thomas	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
Robert Craig	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
Mike Smith	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
Brian Mackie	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
Carl Ravenhall	yes	yes	yes	yes	yes	yes	n/a	n/a	n/a	n/a
Michael Fletcher	n/a	n/a	n/a	n/a	yes	yes	yes	yes	yes	yes
Shelagh Hancock	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes
Greg Jardine	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes

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

Audit, Finance and Risk Committee
The Audit, Finance and Risk Committee is chaired by Brian Mackie and also comprises Robert Craig and Mike Smith. Carl Ravenhall was a member of the Committee prior to his retirement from the board. A Council member attends Committee meetings as Member Council representative.

The Committee's roles include overseeing the annual external audit and reviewing the effectiveness of internal controls and risk management. A report on the activities of the Audit, Finance and Risk Committee can be found on page 16.

The committee meetings held in the year to 31 March 2022 and director attendance at each meeting were as follows:

	2021	
	24/6	20/12
Brian Mackie	yes	yes
Robert Craig	yes	yes
Mike Smith	yes	yes
Carl Ravenhall	yes	n/a

Nomination and Remuneration Committee
The Nomination and Remuneration Committee is chaired by Michael Fletcher and also comprises Chris Thomas, Robert Craig and Mike Smith. A Council member attends Committee meetings as Member Council representative.

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.

Board (continued)

The committee meetings held in the year to 31 March 2022 and director attendance at each meeting was as follows:

	2021	2022	
	28/10	1/3	24/3
Michael Fletcher	yes	yes	yes
Carl Ravenhall	yes	n/a	n/a
Chris Thomas	yes	yes	yes
Robert Craig	yes	yes	yes
Mike Smith	yes	yes	yes

Member Appeals Committee
The Member Appeals Committee is chaired by Robert Craig and also comprises two Council Members (nominated by the Council when an appeal is submitted), the 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

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

First Milk's compliance with the Corporate Governance Code for Agricultural Co-operatives

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

- *Code Provision 60 recommends that in order to safeguard the democratic status of the Board, a co-operative should ensure that external (non-member) directors and management directors should not exceed 49% of the Board.*
  External (non-member) and management directors comprise five of the seven Board positions. However First Milk's democratic status is safeguarded by the member Council having substantial powers as noted above.

- *Code Provision 65 states that the Board should appoint, from its own number, a chair and at least one vice chair.*
  Appointments of the chair and vice chair are made by the Board. However their appointments are then recommended by the Council for approval by members at the Annual General Meeting.

- *Code provision 78 states that the secretary's main reporting line should be to the Board.*
  First Milk's secretary reports to both the Board and the chief financial officer due to his additional role as general counsel.

For and on behalf of the Board

Angus Waugh

Angus Waugh
Secretary
23 June 2022

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 2021. 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 the year to 31 March 2022, this included the risks associated with the ongoing 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 four 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
23 June 2022

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.

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 last 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. Michael Fletcher does not receive a fee for his role as a director of First Milk. An amount equivalent to what his annual board fee would have been is paid to Co-operative Community Investment Foundation.

For and on behalf of the
Nomination and Remuneration Committee

Michael Fletcher
Chairman of the Nomination and Remuneration Committee
23 June 2022

Report on the audit of the financial statements

Opinion
In our opinion the financial statements of First Milk Limited (the 'company'):
- give a true and fair view of the state of the company's affairs as at 31 March 2022 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 profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the cash flow statement;
- the related notes 1 to 26.

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 company 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 company'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 company'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 company or to cease operations, or have no realistic alternative but to do so.

Report on the audit of the financial statements (continued)

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

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

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

We considered the nature of the company's industry and its control environment, and reviewed the company'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[s] that the company 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 company'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 2022 and April 2022 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 company'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 company'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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

P Hazelton

Paul Hazelton, CA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Glasgow
23 June 2022

Profit and loss accounts for the year ended 31 March 2022

	Note	2022 Group £'000	2022 Society £'000	2021 Group £'000	2021 Society £'000
Turnover - continuing operations	2	331,077	292,704	299,468	255,115
Cost of sales		(317,446)	(284,676)	(283,167)	(244,747)
Gross profit		13,631	8,028	16,301	10,368
Administrative expenses					
- Recurring		(9,194)	(7,900)	(8,219)	(7,426)
- Exceptional items	3	-	-	65	(225)
Other operating income		667	-	-	-
Operating profit					
- Continuing operations		5,104	128	8,147	2,717
Finance income	7	9	-	54	-
Finance costs	8	(2,091)	(748)	(2,003)	(624)
Profit / (loss) before taxation		3,022	(620)	6,198	2,093
Tax on profit / (loss)	9	(699)	(858)	(600)	(595)
Profit / (loss) for the financial year		2,323	(1,478)	5,598	1,498

Statements of comprehensive income for the year ended 31 March 2022

	Note	2022 Group £'000	2022 Society £'000	2021 Group £'000	2021 Society £'000
Profit / (loss) for the financial year:					
Group / Society		2,323	(1,478)	5,598	1,498
Other comprehensive income:					
Actuarial gain / (loss) relating to the pension schemes	23	8,351	8,351	(9,740)	(9,740)
UK deferred tax attributable - current year		(759)	(759)	1,850	1,850
Other comprehensive income for the year net of tax		7,592	7,592	(7,890)	(7,890)
Total comprehensive income / (loss) for the year		9,915	6,114	(2,292)	(6,392)

All results relate to continuing operations.

Balance sheet as at 31 March 2022

	Note	2022 Group £'000	2022 Society £'000	2021 Group £'000	2021 Society £'000
Fixed Assets					
Intangible fixed assets	10	-	-	-	-
Property, plant and equipment	11	47,095	356	37,371	437
Investments in subsidiary undertakings	12	-	34,703	-	34,703
Other investments	12	500	500	-	-
Total fixed assets		47,595	35,559	37,371	35,140
Current assets					
Inventories	13	55,973	149	46,835	107
Trade and other receivables	14	34,010	43,254	32,590	46,532
Cash and cash equivalents		1,219	404	570	154
		91,202	43,807	79,995	46,793
Trade and other payables amounts falling due within one year	15	(49,031)	(43,153)	(38,671)	(39,402)
Net current assets		42,171	654	41,324	7,391
Total assets less current liabilities		89,766	36,213	78,695	42,531
Trade and other payables amounts falling due after more than one year	16	(43,389)	(194)	(32,118)	(2,511)
Total net assets employed excluding pension liability		46,377	36,019	46,577	40,020
Pension asset / (liability)	23	2,279	2,279	(8,513)	(8,513)
Net assets		48,656	38,298	38,064	31,507
Capital and reserves					
Called up share capital	21	77,204	77,204	76,699	76,699
Profit and loss reserve		(28,548)	(38,906)	(38,635)	(45,192)
Total capital and reserves		48,656	38,298	38,064	31,507

The financial statements on pages 20 to 46 were approved by the Board of Directors on 23 June 2022 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 2022

	Note	Called up share capital £'000	Profit and loss reserve £'000	Total £'000
Balance as at 1 April 2020		76,483	(36,648)	39,835
Profit for the financial year		-	5,598	5,598
Other comprehensive income for the year:				
Actuarial gain relating to the pension schemes	23	-	(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	21	521	-	521
Shares cancelled	21	(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**
Profit for the financial year		-	2,323	2,323
Other comprehensive income for the year:				
Actuarial gain relating to the pension schemes	23	-	8,351	8,351
UK deferred tax attributable to actuarial gain	9	-	(759)	(759)
Total comprehensive income for the year		-	9,915	9,915
Shares issued	21	677	-	677
Shares cancelled	21	(172)	172	-
Total transactions with owners recognised directly in capital		505	172	677
Balance as at 31 March 2022		**77,204**	**(28,548)**	**48,656**

Society statement of changes in equity for the year ended 31 March 2022

	Note	Called up share capital £'000	Profit and loss reserve £'000	Total £'000
Balance as at 1 April 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	23	-	(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	21	521	-	521
Shares cancelled	21	(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**
Loss for the financial year		-	(1,478)	(1,478)
Other comprehensive income for the year:				
Actuarial gain relating to the pension schemes	23	-	8,351	8,351
UK deferred tax attributable to actuarial gain	9	-	(759)	(759)
Total comprehensive income for the year		-	6,114	6,114
Shares issued	21	677	-	677
Shares cancelled	21	(172)	172	-
Total transactions with owners recognised directly in capital		505	172	677
Balance as at 31 March 2022		**77,204**	**(38,906)**	**38,298**

Statements of cash flows for the year ended 31 March 2022

		2022		2021	
	Note	Group £'000	Society £'000	Group £'000	Society £'000
Net cash inflow from operating activities	22	5,624	2,570	8,446	41,558
Taxation paid		-	-	-	-
Net cash generated from operating activities		5,624	2,570	8,446	41,558
Cash flow from investing activities					
Finance income	7	9	-	54	-
Purchase of property, plant and equipment	11	(14,938)	(83)	(7,813)	(135)
Proceeds from sales of assets		20	-	655	-
Investment in Agricarbon	12	(500)	(500)	-	-
Acquisition of Lake District Biogas Ltd net of cash		-	-	153	-
Repayment of grant		-	-	(194)	-
Net cash used in investing activities		(15,409)	(583)	(7,145)	(135)
Cash from financing activities					
Finance costs		(1,354)	(97)	(1,685)	(266)
Net proceeds from members	21	677	677	521	521
Increase in / (repayment of) loans		11,111	(2,317)	143	(41,684)
Net cash generated from / (used in) financing activities		10,434	(1,737)	(1,021)	(41,429)
Net increase / (decrease) in cash and cash equivalents		649	250	280	(6)
Cash and cash equivalents at the beginning of the year		570	154	290	160
Cash and cash equivalents at the end of the year		**1,219**	**404**	570	154

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 2022 saw a sixth consecutive profitable year at both the Operating Profit and Net Profit levels. The Group's operating profit before exceptional items was £5.1m (2021: £8.1m). Net profit for the year was £2.3m, compared to a profit of £5.6m in 2021.

Over the last few years, we have worked hard to build strong, stable relationships with our customers to deliver long term stability to our members. As part of this, we've built secure, profitable contracts with our customers where we can recover market movements and, in many cases inflationary increases in our costs. In recent months we have seen significant changes in inflationary costs and in market movements, due to the speed of change we are managing working capital appropriately and only paying out to members, in milk price, what is affordable.

The Group's net bank debt increased to £43m as of 31 March 2022 as we invest for the future with higher capital spend. Borrowings have increased since year-end, due to the normal seasonal flow of funds, and as milk price increases translate into increased working capital. Net debt and facility headroom remain in line with expectations.

Funding
The business is financed through a combination of members' capital contributions and debt facilities. Members' capital contributions are collected through the retention of 0.5 pence per litre from each member's milk payment until they reach their capital target. In the financial year members' capital contributions totalled £0.7m.

On 29 April 2022, we amended and extended our long-term debt arrangement with Wells Fargo, extending the facility through to 31 July 2026 and increasing the maximum facility available from £74m to £90m. 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 23 June 2022 was £71.7m (31 March 2022: £59.1m). The term loan is based on fixed asset values and at 23 June 2022 was £6.2m (31 March 2022: £6.5m). The Board's forecasts show that there is adequate headroom within the facilities over the next year.

1. Accounting policies (continued)

Going concern (continued)

Forecasts

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

- the business will ensure profitability is achieved and returns to members, through milk price and net asset value, are maximised whilst also retaining sufficient profits to meet our business obligations and commitments;
- key customer and supplier contracts continue as per their existing commercial arrangements over the contractually agreed periods; and
- there is no material adverse impact in the bank facilities available to the Group or other adverse working capital movements. Stock and debtors provide additional collateral against which we can draw down further loans from our facilities with Wells Fargo, increases in working capital are supported by the amended facility signed in April 2022 that increased the facility from £74m to £90m.

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 2026, the Group will have adequate resources to continue in operational existence for the foreseeable future (being at least twelve months from the approval of these accounts) and consider it appropriate to adopt the going concern basis in preparing the financial statements.

Exemptions for qualifying entities under FRS 102

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

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

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

Basis of consolidation

The Group financial statements incorporate the financial statements of First Milk Limited and its subsidiary undertakings made up to 31 March 2022.

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.

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

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

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

1. Accounting policies (continued)

Foreign currency

i) Functional and presentation currency

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

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

ii) Transactions and balances

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

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

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

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

Revenue recognition

Group and Society

Revenue, which is stated net of value added tax, represents amounts invoiced to third parties for goods or services supplied during the year and is recognised on the sale of milk and other ingredients products at the point of collection and on dispatch of cheese. Revenue and operating surplus relate to the continuing operations of the Group and are all attributable to the principal business activity, being the marketing, manufacture and sale of milk, cheese and other dairy products.

Society

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

Exceptional items

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

Employee benefits

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

i) Short term benefits

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

ii) Defined contribution pension plans

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

iii) Defined benefit pension plans

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

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

1. Accounting policies (continued)

Employee benefits (continued)

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

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

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

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

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

Taxation

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

Current or deferred taxation assets and liabilities are not discounted.

i) Current tax

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

ii) Deferred tax

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

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

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

Business combinations and goodwill

Business combinations are accounted for by applying the purchase method.

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

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

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

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

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

1. Accounting policies (continued)

Property, plant and equipment

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

Depreciation is calculated to write off the cost or valuation of property, plant and equipment by equal annual instalments over their estimated useful lives.

The useful lives assumed for buildings vary between 20 and 50 years and for plant, equipment and vehicles between 4 and 15 years. Land is not depreciated.

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

Leases

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

i) Operating leased assets

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

ii) Lease incentives

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

Impairment of non-financial assets

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

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

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

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

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

Interest income

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

Investments - Society

i) Investment in subsidiary company

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

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

1. Accounting policies (continued)

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.

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.

1. Accounting policies (continued)

Financial instruments (continued)

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 £1.2m (2021: £2.8m) relating to services supplied during the year.

The majority of turnover is to the UK with £61.9m (2021: £59.2m) being to Continental Europe. Sales to the rest of the world were £nil (2021: £nil).

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

3. Exceptional items

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

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

4. Operating profit

	2022		2021	
	Group £'000	Society £'000	Group £'000	Society £'000
Operating profit is stated after charging / (crediting):				
Depreciation of property, plant and machinery (note 11)	4,863	164	4,812	195
Impairment of property, plant and machinery (note 11)	-	-	194	-
Loss on disposal of property, plant and equipment	331	-	118	-
Operating lease rentals	109	42	236	170
Auditor's remuneration:				
Audit Services:				
-audit of Society financial statements	100	100	58	58
-audit of subsidiary companies	60	-	79	-
Non-Audit services:				
-tax services	99	71	86	52
Government grants released	(32)	-	(56)	-

5. Directors' remuneration

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

	2022	2021
	£	£
Directors' remuneration:		
Emoluments	929,594	1,009,249
Pension	30,074	35,500
	959,668	1,044,749
Number of directors in pension scheme	2	2
Highest paid director:		
Emoluments	425,818	470,853
Pension	4,000	10,000
	429,818	480,853

No directors (2021: none) accrued benefits during the year under defined benefit pension schemes. No directors (2021: none) accrued post-employment benefits under defined contribution pension schemes.

Key management includes the executive directors and members of the Executive team. The compensation paid or payable to key management for employee services (excluding executive directors included with the directors' remuneration) is £1,170k (2021: £1,041k).

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:

	2022		2021	
	Group £'000	Society £'000	Group £'000	Society £'000
Staff costs				
Wages and salaries	10,436	4,255	10,036	4,134
Social security costs	1,080	492	1,013	460
Other pension costs	513	241	490	210
	12,029	4,988	11,539	4,804
Employee numbers				
Administration	57	50	53	47
Production	163	-	163	-
	220	50	216	47

7. Finance income

	2022		2021	
	Group £'000	Society £'000	Group £'000	Society £'000
Interest on short-term deposits with banks	9	-	54	-
Total finance income on financial assets not measured at fair value through the profit and loss account	9	-	54	-
Total finance income	9	-	54	-

8. Finance costs

	2022		2021	
	Group £'000	Society £'000	Group £'000	Society £'000
Bank loans, overdrafts and revolving credit facilities	(1,440)	(97)	(1,645)	(266)
Pension scheme net finance cost (note 24)	(651)	(651)	(358)	(358)
Total finance costs	(2,091)	(748)	(2,003)	(624)

9. Tax on profit

	2022		2021	
	Group £'000	Society £'000	Group £'000	Society £'000
Current tax				
Adjustments in respect of prior periods	-	-	59	13
Deferred tax				
Origination and reversal of timing differences	(61)	29	595	582
Adjustments in respect of prior periods	-	829	(54)	-
Effect of changes in tax rates	760	-	-	-
Total deferred tax	699	858	541	582
Total tax per income statement	699	858	600	595

Tax credit included in other comprehensive income:

	2022		2021	
	Group £'000	Society £'000	Group £'000	Society £'000
Deferred tax - current year (credit) / charge	759	759	(1,850)	(1,850)
Deferred tax - prior year credit	-	-	-	-
	759	759	(1,850)	(1,850)

9. Tax on profit (continued)

The standard rate of tax for the year, based on the UK standard rate of corporation tax, is 19% (2021: 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:

	2022		2021	
	Group £'000	Society £'000	Group £'000	Society £'000
Profit / (loss) on ordinary activities before tax	3,022	(620)	6,198	2,093
Tax on profit / (loss) on ordinary activities at standard rate of 19% (2021: 19%)	574	(118)	1,178	398
Expenses not deductible	119	-	(1)	-
Income not taxable	(47)	(5)	(38)	(47)
Effects of group relief / other reliefs	-	767	-	85
Utilisation of deferred tax not recognised	-	(615)	-	-
Adjustments in respect of prior periods	-	-	6	13
RDEC step 2 restriction not recognised	(115)	-	54	-
Movement in deferred tax not recognised	(593)	-	(599)	-
Tax rate changes	761	829	-	146
Total tax charge	699	858	600	595

The March 2021 Budget announced an increase to the main rate of corporation tax to 25% from April 2023. This rate had been substantively enacted at the balance sheet date and as a result, deferred tax balances as at 31 March 2022 are measured at 25% (2021: 19%).

10. Intangible fixed assets – Group

	2022 £'000	2021 £'000
Goodwill		
Cost/Valuation		
At 1 April	10,995	10,637
Additions	-	358
At 31 March	10,995	10,995
Accumulated amortisation and impairment		
At 1 April	10,995	10,637
Impairment	-	358
At 31 March	10,995	10,995
Net book value		
At 31 March	-	-

11. Property, plant and equipment

Group	Freehold land and buildings	Plant and equipment	Assets in the course of construction	Total
	£'000	£'000	£'000	£'000
Cost / valuation				
At 1 April 2021	6,915	70,232	2,408	79,555
Additions	266	10,203	4,990	15,459
Transfers between asset classes	541	1,261	(1,802)	-
Disposals	(2,217)	(20,471)	-	(22,688)
At 31 March 2022	5,505	61,225	5,596	72,326
Accumulated depreciation				
At 1 April 2021	1,967	40,217	-	42,184
Charge for the year	433	4,430	-	4,863
Disposals	(1,999)	(19,817)	-	(21,816)
At 31 March 2022	401	24,830	-	25,231
Net book value				
At 31 March 2022	5,104	36,395	5,596	47,095
At 31 March 2021	4,948	30,015	2,408	37,371

There are no outstanding liabilities in respect of leased assets.

Society	Land and buildings	Plant and equipment	Assets in the course of construction	Total
	£'000	£'000	£'000	£'000
Cost/Valuation				
At 1 April 2021	34	1,882	36	1,952
Additions	-	45	38	83
Transfers between asset classes	-	36	(36)	-
At 31 March 2022	34	1,963	38	2,035
Accumulated depreciation				
At 1 April 2021	4	1,511	-	1,515
Charge for the year	1	163	-	164
At 31 March 2022	5	1,674	-	1,679
Net book value				
At 31 March 2022	29	289	38	356
At 31 March 2021	29	371	36	437

Property, plant and equipment of the Group amounting to £47.1m (2021: £37.4m) are pledged as security against bank borrowings.

11. Property, plant and equipment (continued)

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

	2022		2021	
	Group £'000	Society £'000	Group £'000	Society £'000
Historical cost of				
Freehold land and buildings	6,707	-	6,707	-

12. Investments

Society	Shares in subsidiary undertakings £'000
Cost	
At 1 April 2021	42,679
Additions	-
At 31 March 2022	42,679
Impairments	
At 1 April 2021	7,976
Impairment charge	-
At 31 March 2022	7,976
Net book value	
At 31 March 2022	34,703
At 31 March 2021	34,703

On 18 August 2021, the society acquired a 5% share in Agricarbon for £500k as we strengthen further our position in dairy sustainability. Their technology is key to proving soil carbon levels in our journey to achieving net zero and our investment, and investment by other shareholders, allows them to scale up their business and accelerate their growth plans.

Details of the subsidiary undertakings in the Group at 31 March 2022 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%

Kingdom Dairy Company Limited was struck off on 5 April 2022.

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

13. Inventories

	2022		2021	
	Group £'000	Society £'000	Group £'000	Society £'000
Raw materials and consumables	3,464	149	2,622	107
Finished goods and goods for resale	52,509	-	44,213	-
	55,973	149	46,835	107

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 2022 was £52,509k (2021: £44,213k).

The amount of inventory recognised as an expense during the year was £247,035k (2021: £218,741k) for the Group and £284,677k (2021: £244,747k) for the Society.

14. Trade and other receivables

	2022		2021	
	Group £'000	Society £'000	Group £'000	Society £'000
Due within one year:				
Trade receivables	30,800	12,020	26,857	10,731
Amounts owed by subsidiary undertakings	-	29,166	-	32,163
Other receivables	568	462	770	726
Value added tax	672	234	830	253
Corporation tax	-	326	248	326
RDEC debtor	153	-	308	-
Prepayments and accrued income	830	668	1,834	717
Deferred tax asset (note 19)	587	273	-	-
Due after one year:				
Prepayments	242	105	-	-
Deferred tax asset (note 19)	158	-	1,743	1,616
	34,010	43,254	32,590	46,532

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

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

	2022		2021	
	Group £'000	Society £'000	Group £'000	Society £'000
Amounts due to debt providers net of unamortised issue costs (note 17)	(1,200)	-	(1,286)	-
Trade payables: amounts due to members	(26,855)	(26,855)	(20,256)	(20,256)
Trade payables: other	(13,044)	(6,731)	(9,651)	(5,539)
Amounts owed to subsidiary undertakings	-	(5,358)	-	(8,967)
Other taxes and social security	(332)	(306)	(331)	(293)
Other payables	(1,040)	(172)	(321)	(182)
Accruals and deferred income	(6,099)	(3,458)	(6,826)	(4,165)
Deferred tax liability (note 19)	(461)	(273)	-	-
	(49,031)	(43,153)	(38,671)	(39,402)

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.

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

	2022		2021	
	Group £'000	Society £'000	Group £'000	Society £'000
Amounts due to debt providers net of unamortised issue costs (note 17)	(43,281)	(194)	(31,999)	(2,511)
Deferred income	(108)	-	(119)	-
	(43,389)	(194)	(32,118)	(2,511)

17. Borrowings

Amounts due to debt providers are repayable as follows:

	2022		2021	
	Group £'000	Society £'000	Group £'000	Society £'000
Within one year	(1,286)	-	(1,286)	-
Due in more than one year	(43,395)	(194)	(32,284)	(2,511)
Unamortised issue costs	199	-	285	-
	(44.482)	(194)	(33,285)	(2,511)

Borrowings at 31 March 2022 of £44,681k (2021: £33,570k) 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 2022, all revolving credit facilities are shown as due in more than one year as the final repayment date of the facilities is 31 July 2024. Borrowings due within one year represent fixed term loan repayments.

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

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:

	2022	
	Group £'000	Society £'000
Opening balance at 1 April 2021	(33,285)	(2,511)
(Increase) / decrease in bank borrowing	(11,111)	2,317
Movement in unamortised issue costs	(86)	-
Closing balance at 31 March 2022	(44,482)	(194)

18. Financial instruments

The Group has the following financial instruments:

	Note	2022 Group £'000	2021 Group £'000
Financial assets that are debt instruments measured at amortised cost			
Trade receivables	14	30,800	26,857
Other receivables	14	567	770
		31,367	27,627
Financial liabilities measured at amortised cost			
Amounts due to debt providers net of unamortised issue costs	15, 17	(1,200)	(1,286)
Trade payables: amounts due to members	15	(26,855)	(20,256)
Trade payables: other	15	(13,044)	(9,651)
Other trade payables	15	(1,040)	(321)
Accruals	15	(6,098)	(6,826)
		(48,237)	(38,340)

19. Provisions for liabilities and charges

Deferred tax asset / (liability)

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

	2022		2021	
	Group £'000	Society £'000	Group £'000	Society £'000
Opening balance	1,743	1,616	434	348
Profit and loss account credit / (charge) (note 9)	(699)	(858)	(595)	(582)
Deferred tax charge in SOCI for the period	(759)	(759)	1,850	1,850
Origination and reversal of timing differences	(1)	1	-	-
Adjustment in respect of prior periods - income statement	-	-	54	-
Closing balance (notes 14 and 15)	284	-	1,743	1,616

	2022		2021	
	Group £'000	Society £'000	Group £'000	Society £'000
Deferred tax (assets) recognised				
Recoverable within 12 months	(587)	(273)	(1,767)	(1,616)
Recoverable after 12 months	(158)	-	(119)	-
	(745)	(273)	(1,886)	(1,616)
Deferred tax liabilities recognised				
Payable within 12 months	461	273	143	-
Deferred tax amounts not recognised at the closing rate of 25% (2021: 19%)				
Fixed assets	(472)	(714)	(2,932)	(522)
Timing differences - trading	461	-	(41)	(41)
Losses	(273)	(3,811)	(7,913)	(3,513)
	(284)	(4,525)	(10,886)	(4,076)

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

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

20. Financial commitments

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

	2022		2021	
	Group £'000	Society £'000	Group £'000	Society £'000
Commitments under non-cancellable operating leases not provided in the financial statements:				
within one year	213	146	236	170
within two to five years	202	-	234	148
later than five years	19	-	19	-
	434	146	489	318

21. Share and loan capital

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

First Milk Limited is a Society established under the Co-operative and Community Benefit Societies Act 2014. It is governed by its rules that require all members, on joining, to purchase a £10 ordinary share (previously a £5 ordinary share). Each member shall be bound but only entitled to hold one ordinary share. The £5 Ordinary shares and £10 Ordinary shares rank pari passu. When a member leaves, their ordinary share is cancelled.

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

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

The members' premium payment, introduced in April 2019 and paid annually, made in April 2021 was 0.5ppl for all litres consigned in the year to 31 March 2021 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 1ppl was possible. The member premium remained at 0.5ppl from April 2021 with a payment made to members in April 2022.

22. Reconciliation of operating profit to operating cash flows

	2022		2021	
	Group £'000	Society £'000	Group £'000	Society £'000
Operating profit / (loss)	5,104	128	8,147	2,717
Depreciation, amortisation and impairment charges	4,863	164	4,812	195
Sale of Creameries	-	-	(655)	-
Loss on sale of property, plant and equipment	331	-	118	-
Impairment of property, plant and equipment	-	-	194	-
Pension shortfall correction	(3,089)	(3,089)	(3,644)	(3,644)
(Increase) / decrease in inventories	(9,139)	(42)	3,395	51
(Increase) / decrease in receivables	(2,421)	1,930	(4,970)	29,853
Increase in payables	9,975	3,479	466	12,161
Goodwill written off	-	-	358	-
Pension exceptional cost	-	-	225	225
Net cash inflow from operating activities	5,624	2,570	8,446	41,558

23. Pension schemes

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

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

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

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

During the year our pension liabilities (net of deferred tax assets) improved by £7.9m and are now a small pension asset of £1.7m. This was mainly a result of updated assumptions in mortality rates and the impact of new census data. The actuarial gains in the year were £16.5m. We do not have rights to any surpluses within the Milk Pension Fund and no surplus has been recognised for this fund.

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

In January 2022, following the finalisation of the Scottish Milk Limited Retirement Benefits Plan triennial valuation of 2021, a revised schedule of contributions (SOC) was agreed by the trustees and First Milk. Shortfall contributions of at least £2.1m per annum, increasing annually by RPI, plus a £348k contribution to expenses, from 1 January 2022 to 31 May 2026 will be paid. As a result of the new SOC there will be no contingent payments due, and contributions are forecast to stop three years earlier than under the previous SOC.

In the year to 31 March 2022, total contributions of £2.9m (2021: £2.4m), including contingent contributions relating to 2021 performance were paid to the Scottish Milk Limited Retirement Benefits Plan.

The Milk Fund
The Milk Pension Fund triennial valuation resulted in a slight surplus therefore the trustees do not require any deficit payment to be made to the scheme and only £0.1m of expense contributions will be made annually. In the year to 31 March 2022, total contributions of £0.2m (2021: £1.3m) were paid to the Milk Pension Fund.

The Group also operates a defined contribution scheme, a Stakeholder Group Pension Plan with Standard Life. The contributions to the defined contribution scheme charged to the profit and loss account in the year ended 31 March 2022 were £0.5m (2021: £0.5m).

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

23. Pension schemes (continued)

The major assumptions used for the actuarial valuation were:

Assumptions at 31 March	Scottish Plan % pa		Milk Fund % pa	
	2022	2021	2022	2021
Discount rate	2.8	2.1	2.8	2.1
Rate of increase in pensions in payment	3.4	3.1	2.2 to 3.2	2.1 to 2.7
Rate of increase in pensions in deferment	3.4	2.9	3.1	2.7
Inflation assumption (RPI)	3.9	3.4	3.7	3.2
Inflation assumption (CPI)	3.4	2.9	3.2	2.7
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	
	2022	2021	2022	2021
Equities, diversified growth and hedge funds	3,919	3,534	11,900	21,000
Gilts / LDI funds	46,200	47,663	24,000	15,942
Bonds	-	-	13,000	14,800
Direct lending	-	-	4,800	4,500
Index-linked Gilts	-	-	400	400
Property	-	-	5,300	5,500
Cash	3,753	3,713	800	700
Asset not recognised	-	-	(8,100)	-
	53,872	54,910	52,100	62,842

Liabilities	Scottish Plan £'000		Milk Fund £'000	
	2022	2021	2022	2021
Opening	(62,565)	(58,205)	(63,700)	(56,100)
Interest cost	(1,292)	(1,370)	(1,300)	(1,400)
Benefits paid	2,055	2,267	2,500	2,800
Past service costs	-	(25)	-	(200)
Actuarial gains / (losses)	10,209	(5,232)	10,400	(8,800)
Closing	(51,593)	(62,565)	(52,100)	(63,700)

23. Pension schemes (continued)

	Scottish Plan £'000		Milk Fund £'000	
	2022	2021	2022	2021
Total market value of assets	53,872	54,910	52,100	62,842
Present value of scheme liabilities	(51,593)	(62,565)	(52,100)	(63,700)
Surplus / (deficit) in the scheme	2,279	(7,655)	-	(858)
Related deferred tax (liability) / asset	(570)	1,454	-	163
Net pension asset / (liability)	1,709	(6,201)	-	(695)

Assets	Scottish Plan £'000		Milk Fund £'000	
	2022	2021	2022	2021
Opening	54,910	56,372	62,842	56,100
Expected return on scheme assets	741	1,112	(1,200)	642
Actuarial (losses) / gains	(2,580)	(2,678)	826	7,628
Change in effect of the asset ceiling	-	-	(8,100)	-
Benefits paid	(2,055)	(2,267)	(2,500)	(2,800)
Employer contributions	2,856	2,371	232	1,272
Closing	53,872	54,910	52,100	62,842

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

	2022		2021		2020	
	Scottish Plan £'000	Milk Fund £'000	Scottish Plan £'000	Milk Fund £'000	Scottish Plan £'000	Milk Fund £'000
Opening cumulative SOCI:	(19,475)	(17,401)	(11,565)	(15,571)	(15,771)	(14,441)
Actuarial gains / (losses)	7,629	8,826	(7,910)	(1,830)	4,206	(1,130)
Closing cumulative SOCI	(11,846)	(8,575)	(19,475)	(17,401)	(11,565)	(15,571)

23. Pension schemes (continued)

	2022		2021	
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	2,856	232	2,371	1,272
Amounts included as other finance income:				
Expected return on pension scheme assets	741	1,200	1,112	1,300
Interest cost on pension scheme liabilities	(1,292)	(1,300)	(1,370)	(1,400)
Net finance cost	(551)	(100)	(258)	(100)
Analysis of the actuarial gains and losses in the statement of comprehensive income:				
Actual return less expected return on pension scheme assets				
Amount	(2,580)	826	(2,678)	7,628
Percentage of scheme assets	-5%	1%	-5%	12%
Experience gains and losses arising on the scheme liabilities				
Amount	3,530	(400)	-	600
Percentage of present value of scheme liabilities	7%	1%	0%	-1%
Changes in financial assumptions underlying the scheme liabilities				
Amount	6,679	8,400	(5,232)	(10,058)
Percentage of present value of scheme liabilities	13%	-16%	-8%	17%
Total actuarial gains and (losses) recognised in the statement of comprehensive income	7,629	8,826	(7,910)	(1,830)
Deficit at 1 April 2021	(7,655)	(858)	(1,833)	-
Movement in year:				
Employer contributions	2,856	232	2,371	1,272
Unrecognised asset	-	(8,100)	-	-
Net finance cost (note 8)	(551)	(100)	(258)	(100)
Past service cost	-	-	(25)	(200)
Actuarial gain / (loss)	7,629	8,826	(7,910)	(1,830)
Surplus / (deficit) at 31 March 2022	2,279	-	(7,655)	(858)

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

24. Related party transactions

During the year, the directors supplied raw milk from their farms to the Group and the Society at normal commercial rates totalling £3,759k (2021: £3,370k). The outstanding balance owing to the directors at 31 March 2022 was £346k (2021: £305k).

During the year the Group made payments to its two related pension funds of £3.1m (2021: £3.6m). For a breakdown of these amounts between the pension funds see note 23.

Amounts due to members at 31 March 2022 and 31 March 2021 for the purchase of milk are disclosed in note 15.

25. Capital and other financial commitments

	2022		2021	
	Group £'000	Society £'000	Group £'000	Society £'000
Contracts placed for future capital expenditure not provided in the financial statements	4,437	-	10,600	-

Capital commitments include investment at the Haverfordwest Creamery in the installation of two new cheese vats providing capacity increases of around 14%.

26. Post balance sheet events

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

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

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

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

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