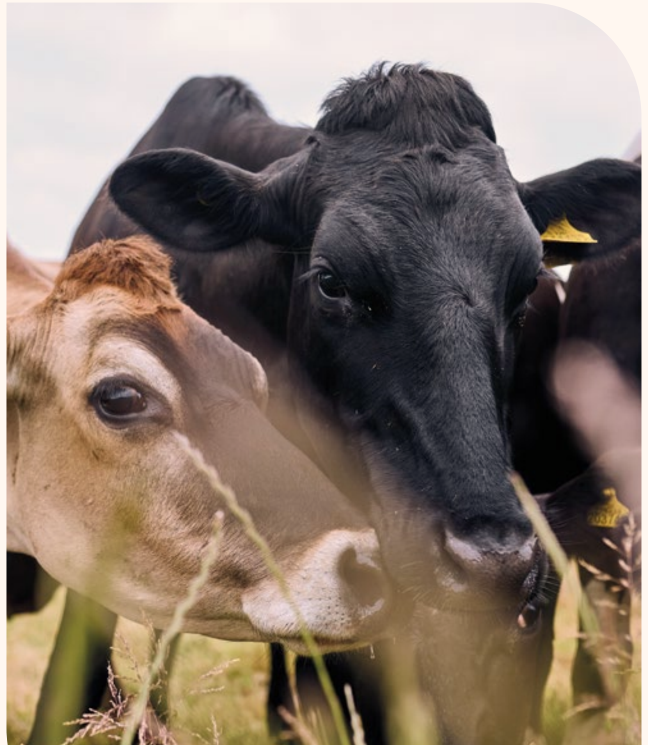
Annual Report

first milk™

The Regenerative Co-op

Executive Summary
Review of the Year
Ending 31 March 2024

Invest & Grow



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Summary

In the year ending 31 March 2024, First Milk delivered:

- Turnover: £476 million (up from £456 million in 2023)
- Operating Profit: £16.8 million (up from £5.1 million in 2023)
- Capital Investment: £8.4 million (up from £7.4 million in 2023)
- Net Asset: £58.5m (up from £46.7m in 2023)

261,340 interventions enhancing biodiversity across 84,623 hectares.

Completed the acquisition of BV Dairy.

£71k Raised over £71,000 for our charity of the year, Motor Neurone Disease Association.

Certified B Corporation — Successfully certified as a B Corporation in 2023.

Received King's Award for Enterprise for Sustainable Development, one of 15 UK businesses recognised in 2023.

Nearly 3,000 Training hours completed.

Women in Leadership: 10 female leaders completed 'Empower Me' training course.

Chairman's Statement
Chris Thomas, Chairman

"Long-term business success will come from focusing on resilience and being good corporate citizens"

Introduction

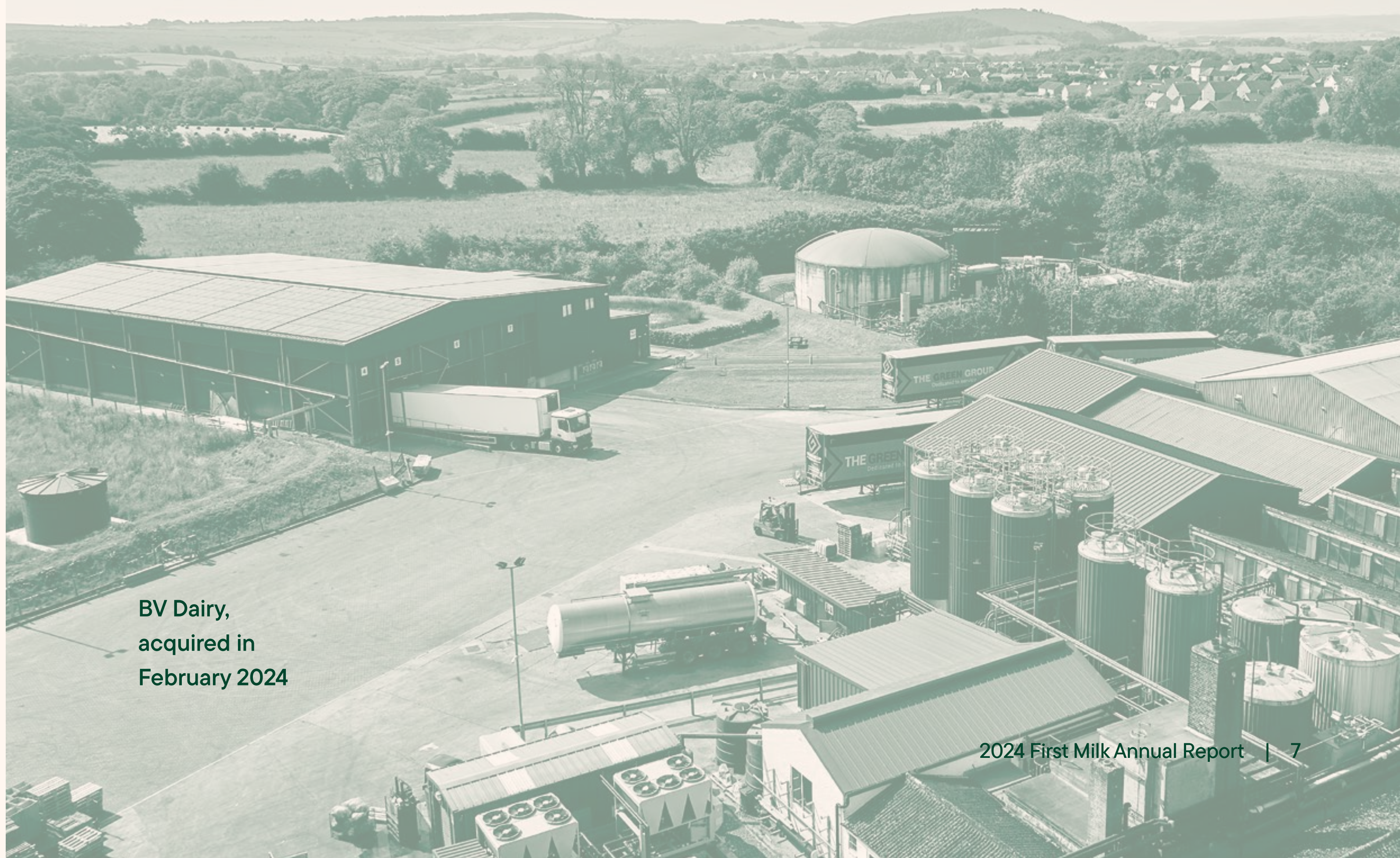
Following a challenging period of global uncertainty, I am pleased to report that First Milk delivered excellent financial performance in the year ending March 31, 2024, with our co-operative also making considerable progress against wider strategic goals.

Recognising that the wider economic and geo-political environment has led to a challenging period of economic performance, with higher costs and interest rates impacting our dairy farmer members, we continued to concentrate on delivering a competitive milk price to members, whilst remaining focused on progressing our long-term vision.

This has seen groundbreaking investments to drive growth and increase value to our members, at Lake District Creamery in partnership with Arla Foods Ingredients on specialist whey powder production, and in the acquisition of BV Dairy, which broadens our product range and extends our customer base. We have also continued our infrastructure investments to build resilience, notably in our effluent treatment facilities at Haverfordwest.

In addition, we continue to invest in our people, including a focus on training, wellbeing and engagement and I was delighted to see the hard work across the business around sustainability be recognised with our certification as a B Corporation, and through the King's Award for Enterprise for Sustainable Development.

We continued to concentrate on delivering a competitive milk price to members, whilst remaining focused on progressing our long-term vision.



BV Dairy, acquired in February 2024

It is increasingly clear that consumers, and the retailers that serve them, are more and more focused on the impact of food production on nature and biodiversity, animal welfare and climate change.

Governance

In line with our rules, our Board members are required to stand down by rotation. During the year, Shelagh Hancock, Greg Jardine and Frank Colhoun were required to do this, and all were re-appointed at the AGM in October 2023. In addition, the term of my own service on the Board was extended by one year for continuity purposes.

Following the AGM, Robert Craig stepped down from the Board having served his maximum three terms of office. I would like to thank Robert for the huge contribution he has made to First Milk as a farmer director and Vice Chairman and wish him well for the future.

Following Robert's retirement, existing farmer director, Mike Smith, was appointed Vice Chairman at the 2023 AGM. In addition, following a selection process, the board appointed Scott Calderwood as a farmer director to take the vacant position following Robert's retirement. Scott has previously served three terms as a Member Council representative.

This year also saw David Walker reach the end of his tenure on our Member Council as he had served the maximum three terms. Following an unopposed election, Cumbrian farmer member, Mark Lee, replaced David. I would like to thank David for his service representing members and look forward to working with Mark and the rest of our Member Council, who form such an important part of our governance structure as a co-operative.

With member engagement at the heart of how our co-operative operates, we also continued to run both farmhouse meetings and our seasonal member meetings roadshows through the year, which were well attended.

Outlook

A key lesson from the last few years is that long-term business success will come from focusing on resilience and being good corporate citizens. One only has to glance at the news to see growing evidence of the climate emergency across the globe, and we are even seeing disrupted weather patterns here, with periods of drought last summer followed by heavy rainfall over the winter and spring impacting milk production and farmer returns. It is increasingly clear that consumers, and the retailers that serve them are more and more focused on the impact of food production on nature and biodiversity, animal welfare and climate change.

Our regenerative agriculture programme is at the heart of our response to these challenges and is becoming more and more important in our commercial discussions with customers. Supported by our wider environmental commitments and reinforced by our growing external recognition in this area, First Milk is now recognised as a leader in these areas, which means we are in a strong position for the future.

We need to continue to develop new and existing commercial partnerships with people who share similar values to our own, while ensuring we operate efficiently, taking into account the environment and the communities we are part of. We need to continually focus on our people, ensuring we have the skills and culture to deliver our ambitious plans for the future.

Against this backdrop, our co-operative business model provides strength. No single business can solve the existential threat posed by climate change. No single business can create robust supply chains that can weather the growing geo-political uncertainty we see around the globe. Working alone we cannot influence the economy. But working together with others, at a pace and scale that is appropriate to all, means that we can achieve more than we can ever achieve alone.

Working together, we will create robust dairy supply chains that deliver long-term value. We will deliver our vision of enriching life every day to secure the future.

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

> "Despite the wider economic and geopolitical challenges, I'm pleased to say that First Milk has delivered strong performance in the last year and I'm confident we are well placed for the future."

Chief Executive's Report
Shelagh Hancock, CEO

We have not only improved relative milk price, but delivered improved profits and grown net asset value, as well as taking the next step on our strategic journey.

Over the last twelve months we have continued to see a range of global challenges impacting on all aspects of society. The war in Ukraine continues, with additional conflict in Israel and Gaza.

Whilst oil and energy prices have fallen from the extreme highs seen last year, prices, in general, have steadily risen since then. Inflation is coming down in most western economies, however this has been achieved through higher interest rates which puts pressure on consumers and increased the cost of borrowing, reducing business investment.

Meanwhile, consumer confidence has stalled with consumers expressing concern around the general economic situation and putting off major purchases. The wider UK economy has been flatlining but there are now small signs of growth, although so much will depend on the new Labour government here in the UK and the outcome of the US election, which has the potential to have a significant impact on geopolitics around the world.

Set against this broader context, global dairy markets remain uncertain, whilst in the early part of 2024, production has also been limited by weather conditions and tightening environmental requirements in many traditional dairy-exporting nations. Following extreme volatility in milk prices, with prices rising rapidly through 2022, and then significantly dropping through 2023, prices then stabilised, and we were able to deliver small, steady milk price increases in the latter half of the financial year ending March 2024.

Although these increases were good news for our members, the milk year ending March 2024 was challenging for all dairy farmers, with the wettest winter for some time, combined with high costs of production, adding significant on-farm pressure. What is also clear is that there is now a marked differential between farmgate milk prices in the UK and the global dairy markets, and so supply and demand changes in the months ahead will be keenly watched to determine the impact on dairy returns.

When we look at First Milk's financial performance during the last year, it should be taken in context with the performance we've delivered over the past two exceptionally challenging years. During this period, we saw unprecedented changes in milk prices and cost inflation, we showed resilience in dealing with those headwinds and maintaining competitive member returns, but it had an impact on the profits returned during that period. What's more, these factors also masked the underlying performance improvements we've delivered within the business through a continued focus on growth and business efficiency.

The result is that this year we have seen both the contribution from the underlying business improvement and the recovery of inflationary cost increases relating to that period have a positive impact, restoring profits and delivering positive cashflow, which is encouraging. This is shown in the healthy performance of our co-operative, which means that during the year I am pleased to report that we have not only improved the relative milk price paid to members but also delivered improved profit levels and increased net asset value, as well as being able to take the next step on our strategic journey with the acquisition of BV Dairy.

Commercial relationships

One of the strengths of First Milk is our long-term partnerships with key customers, built on mutual trust and a long-term commitment to address challenges and drive sustainability into the dairy supply chain.

Once again, the quality of our cheese has been externally recognised this year, as we secured the Supreme Champion award at the International Cheese & Dairy Awards in 2023, the first time for many years that this has been won by a creamery block cheddar. We also secured awards at the Global Cheese Awards.

Our cheese continues to receive international recognition, including Haverfordwest's Aged Double Gloucester which took the top prize of Supreme Champion at the International Cheese and Dairy Awards (ICDA) 2023. The Lake District Creamery's Extra Mature Cheddar won Best English Cheese at ICDA 2023 and Best UK and Irish Cheese at the Global Cheese Awards 2023.

Ornua

I'm pleased to report that our key relationship with Ornua on cheese continues to strengthen as we grow together.

In particular, with increased focus from their retail customers on Scope 3 carbon emissions, and the growing importance of close working relationships throughout dairy supply chains to address this issue, we are increasingly working with them to engage their retail customers around our regenerative farming programme and the many benefits it delivers. We continue to support them as they secure additional growth, for example with the Co-op own-label cheese business they secured this year, and remain focused on ensuring we deliver a robust, efficient supply chain producing high quality cheese.

In January 2024 we hosted a joint visit for Ornua, and one of their key customers, Co-op. Teams from both businesses visited Park House Farm and our Lake District Creamery to learn how we implement our regenerative vision across the supply chain.

When it comes to export markets, trading was challenging during the period, yet we continue to work with our strong export partners to find opportunities to develop value from international sales, with markets growing as cheddar popularity continues to increase and the potential for further new opportunities in the future.

Nestlé

Nestlé

It is also great to see our long-term collaboration with Nestlé continue to flourish, with a real focus on expanding the scope and ambition of the Nestlé Regenerative Milk Plan to deliver a truly sustainable, regenerative dairy supply for their market-leading food brands. As a result, I was delighted to see this collaboration recognised in the Food Manufacture Excellence awards. We have also hosted their global sustainability team on a member's farm, as well as joint presentations to their customers about regenerative dairy.

arla foods ingredients
powering nutrition together

Arla Foods Ingredients

Our relationship with Arla Foods Ingredients (AFI) has also progressed well. This is an exciting development for the business, as protein enrichment of food remains a growing consumer trend internationally. This development expands our market reach and enables our members to be part of the worldwide dairy supply chain, adding to the value we create.

Yeo Valley

Yeo Valley

We are also building on our relationship with Yeo Valley Production, as in June 2023 we announced a new partnership with them that sees the creation of the Naturally Better Dairy Group – a new regenerative milk pool in the Southwest of England. Founded on the principles of nature-positive farming, this growing milk pool is managed by First Milk to supply Yeo Valley and is a clear example of how we can secure additional long-term value for dairy by working with partners that share common values.

A responsible business

We are taking positive action, focused on developing a robust approach to our impact as a business...

The food system is under intense scrutiny for the impact food production has on the planet we all call home. From climate change to water stress, land use challenges, biodiversity loss and disease, our food system is under threat. Add in the challenges around volatile geopolitics, shortage of labour for farming, cybercrime and supply chain imbalances and there are complex and inter-related issues that all players in the food supply chain must address – to safeguard security of supply for the long term and to maintain market access.

That is why we are focused on working to address these issues. This way, we secure valuable market access for the long term and ensure that consumers can continue to enjoy the nutrient-dense great taste of dairy, whilst benefiting from the nutrient integrity inherent in a naturally produced product from regenerative farms.

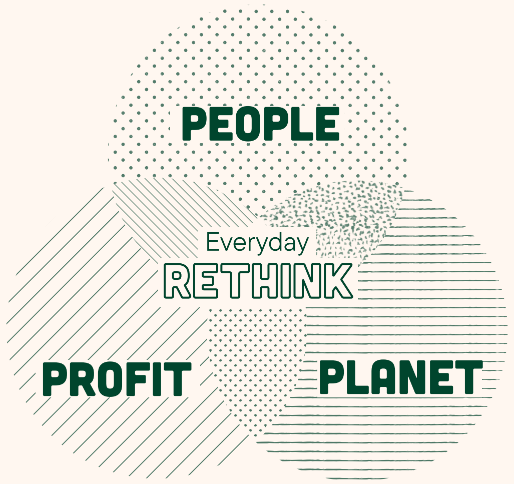
What's more, our approach will help consumers see the benefits of regenerative dairy and feel that they can continue to consume it with the knowledge that it can be part of climate solution.

With that in mind, our members have made great strides in the last twelve months with the adoption of regenerative farming practices on their farms.

Last year, we introduced a scoring element to our regenerative farming programme, to enable our members to understand the impact of specific interventions on their farm and the wider environment, and to benchmark their own actions against peers. Since then, we have adapted our payment approach to reward those who go further with their regenerative activity. What is encouraging, as you can read in the Impact Report, is that our members are proactively undertaking more regenerative interventions year-on-year, delivering real progress in this area.

We are not alone in this, either. It is encouraging to see regenerative farming being supported across a wide range of food production, including major brands such as Nestlé, Waitrose, McCain, Danone and Wildfarmed. It is exciting to be modern pioneers of approaches that deliver for farmers as well as for the wider environment, and we are pleased to be leading in this area.

Whilst our regenerative farming programme is a key foundation of our impact activity, during the year we also rolled out a new way of thinking about how we make business decisions across the organisation – a regenerative mindset based on the principle of the 3Ps:



This is a framework that will help us better understand the ethical trade-offs that exist in any business every day and make more informed decisions that balance our impact.

We also continue to focus on how we can reduce any negative impact as a business, and one of the areas that has seen particular attention in the last year is with our suppliers. As a result, we have developed a Sustainable Procurement Policy and a Supplier Code of Conduct to ensure that all parts of our supply chain adhere to a consistent approach. This is being rolled out to our suppliers, and focuses on key areas of impact, ensuring that we work with suppliers whose values align with our own. This has also become part of any new procurement discussions, with a matrix assessment being added to ensure that as well as price, quality and service, we are taking account of wider impact in our procurement. Post year-end we are also extending this to our farmer members, as part of the continued commitment to our Milk Pledge.

We continue to focus on the big challenges we face within our processing activities when it comes to decarbonisation – the use of energy and water and the fuel used to transport milk. Whilst we have not delivered a step change in any of these areas to date, we are focused on long-term planning to address these challenges within the timeframe we committed to when we first set out our net zero goals.

As outlined above, we are making incremental progress in many areas, so we are not standing still.

It was great to be recognised as a certified B Corporation last year and to receive the King's Award for Enterprise for Sustainable Development.

This external recognition of the hard work that our members put into our regenerative farming programme is fantastic.

One of only 15 businesses in the UK to be recognised with this award in 2023.

Our people

Another key area of focus is on our people

– as we can only be truly sustainable when we ensure that they are looked after. In the last year we have launched a new benefits portal for our colleagues, which gives them access to price reductions on many household purchases, and we have introduced a new approach that supports more family-friendly leave.

It is also great to see the positive benefits beginning to flow from the implementation of the organisational design recommendations highlighted in our 2022 project, to recognise and reward colleagues' ability to multi-skill at our processing sites, providing clear progression opportunities through our structures. This is good for the business, ensuring we have the right skills and experience to meet our ambitious plans, but is also good for individuals, making our employee proposition more attractive.

We have also completed an external audit to better understand diversity, inclusion and equity across the business, so we can benchmark current performance and create a meaningful plan to improve this key area of activity – something that is the right thing to do but is also proven to enhance business performance.

Recognising the importance of retaining and attracting colleagues, we have also continued to invest in colleague training, seeing nearly 3,000 training hours delivered in the year.

Nearly
3,000
Training hours delivered

Post year end we have also received accreditation as a Real Living Wage employer, a significant milestone which reflects fair pay for all colleagues. When it comes to retaining colleagues, we've also committed to improving the way we induct new starters, as we firmly believe retention starts at the very beginning of a working relationship. This is particularly important given our virtual working environment for many, to ensure that new starters rapidly become familiar with the wider First Milk business and get to meet colleagues and peers face to face.

Our new approach saw us launch 'Project Welcome'

– an initiative that puts new colleagues into a cohort with other new starters for a two-day visit to one of our production sites, including functional briefings, a site tour and a farm visit to help people really understand what First Milk does and our vision and values. I'm delighted that this has been well received to date and we will continue to build on this initiative in the future.

We have also focused on our role in the community – something that is at the heart of the B Corp ethos.

This has seen us undertaking fundraising activity for our chosen charity of the year – the Motor Neurone Disease Association – which saw us raise **a total of more than £71,000** through a range of activities, from individuals undertaking outdoor activities including an Ironman and a 100km walk around the Lake District, to a First Milk team taking part in a marathon-length walk around London, our summer events on members' farms, an auction of promises and local fundraising activity at sites.

In Summer 2023 we held a series of events that saw us welcoming members of the local community onto First Milk farms to tell the story of regenerative farming.

Visitors had the opportunity to meet the farmers and cows producing our fresh milk every day, see a milk tanker up close, try some Golden Hooves Cheddar and take part in various fun family activities.

Acquisition of BV Dairy

BV Dairy shares many common values with our own and it has been great to welcome them into the First Milk family.

As we publicised at the time, in February 2024 we were delighted to complete the acquisition of BV Dairy

– a successful manufacturer of specialist chilled dairy products, based in Dorset. This business shares many common values with our own and it has been great to welcome the BV Dairy team into the First Milk family.

This marks an important strategic development for First Milk – a move away from our core operations as a cheese manufacturer, broadening our customer base and our product range, as well as bringing different processing assets to the business. This extends our reach and offers a platform for future growth and development.

Extending the reach of our regenerative messaging...

It has also been an exciting year for our fledgling consumer brand, Golden Hooves. Launched as an on-farm vending franchise the previous year, last year saw us launch Golden Hooves as a Cheddar brand, with Mature Cheddar quickly being joined by a Vintage Cheddar. Since then, the range has been further extended into a Red Leicester and a Smoked Cheddar. Whilst it is still early days in the life of a consumer brand, I'm pleased to report that the product is now stocked in seven wholesalers, giving us national distribution into farm shops and delicatessens. We have also continued to extend our on-farm vending, with additional sites being added through the period.

Even though the total sales value from Golden Hooves remains relatively small, it is delivering for us in terms of extending the reach of our brand messaging about regenerative farming. During the year we have attracted widespread media coverage for the Golden Hooves brand, have taken the products to trade shows and have won awards for the product as well as ethical accreditation for the brand. All of this contributes to greater awareness around First Milk and the important work we are doing to protect and promote dairy. Having this important vehicle for consumer engagement undoubtedly helps us in our mission to build a resilient dairy chain, reinforcing our corporate brand positioning and creating wider awareness and value in everything we do as a business.

Red Leicester and Smoked Cheddar joined our range later this year, following in the successful footsteps of the Mature and Vintage. We have continued to win awards, including including Best New Product of the Year, a British Cheese Award, a Virtual Cheese Award and the title of second best smoked cheese in the world at the International Cheese & Dairy Awards.

Golden Hooves cheese is now being distributed to independent retailers via seven wholesalers across England, Wales and Scotland, ensuring that the great work of our farmer members, and this delicious cheese, is being shared nationwide.

OUR VISION

ENRICHING LIFE EVERYDAY

TO SECURE THE FUTURE

Creating long-term value for members, customers and colleagues

Delivering better outcomes for communities and planet

Outlook

Despite the wider economic and geopolitical challenges, I'm pleased to say that First Milk has delivered strong performance in the last year and I'm confident we are well placed for the future. Our focus remains on developing and creating value for our members, helping deliver resilience against the many challenges we face.

Of course, those challenges are not insignificant, nor is mitigating action always straightforward - it comes with cost, time implications and trade-offs and, in some cases, the technology or solutions are not yet available. In these circumstances and facing these issues it would be easy to sit back and do nothing – avoiding change is always the most comfortable position in the short term.

But if we are to prosper, we must act. Change, no matter how difficult it may seem in the short term, is what will drive future success. As a co-operative business, our role is to support our members in finding and implementing the right approach to the huge changes we all face to ensure that they build resilient farm businesses and that the co-operative they collectively own is robust so that it can face the specific challenges faced in the food manufacturing sector. We'll achieve this by evolving our approach, seeking out opportunities to create meaningful value and minimising our impact as a supply chain.

Our vision for the future is clear – we are working to enrich life every day to secure the future. This means we are working to create a better future for the people, animals and planet, creating long-term value and delivering better outcomes. We will do that by ensuring First Milk is a distinctive, regenerative farmer co-operative, efficiently producing great tasting, quality dairy products, with engaged and motivated colleagues creating a business that is highly valued by customers. We will be a force for good, being a positive part of the climate solution. Our ambition is clear – we will be bigger, bolder and better and by delivering this, we will deliver our vision.

The fundamentals of dairy remain good – it is a nutrient-dense affordable, healthy and natural food with good long-term demand. Yes, we need to adapt and evolve how dairy is produced to address some of the external challenges. But we are well placed to do that – the journey has already begun, and our progress is already being recognised.

What is clear is that we can't do it alone and I want to extend my thanks to all First Milk colleagues for their commitment to the co-operative. Without their collective effort we will not make progress, and the enthusiasm, energy and commitment to what we are working to achieve is fantastic.

I would like to end by thanking the Board, our Member Council representatives, and our Executive team for all their hard work and support during the last year. But, most importantly, I would like to thank all of our members for continuing to support the business as we work together to secure the future.

Financial Highlights

In the year ended 31 March 2024 we have delivered a healthy financial performance, improving the contribution from the underlying business and recovering inflationary cost increases felt in the past couple of years, to restore profitability. We also continued to improve the relative milk price paid to members, increased the net asset value of the business and acquired BV Dairy.

	2024 £m	2023 £m
Turnover	476	456
Operating profit	16.8	5.1
Profit before tax	10.8	1.0
Net Bank borrowings	64.9	63.9
Capital investment across all our sites	8.4	7.4
Total group capital and reserves	58.5	46.7

firstmilk

"We have delivered a healthy financial performance... to restore profitability"

Chief Financial Officer's Report
Greg Jardine, Chief Financial Officer

Turnover

Sales for 2023-2024 increased by 4% to £476m. Although milk prices fell during the year our turnover increased. Selling prices recovered the inflationary cost increases we'd experienced in the past couple of years reflecting the higher cost of producing cheese and whey co-products and increasing the value created. Sales volumes continued to increase year-on-year, especially cheese and whey co-products.

Profitability

During the past two exceptionally challenging years of global uncertainty when we saw unprecedented changes in milk prices and cost inflation, we showed resilience while maintaining competitive member returns. However, as a result profits deteriorated, hiding the benefits from customer growth and business efficiency improvements.
In this financial year we continued to deliver profitable growth, and along with the recovery of inflationary costs within selling prices improved profits demonstrating the value being created from milk handled.

Our strategic objective remains to improve total returns to our farmer members, including milk price. Our member premium remained at 0.5ppl for all litres supplied in the year to 31 March 2024 for fully paid-up members, and was paid out post year-end, on 22 April 2024, with the average payment per member being just over £5,300.

Capital investment

During the year our capital expenditure at sites was £8.4m (2023: £7.4m), this has seen the completion of a complex and challenging capital expenditure programme at Lake District Creamery allowing us to complete timely commissioning and start delivery of product as part of the whey powder partnership we agreed with Arla Foods Ingredients in November 2022.
New LED lighting being installed at both creameries reduces energy consumption and improves working conditions for colleagues. Our estimates are that this project will save 1 million kWh of electricity per year, and approximately 125 tonnes of CO2e emissions, as well as delivering meaningful cost savings.

Following Effluent Treatment Plant operational challenges at our Haverfordwest Creamery in the summer of 2023 we have invested in significant upgrades. We take our responsibilities to the environment very seriously, and so temporary investment was put in place to stabilise operational performance, and post year-end have completed investment in new additional membrane filtration that will deliver best in class effluent management. A positive to come out of the challenges is that we are now actively engaged with the local river group, supporting wider environmental work in the Cleddau catchment to ensure that local river water quality is enhanced for the long-term.

Balance sheet, cash flow and net debt

Our balance sheet, excluding the pension asset and the recognition of deferred tax assets, improved significantly with net assets increasing by £9.1m. We've delivered profits along with capital expenditure ahead of depreciation and slightly improved our pension position despite our cash contributions to the deficit being partly offset by actuarial losses.

Cash Earnings (EBITDA)

The cash earnings (EBITDA) within our operating profit were £23.1m. EBITDA is defined as operating profit of £16.8m with the addition of non-cash depreciation of £6.3m charged to the profit and loss.

Member investment

At the end of the year, Member Capital stood at £78.8m compared to £78.0m the previous year. Members made cash contributions of £0.8m in the year to 31 March 2024 through the retention of 0.5 pence per litre until they reach their capital target of 7ppl. Our share trading platform, Asset Match, offers members an alternative to the 0.5ppl retention and the opportunity to buy shares to help reach their targets.

In the year to March 2024, £37k of New Preference shares held by former members were cancelled as they were not sold within the three-year period following termination of membership.

Pensions

The Group operates a defined contribution scheme - a Stakeholder Group Pension Plan with Standard Life. All employees have access to the stakeholder plan under which the Company contributions are charged to the profit and loss account as they fall due each year. Contributions to the defined contribution scheme charged to the profit and loss account in the year ended 31 March 2024 were £0.5m (2023: £0.5m).

In addition, First Milk Limited operates the Scottish Milk Limited Retirement Benefits Plan and participates in The Milk Pension Fund, an industry scheme in which all participating employers report only their share of assets, liabilities and obligations while legally holding joint and several liabilities for the scheme. The schemes are closed to accrual of benefits. Both pension funds were subject to triennial actuarial valuations as at 31 March 2021 and the financial position of both funds had improved since the last valuation.

The Milk Pension Fund had a slight surplus, so the trustees do not require any deficit payment to be made to the scheme and in August 2023 an amended schedule of contributions removed the employer expense contributions.

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

In the year to 31 March 2024, total contributions of £2.8m (2023: £2.5m) were paid to the Scottish Milk Limited Retirement Benefits Plan, while contributions of £nil (2023: £0.1m) were paid to the Milk Pension Fund.

During the year, our pension asset improved by £0.19m, increasing the pension asset to £1.1m. Cash contributions to the Scottish scheme were offset by actuarial losses of £2.6m, while actuarial losses, due to discount rate assumptions, of £2.2m in the Milk Fund reduced the unrecognised surplus. As we do not have rights to any surpluses in the Milk Pension Fund none has been recognised.

While the accounting valuation at year-end shows a slight improvement this does not change the planned contributions to the schemes and the latest funding reports demonstrate that the hedging policies in place for inflation and interest rates are ensuring the deficit continues to reduce as contributions made.

After year-end, on 11 June 2024, the Trustees of the Scottish Milk Limited Retirement Benefits Plan entered a buy-in arrangement with the insurer Just. With the support of our advisors, PwC, the Trustees have purchasedan insurance policy with Just Retirement Limited to underwrite members' benefits. The policy is an asset of the Plan that has been tailored to match the benefits the Trustees need to pay members. As the sponsoring employer, we will continue to make contributions totalling £5.1m, as agreed in the Schedule of Contributions and Recovery Plan, to May 2026 plus an annual contribution to expenses of £348k.

Our strategic objective remains to improve total returns to our farmer members, including milk price.

Debt facility and Interest

Net bank debt, including cash, increased by £1.0m to £64.9m. Cash inflows from operating activities, including working capital, were offset by the investment in BV Dairy.

Working capital released cash during the year. Our stock levels did not change significantly, with over 99% of the stock held to fulfil committed future sales. However, our total stock value reduced by £17.7m as lower milk prices reduced the value of cheese and co-product stocks. The stock decrease and an increase in payables was partially offset by an increase in the outstanding payments due from customers, including customers of BV Dairy.

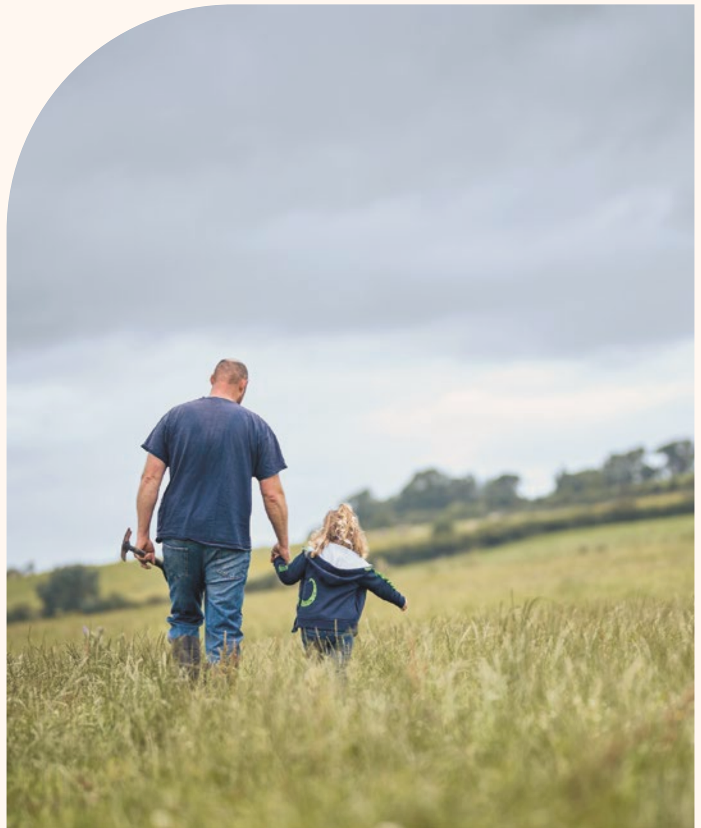
In February 2024 we amended our long-term debt arrangement with Wells Fargo and HSBC to include BV Dairy. The facility limit remains at £120m. The amount available is dependent on the value of stock and debtors, based on a percentage draw-down specified in the facility agreement, and a term loan on our fixed assets.

Interest and finance costs in the year to 31 March 2024 increased, as both the value of our average debt and interest rates were higher, to £6.3m. While interest costs have increased, we will recover these higher costs through the selling prices of our maturing cheese.

For the year ended 31 March 2024

Profit & Loss Account

	2024 £'000	2023 £'000
Turnover	475,974	456,243
Cost of sales	(446,596)	(442,047)
Gross profit	29,378	14,196
Administrative expenses	(12,834)	(9,330)
Other operating income	234	217
Operating profit	**16,778**	**5,083**
Finance income	320	14
Finance cost	(6,291)	(4,101)
Profit before taxation	10,807	996
Tax on profit	1,961	(915)
Profit for the financial year	**12,768**	**81**



As at 31 March 2024

Balance Sheet

	2024 £'000	2023 £'000
Fixed Asset		
Intangible fixed assets	17,549	0
Property, plant and equipment	56,924	48,461
Other investments	500	500
Total Fixed assets	**74,973**	**49,141**
Current Assets		
Inventories	70,826	88,506
Trade and other receivables	56,990	30,682
Cash and cash equivalents	2,531	5,469
Total Current Assets	**130,347**	**124,657**
Trade and other payables amounts falling due within one year	(75,709)	(59,142)
Net current assets	54,638	65,515
Total assets less current liabilities	**129,611**	**114,656**
Trade and other payables amounts falling due after more than one year	(72,204)	(68,880)
Total net assets excluding pension assets	**57,407**	**45,776**
Pension asset	1,109	924
Net assets	**58,516**	**46,700**
Capital and reserves		
Called up share capital	78,764	77,962
Profit and loss reserve	(20,248)	(31,262)
Total capital and reserves	**58,516**	**46,700**

IMPACT REPORT

Mark Brooking,
Chief Impact Officer

100,000

A target to sequester 100,000 tonnes of CO2 per annum on members' farms by 2025.

10%

The intention to reduce antibiotic use by a further 10 per cent by 2025.

10%

A target to increase milk from forage by 10 per cent by 2025 to reduce members' reliance on imported feeds.

50%

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.

2023

The aim for all transport and processing activity to be using renewable fuel sources by 2030.

Our Targets

"This is not just about creating climate resilience in our own supply chain, we have a moral imperative to act to protect our planet for the future."

It is clear that our global climate is changing, and we are seeing the disruption all around the world and, even here in the UK, we are seeing more variable weather than we have ever experienced, with previous records being beaten on a regular basis. This is already impacting forage production and having an effect on milk production volumes. Quite apart from the impact on wider society of these changes, becoming more resilient to this is critical for the long-term success of dairy farming, and so it is important that we play our own part in addressing this challenge.

"Our approach is to lean into the causes of climate change. We need to reduce overall emissions and also use nature to help capture CO2 and put it back where it came from, underground."

The depletion of biodiversity is an equally important societal and resilience issue, our aim is to reverse this loss. We will be doing this by taking a regenerative approach throughout our business. In our factories, this will mean ensuring that we look at everything holistically, considering the impact on People and Planet as well as Profit. At a member level, we focus on regenerative agriculture, which is centred around working with nature and mimicking natural processes wherever possible. We believe that the overall impact of these actions will regenerate the earth and make it a better place for everyone.

Of course, in the last year, this hasn't been the only challenge. Ongoing global instability, cost pressure and economic trends have all added to the uncertain circumstances we have collectively faced. But, in spite of this, the need to focus on long-term action around the climate crisis, nature and biodiversity remains. This is not only a moral imperative, but also a commercial imperative. Every day, we see increased consumer and customer interest in this area. We see opportunities to collaborate to create shared value. We see opportunities to differentiate what we do as a business. And, most fundamentally, we see opportunities to progress the delivery of our vision – to enrich life every day to secure the future.

We'll do this by focusing on building a regenerative mindset throughout First Milk – by re-thinking the traditional approach to business. For us, this is about considering the implications of every decision we make on creating a positive future. It's about doing the right thing to leave the world a better place.

Our annual report is not only focused on the Profit element of this – reporting on net income, cash, investment and risk. This report also focuses on the other two elements – People and Planet.

We cannot make any progress as a business without our colleagues and members, and without the engagement and commitment of our customers and suppliers.

Training

Investing in training for our colleagues improves performance and retention. In the last year, we completed nearly 3,000 training hours – enabling our colleagues to thrive in their roles and ensure our commitment to continuous development.

We also empowered our site leadership teams at Haverfordwest and the Lake District Creamery by starting their 'Insights Discovery' journeys, having previously undertaken this with the Executive team. This helped our site leaders to understand themselves, others and make the most of the relationships that affect them at work.

We also concluded our first 'Empower Me' Women in Leadership course. We had ten of our female leaders across the business complete this personal development, which helped to create an empowering workplace where women can assess their strengths and values, whilst forging a career pathway through targeted learning, support and networking.

Our key initiatives with our members also continued, with our Next Generation and Women in Agriculture groups flourishing and maintaining active participation.

Finally, our informal 'lunch and learn' sessions for colleagues continue, providing open access to training on a range of issues to support knowledge.

We celebrated our B Corp certification by hosting events all over the country at which we showcased our regenerative approach to food production. We were delighted to welcome thousands of consumers to taste our products, and those produced by our customers , whilst gaining a better understanding of how food is produced and how it can be part of the climate solution.

We also continue to support the Entrepreneurs in Dairying programme run by RABDF, which supports young people to develop their careers in the dairy sector by giving them core skills around the milk market, people management, finance and business planning.

Wellbeing

During the year, all new colleagues received 'Start the Conversation' training which has helped us continue to raise awareness, promote and lead on the development of positive mental wellbeing at work. We also trialled some 'Manage the Conversation' sessions to empower our line managers with how to support in this area, and we look forward to developing this format further in the year ahead. We also maintained our Employee Assistance Programme and further developed our Mental Health First Aid team to ensure appropriate representation across the business.

Engagement

We continued to measure colleague engagement regularly in the year using the We Thrive platform, and introduced listening session with teams and action plans for all to ensure we turned our insights into actions to enhance our colleague experience further.

PEOPLE

Health, Wellbeing, Safety & Community

23
Leaders completed 'Insights Discovery' journey.

Nearly **3000** Training hours delivered

10 Female leaders completed 'Empower Me' training course.

Updating our commitment to

ANIMAL WELFARE

Our original First Milk Pledge was introduced in 2020 to protect and promote First Milk and the wider industry's reputation. The Pledge commitments underline our belief that all animals in the First Milk herd deserve a life worth living, we all share responsibility to protect and enhance the environment as custodians of the land, and we treat each other and everyone we deal with fairly.

Since the Pledge was launched, there have been many developments in our overall approach, including our focus on regenerative farming principles and launch of the Regenerative Farming Plan. As a result, and in response to the increasing focus on water protection and animal welfare in the dairy industry, post year-end we launched an updated Pledge 2.0. The commitments remain centred around Animal welfare, Earth and People and we believe the revisions made to them underline the importance of upholding the highest standards of animal welfare.

PLANET

Emissions, Nature, Water and Air

Minimising CO_2 Emissions

We have set out ambitious targets to achieve net zero by 2040 across the following areas:

Scope 1: Direct emissions from owned or controlled sources

Scope 2: Indirect emissions from the generation of purchased energy

Scope 3: Indirect emissions not included in Scope 2 that occur in the value chain energy

GHG Reporting Scope	FY24 GHG emissions (Tonnes CO2e)	FY23 GHG emissions (Tonnes CO2e)	Change (Tonnes CO2e)
Scope 1 (total)	19,942	19,176	766
Scope 2 (total)	1,399	1,290	109
Scope 3			
3.1 Purchased goods and services	1,132,801	979,632	153,168
3.2 Capital goods	2,052	6,353	(4,301)
3.3 Other fuel and energy related activities	3,702	3,723	(21)
3.4 Upstream transportation and distribution	12,472	10,631	1,841
3.5 Waste generated in operations	1,350	1,201	148
3.6 Business travel	126	75	51
3.7 Employee commuting	153	141	12
Scope 3 total	1,152,655	1,001,756	150,899
Total emissions (gross)	**1,173,996**	**1,022,221**	**151,775**
Benefit from biofuel*	1,239	4,060	(2,821)
Total emissions (net)	**1,172,756**	**1,018,161**	**155,596**

With growing evidence of a climate crisis, we must act to decarbonise across society, and dairy farming and dairy processing must play its part.

We have set out a clear commitment to address this, with an overall commitment to achieve net zero by 2040 through the adoption of regenerative thinking throughout our supply chain.

We measure and calculate our carbon footprint across all three scopes on an ongoing basis and to verify our results we have them independently assessed by SLR Consulting Limited, who undertake limited assurance of our greenhouse gas (GHG) emissions (Scope 1, 2 and 3) against the WRI / WBCSD 'GHG Protocol Corporate Accounting and Reporting Standard', 2015 revised edition, and the GHG Protocol 'Corporate Value Chain (Scope 3) Accounting and Reporting Standard'.

Last year, post year-end, we identified a formula error in our results, which led to us re-stating our results via an addendum issued alongside our published report. This error related to data from the previous three years (FY21-FY23 inclusive) and impacted on the absolute carbon emissions reported, which meant the greenhouse gas emissions for FY23 were stated to be 821,094 tonnes of CO2e whereas the correct figure was 1,018,161 tonnes. The comparison above is based on the re-stated figures.

The last year has seen an increase in CO2e emissions across all scopes, which is clearly not the direction of travel that we are aiming for. There are a wide variety of reasons for this. In addition, the acquisition of BV Dairy six weeks before the end of the financial year will have added additional emissions, which are not included in these results due to insufficient time to collate and verify results before year-end. BV Dairy results will be included in our FY25 annual report next year.

When it comes to our results, the table above shows that we have seen a further small increase in absolute Scope 1 and Scope 2 emissions linked to additional increases in throughput at our creameries. This also impacts our Scope 3.4 emissions, as we need to transport increased volumes of milk and final product. In a growing business, this will always be a challenge and, even though we have driven improvements in our energy use through initiatives such as the installation of LED lights at our two cheese production sites, the installation of a lead boiler economiser at Lake District Creamery and an energy-efficient air compressor at Lake District Biogas, the benefits have been offset by additional processing activity.

Decarbonising dairy production is never going to be simple, but we are not shying away from the realities of the challenges we face.

Another factor on the increase in Scope 3.4 is that we've broadened the scope of our reporting on fuel for transportation to cover 'well to tank' emissions, i.e. the emissions associated with extracting the raw material and producing the diesel, which have not been previously included. This accounts for an additional 2,303 kg CO2e, although on a like-for-like basis, our transport emissions actually decreased year-on-year.

What is important to note, however, is that 85 per cent of the reported Scope 2 emissions increase is actually related to UK grid emissions factors increasing – something that isn't directly within our control.

100%

Renewable energy by 2025

Whilst it clearly doesn't impact these results, to reduce emissions and isolate us from the vagaries of the UK grid balance, we have now committed to moving all our purchased electricity to 100% renewable sources from January 2025, which will reduce our Scope 2 (market-based) emissions for Haverfordwest and Lake District Creamery significantly. BV Dairy is also on a renewable electricity supply, so the overall group emissions for Scope 2 will be substantially lower from January 2025 onwards.

A significant challenge, however, is that we remain reliant on Combined Heat and Power generation based on natural gas for the majority of our power generation at both Haverfordwest and Lake District Creameries and a proportion of our total heat demand, and whilst financially advantageous, this creates the majority of our processing-related carbon emissions. For context, this process was previously reliant on heavy fuel oil, so the current system is a significant step on from that, but we know we need to go further and continue to explore the most effective ways to decarbonise this element of our sites without causing a material financial impact. This area will get increased scrutiny moving forward.

From a materiality perspective, however, our major source of emissions remain in Scope 3. When we look at our farm-based emissions, this year has seen an important development in that we are now calculating farm carbon footprints across all our members, as part of our regenerative farming programme. Historically, we based our reporting on data from around 70 farms, extrapolated out to represent our entire milk supply, so this development means that for the first time we have been able to calculate emissions for a statistically and geographically representative dataset.

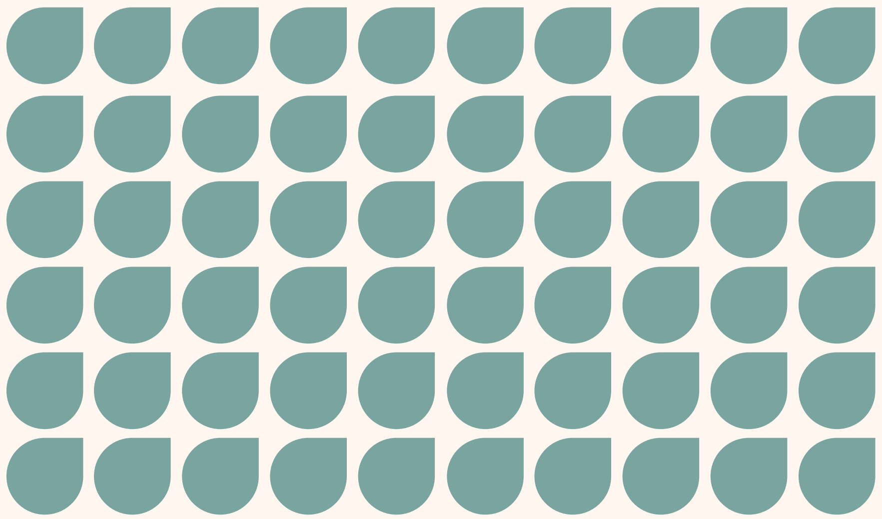
In 2023 data was sourced from

70 farms

Farms x10

In 2024 data was sourced from

601 farms



Farms x10

This year has seen an important development in that we are now calculating farm carbon footprints across all our members. This development means that for the first time we have been able to calculate emissions for a statistically and geographically representative dataset.

2023

1.05 kg CO2e

First Milk

2024

1.17 kg CO2e

First Milk

3 kg CO2e

Global Average

Our historic data, reported last year, showed an average emissions level of 1.05kg of CO2e per kg of fat and protein corrected milk across those circa 70 farms.

This year, our dataset is based on 601 farms (other farms have completed the process but there are still unresolved data errors which are being investigated, so their results have been ignored for the purposes of calculation) and shows a farm emissions figure of 1.17kg CO2e per kg of fat and protein corrected milk.

This is obviously higher than last year's result (+15.6%) but we believe is significantly more representative.

For clarity, our baseline emissions in FY21 were 1.22kg CO2e/kg milk, so these results are 4% lower than our baseline. 1.17kg CO2e/kg is also very similar to our major competitors within the UK, whereas the global average figure is in excess of 3kg CO2e/kg.

Where we have data on farms using the same methodology as last year we have seen a reduction of 3.1%, demonstrating that in general terms our members are making progress. Of course, there is still much to do, and we are working with each member to provide the best tools and advice to reduce this further in years to come.

Our robust approach to data collection and validation has enabled us to better understand the relationships which exist between carbon emissions and farming approach. Our results show a modest relationship between CO2e emissions and total volume of milk produced on a farm (R value=0.1504) and a very weak relationship between CO2e and the associated farmland area (R value=0.0087). Unsurprisingly, given the methodology associated with gross GHG emissions calculation on farm, there is a strong relationship between CO2e and yield per cow (R value=0.4975), which is a direct result of the way that methane emissions per cow are calculated using standardised figures which results in a dilution effect giving an advantage to higher yielding cows.

The formulas used within all carbon foot-printing models do not distinguish between dry matter intake that is largely grazed/forage-based and that which is grain-based. The associated fossil fuels embedded in different feeds are accounted for, but it is assumed that all classes of dry matter intake generate the same amount of methane per kg fed from enteric emissions. These sorts of broad assumptions are being challenged and will become more sophisticated. But the current methodology favours higher yielding herds. This has been one of the main drivers for farm advisors continuing to promote further yield increases, even if it means housing cows all year, importing a wider range of feedstuffs from around the world, and growing greater areas of supplementary feeds on farm, such as maize.

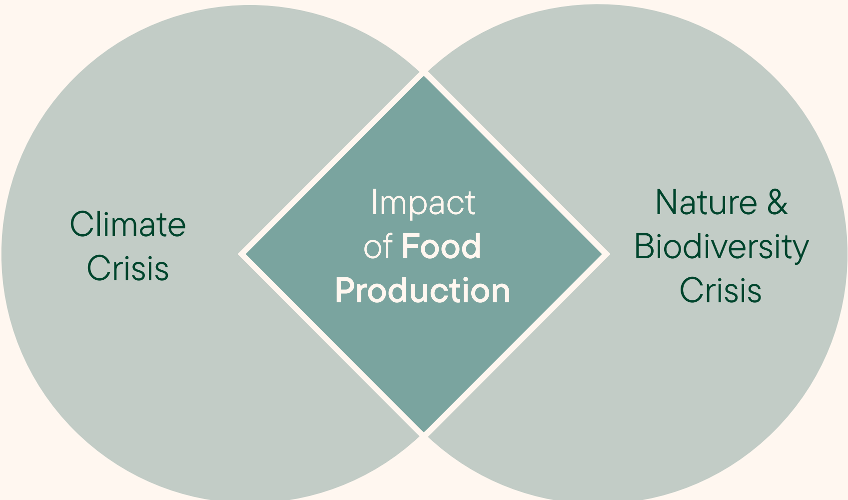
We believe that this approach carries risks, as it ignores the benefits of carbon removals on farm (sequestration) as accurate data on this element has not been previously available. That is why our work with Agricarbon is so important, as it will allow us to accurately determine the sequestration taking place over time, resulting in a reliable net carbon position, which will ultimately be more credible than just a gross emissions-only figure.

What's more, this will allow more balanced consideration of the overall environmental impact of a dairy production system, rather than a carbon-centric approach that the current methodologies can drive. This is important, as the climate crisis sits alongside a nature and biodiversity crisis, and we need to focus on the overall impact of food production, and not just one issue.

When it comes to wider Scope 3 emissions, we have seen increases in Scope 3.5 (waste generated) this year as a result of diesel consumption in a temporary boiler at Lake District Creamery whilst our AD plant at Lake District Biogas was offline due to an operational incident. This resulted in a 12.3% increase in waste generated emissions, but this will be a one-off incident and not part of ongoing operational activity. This same operational incident, which saw the AD plant cease gas production for a number of months, also impacted our Scope 4 benefits, due to a significant reduction in overall biogas production.

Finally, whilst small in the overall spread of emissions, our emissions from business travel continued to increase during this year, continuing the trend from last year. This is a result of additional headcount and the adaption of ways of working now our head office functions are operating completely virtually. We have introduced a salary sacrifice scheme to encourage colleagues that travel for business to adopt electric vehicles and will continue to explore options to reduce emissions related to travel without compromising the efficient operation of the business.

In summary, we need to do more – our carbon emissions continue to increase as a result of the growth in the business, and this is counter to our desired position. Decarbonising dairy production is never going to be simple, but we are not shying away from the realities of the challenges we face, and we remain committed to hitting our interim and overall carbon reduction targets on time. As such, we will be redoubling our focus to drive meaningful change across Scopes 1, 2 and 3. We know we are not alone in this and will be as transparent as we can be around the specific challenges we face, to encourage discussion and foster collaboration and innovation, so that we can find new solutions.



Carbon sequestration

Meaningful data on soil carbon sequestration will be vital to accurately assessing the real carbon impact of food production in the future.

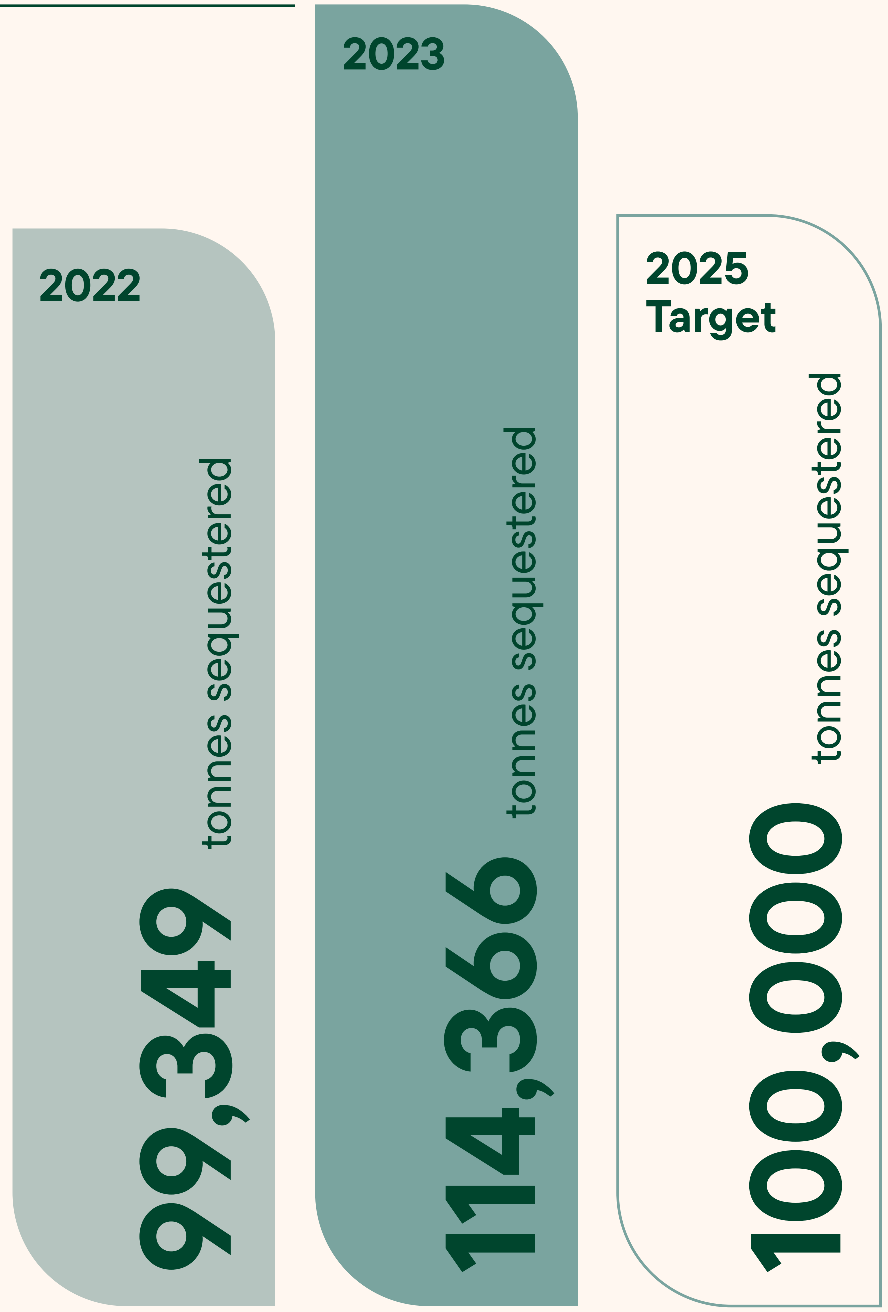
That's why we are undertaking pioneering soil carbon assessment with Agricarbon to accurately determine the impact of our regenerative farming practices on soil carbon sequestration, to enable meaningful assessment of the net carbon position on our farms. This data will be available in 2025 and we will share it as soon as it is available, and this will be used to assess our progress against our target to sequester more than 100,000 tonnes of CO_2e per year on our members' farms.

Agricarbon

In the meantime, we have asked Farm Carbon Toolkit to model the anticipated impact of the regenerative interventions being undertaken. This shows that in 2023 we will have potentially sequestered 114,366 tonnes CO_2e, an increase of more than 15,000 tonnes from last year and well ahead of our target to achieve 100,000 tonnes by 2025.

Data modelled by:

Farm Carbon Toolkit



Regenerative farming at scale

Our regenerative farming programme continues to gather momentum and is the largest programme of its type in the UK dairy sector. To further accelerate action and to reward those who are making the most progress, from April 1, 2024 (post year-end) we have implemented an enhanced regenerative payment bonus with our members.

Our existing approach paid a 0.5ppl bonus for completing an annual regenerative farming plan through our unique, field-level mapping tool. This sees each member complete a field-level plan for their farm, including crop type for each field and the regenerative interventions that they intend to complete by field. During the year we developed a regen scoring system as part of this tool, and from April 2024, this score is used to pay an additional bonus of up to 1.0ppl to reward progress. This score provides a powerful way for individual members to assess the potential benefits of interventions they are considering, as well as determining how they compare against other members. It also allows general comparisons in progress over time.

As an indication, if the scoring index was applied to 2022 base year records, the average score across our membership was 32 (out of a possible 100). By 2023, this had increased to 42, and in the current year plans the average score in 54.

This is regeneration implemented at scale and is a great example of the way First Milk members have embraced regenerative principles as a way of building long-term resilience for their own farms and for the dairy supply chain they are part of.

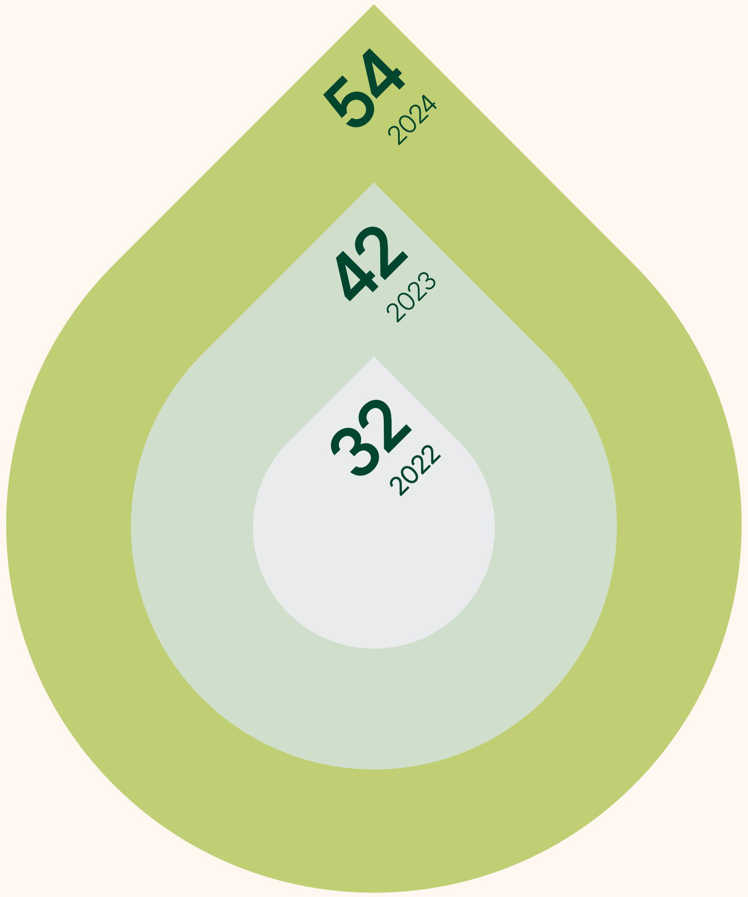
When it comes to regenerative interventions, our members continue to make progress, with more regenerative practices being applied across a wider land area year-on-year.

This year, our members are committing to 261,340 regenerative interventions (2023: 163,834 interventions) across 84,623ha of land (2023: 84,118ha), with an average of 11 interventions per land parcel (2023: 7 interventions per land parcel).

For comparison, in the first year of this programme (2022), members committed to 130,873 interventions on 78,399ha of land, with an average of 6 interventions per land parcel, so the number of regenerative interventions has more than doubled in two years.

Our average First Milk regen score continues to increase each year, delivered by actions from our members...

(Scored out of 100)



261,340

Regenerative interventions in 2024

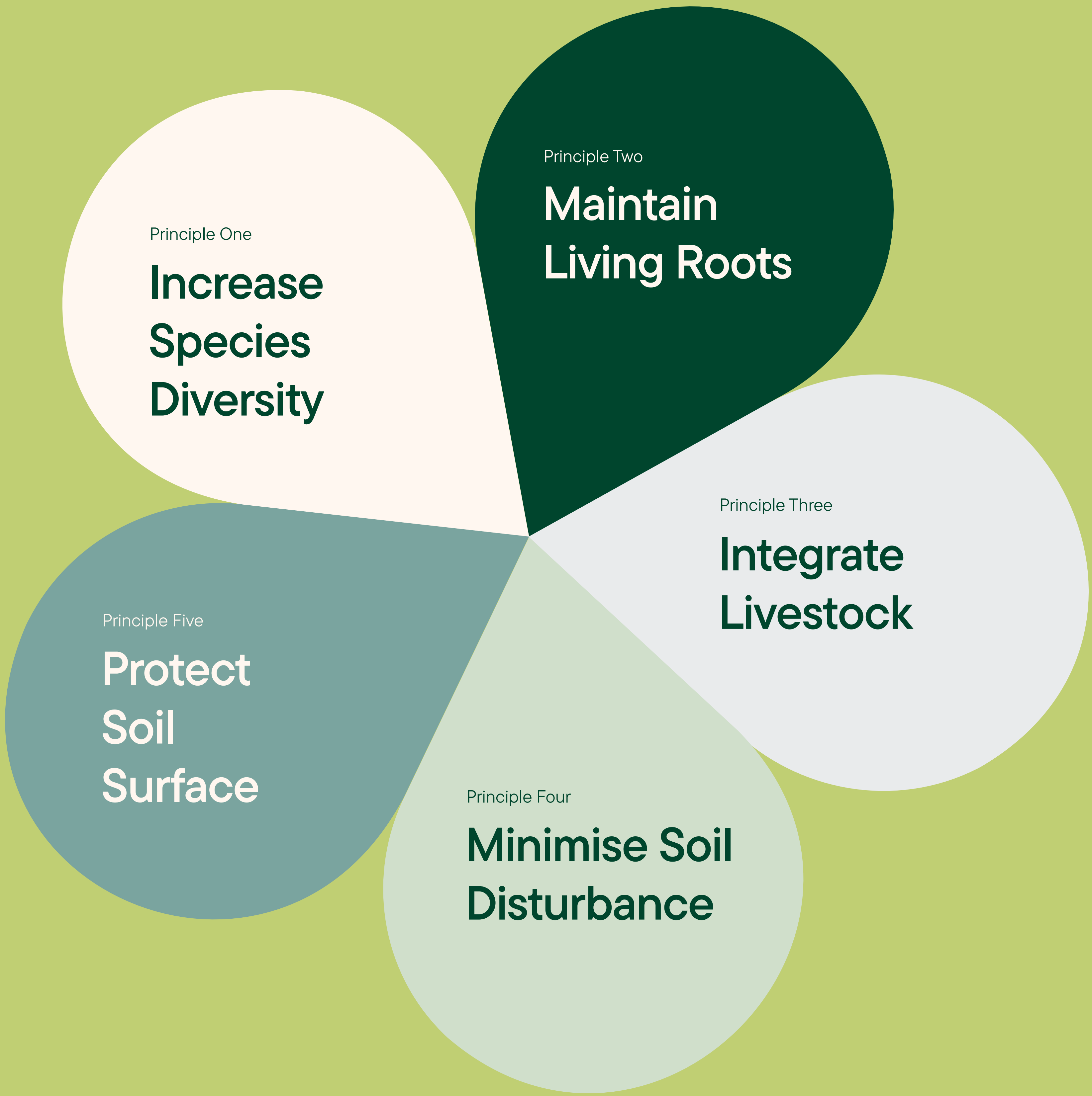
130,873

Regenerative interventions in 2022

11 interventions per land parcel

Regenerative interventions committed to by First Milk members

firstmilk



Interventions are based across the principles of regeneration

1 Increase Species Diversity

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

This year, members have collectively committed to sward diversity across 91% of grassland, with only 3% of grassland being single species. 19% of land with species diversity interventions will have more than 6 species of grass, herbs or legumes compared to 13.5% last year.

2 Maintain Living Roots

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

This year, members have committed to interventions linked to maintaining a living root all year around on 77,235ha, some 91% of all land (2023: 73,709ha including permanent pasture area).

3 Integrate Livestock

Members have this year committed to graze 69,577ha of land for an average of 6.6 months. Last year, members pledged to graze 69,098ha of land for an average of 6.7 months.

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

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

This year, members have pledged to rotationally graze 46,013ha compared to 37,973ha last year, which makes up 66% of grazing practices on farm. The most popular rotational grazing system is 'up to 3 days graze, with 21 to 29 days' rest, which is being carried out across 23,907ha (2023: 18,291ha).

4 Minimise Soil Disturbance

Although infrequent ploughing has benefits where surface compaction has occurred, mechanical cultivations expose the top layer of soil causing oxidation and release of carbon. Soil disturbance can also occur from chemical applications, as they also disrupt the network of mycorrhizal fungi attached to plant roots, which help crops to access nutrients.

This year, members have committed to 22,687 interventions aimed at minimising soil disturbance (either no till or min till operations rather than ploughing) (2023: 14,965) across 80,060ha of land (2023: 56,598ha). The amount of land expected to be ploughed this year has decreased to 5% of total land, from 7.5% of total land last year.

5 Protect Soil Surface

Bare soil with no 'armour' to protect it is exposed to extremes of hot and cold. Rain washes away topsoil more easily and wind can blow baked soils into the air.

Good land management increases the structural resilience and stability of soil. Soil able to withstand more extreme weather patterns provides better yield protection for grass/crop production and more economic security for a farm business.

We encourage members to reduce direct losses through erosion and run-off by, for example, undersowing arable crops or using cover crops after maize. We also advocate allowing grassland to grow taller before grazing, and not being afraid to let cows trample some grass down into the soil.

> "When it comes to regenerative interventions our members continue to make progress, with more regenerative practices being applied across a wider land area year-on-year."

firstmilk

A healthy, thriving farm system

Protected Watercourses

Livestock use rivers for a variety of reasons; to drink, to cross to neighbouring grazing and for shelter or shade, causing problems such as poaching and soil erosion on riverbanks. Livestock also introduce faecal bacteria, downgrading water quality. A fenced buffer strip next to water courses will prevent livestock access and poaching, plus will allow plant growth helping to reduce diffuse pollution entering the water whilst also benefiting farm biodiversity and flood risk. Members have indicated that 45,468ha of grassland has watercourses and that more than 70% of this will be protected (2023: 64%).

Hedges

As part of our digital mapping tool, we are able to measure the length of hedges on members' land and these hedges come with many benefits. They provide shade and shelter to livestock during weather extremes, help to increase water infiltration, provide habitat / wildlife corridors and sequester carbon.

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

Our members have more than 4,935km of hedgerow on their farms (2023: 4,200km) and plan to plant an additional 68km in the year ahead (2023: 38km). That's all the way across Australia and from Land's End to John O'Groats!

To maximise the habitat and shelter benefits of hedges, it is important to avoid excessive trimming. Around 8% of hedges are reported as never being trimmed, with a further 49% trimmed every 2+ years leaving much of the previous growth. Around 16% of hedges are still trimmed annually.

Silvopasture

There are many benefits to silvopasture, or in-field trees, which help to build healthy soils by releasing carbon deep into the ground. They also help prevent flooding and protect water sources, provide shelter for livestock, sequester carbon and encourage greater biodiversity. Members have recorded that 16.4% of farmed land benefits from silvopasture (2023: 15% of farmed land), with an average of 7 trees/ha (2023: 6 trees/ha).

Biodiversity

The more natural a farming system is, the more biodiversity it will attract – and the more biodiverse the farm is, the more balanced it'll be, resulting in a healthy, thriving system. Creating habitats for a range of different wildlife will help create balance and encourage beneficial insects to work in tandem to pollinate crops and prey on pests.

Increasing dung beetles will cut parasite populations, increase soil organic matter and aeration, increasing soil fertility and help reduce methane emissions by breaking down dung.

This year, 21% of all land has biodiversity enhancements, with a total of 260,075 trees recorded in field boundaries.

In January 2024, members of the Nestlé UK leadership team planted trees at one of our member farms, Raisgill Hall. Over 200 trees were planted to create a new area of silvopasture.

Reducing water and energy use at our sites

	FY24	FY23	Change (%)
Water – m3 extracted water per Tonne of milk	0.937	0.879	6.5%
Energy - kWh per Tonne of milk	160.100	160.400	(0.2%)
Energy – kg CO2e per Tonne of milk	0.030	0.029	3.4%

We are committed to reducing the amount of extracted water that we utilise at our processing sites. In the last twelve months, increased production volumes have led to a proportional increase in total water consumption, but the proportion of recovered water is restricted by current plant. A key focus in FY25 will be to further increase water recovery and re-use, leading to a reduced reliance on extracted water for processing.

We are committed to reducing the total amount of energy consumed per tonne of milk handled, yet energy and CO2e linked to production processes have remained steady year on year. During the year we completed a number of energy efficiency projects including the installation of controllable, energy-efficient LED lighting at both cheese sites, the installation of a new economiser on the lead steam boiler at Lake District Creamery and the installation of a new energy-efficient air compressor and drier and Lake District Biogas and these projects should show as a slight improvement in the year ahead. Further opportunities for heat recovery are also being evaluated during the current financial year.

Food Waste

Long term we are looking to minimise our effluent loading from our sites through ongoing operational efficiency savings. During the year, our food waste measured in kg of Chemical Oxygen Demand (COD) per tonne of milk increased by 16 per cent to 5.84 kg COD per tonne of milk and this is a strong focus area in the year ahead. During the second half of the reporting year the overall trend was starting to decrease and show an improvement in this area, but there remains work to be done.

Waste to landfill

We have made further progress on waste to landfill, with no waste to landfill recorded at either of our cheese production sites in the year, with all waste being sent for recovery or recycling.

Minimising our impact on river quality

During the year we saw ongoing operational issues with our effluent treatment plant at Haverfordwest, which led to discoloured discharges and solids going into the Western Cleddau river on more than one occasion. As a business committed to sustainability and to doing the right thing, we took these issues very seriously and undertook significant investment in additional filtration mechanisms at the effluent treatment plant to reduce our impact. We also improved our engagement with the local community and river group, to better understand the wider river quality issues in the catchment.

I'm pleased to report that this investment has stabilised our effluent treatment, restoring river quality at our outfall. We are also working closely with the local river group to encourage more scrutiny on river quality across the catchment, and this includes a contribution to sampling equipment for their volunteers to use. We hope to broaden this relationship further to include our farmers operating in the catchment, ensuring that we can play our part in safeguarding the long-term health of the river.

We have **MOMENTUM.** We have a shared sense of **PURPOSE** and I would like to thank our members and colleagues for their support and **COMMITMENT** as we focus on reducing our **IMPACT.**

Looking forward

Last year we were pleased to be certified as a B Corporation and, at the start of this year, the external recognition of our sustainability leadership was marked with us being one of only 15 businesses across the UK to be awarded the prestigious King's Award for Enterprise for Sustainable Development.

Yet we cannot be complacent nor rest on our laurels – there remains much to be done, and there are areas where our performance is running counter to our desired direction of travel.

When viewed against the wider context this means we must double-down on action to drive positive impact. The climate emergency is more obvious as every year passes - globally and closer to home. Recent weather patterns have had a direct impact on our own members, with periods of drought followed by a mild, wet winter and spring affecting milk production. But this is not just about creating climate resilience in our own supply chain, we have a moral imperative to act to protect our planet for the future.

What's clear is that the solutions are not easy. Balancing the 3Ps of People, Planet and Profit creates inevitable tension. Balancing decarbonisation in the context of nature, biodiversity, food security and protecting rural livelihoods is complex.

But we are making progress. Our regenerative farming programme goes from strength to strength. Whilst we may not have implemented solutions in other areas, we are gaining clarity on the best route forward and have long-term plans in place. We are getting more robust data, and so are able to understand the nuance of our current position more intimately, which helps us make better decisions in the future.

We have momentum. We have a shared sense of purpose, and I would like to thank our members and colleagues for their support and commitment as we focus on reducing our impact. Together, I am confident that we will deliver our vision to enrich life every day and secure the future.

firstmilk

The Board

From left to right: Scott Calderwood, Chris Thomas, Greg Jardine, Shelagh Hancock, Michael Fletcher, Mike Smith, Frank Colhoun

Chris Thomas
CHAIRMAN

Chris Thomas became First Milk Chairman on 1 August, 2018. Chris has a strong track record of successful leadership in the food and dairy sectors, having held senior executive and non-executive positions across a range of businesses including G's Fresh Foods, Tulip UK, Adelie Foods, Bakkavor, St. Ivel, PepsiCo and Mars.

Shelagh Hancock
CHIEF EXECUTIVE

Shelagh has more than 30 years' experience in the food and agricultural supply sectors. Prior to joining First Milk as CEO in 2017 she held several senior executive positions in UK dairy food companies including at the farmer-owned co-operative Milk Link and Glanbia Foods and in a family-owned business, Medina Dairy. She originally trained as an animal nutritionist and worked for more than 10 years in the agricultural supply sector.

Greg Jardine
CHIEF FINANCIAL OFFICER

Greg joined First Milk in 2010 and held several senior management and executive roles in finance and commercial before being appointed as Chief Financial Officer and joining the Board in September 2017. Greg has more than 15 years dairy experience, having previously worked for Lactalis McLelland as Industrial Finance Director.

Mike Smith
VICE CHAIRMAN AND FARMER DIRECTOR

Mike farms in partnership with his brother, Peter, at Pelcomb Farm near Haverfordwest. The 1,000-acre farm milks 450 cows, rears 200 replacements and carries 400 head of beef cattle. Mike has previously Chaired the Welsh Assembly Dairy Strategy Group and been a member of its Dairy Task Force.

Scott Calderwood
FARMER DIRECTOR

Scott farms with his brother Matthew and their families at the Home Farm on the Rosneath Peninsula in Argyll & Bute.
The Farm runs a 360 Holstein Friesian Herd with followers on a green forage system.
Scott served the maximum three terms of office on the First Milk Member Council, covering areas in Scotland and Wales.
He is also an assessor for NFU Mutual.

Michael Fletcher
NON EXECUTIVE DIRECTOR

Michael joined the First Milk board in 2021. He brings a wealth of senior commercial experience, having previously been Chief Executive at NISA and, before this, Chief Commercial Officer at Co-op Food. In addition, prior to joining the Co-op, he worked at Tesco in a number of senior director-level commercial roles, both in the UK, Europe and Asia.

Frank Colhoun
NON-EXECUTIVE DIRECTOR

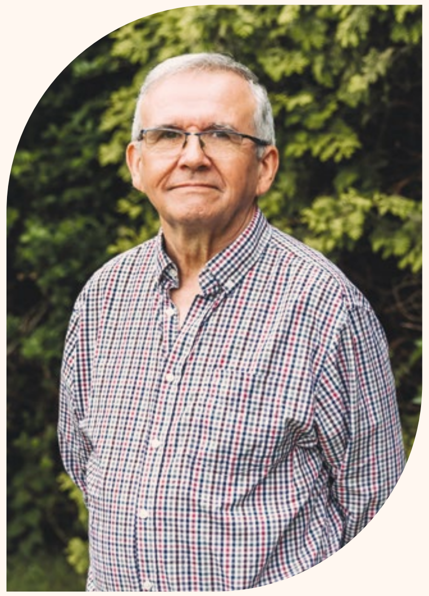
Frank is an experienced finance professional having held Chief Financial Officer roles in multinational manufacturing and industrial businesses including Lafarge, Honeywell and Novar Plc. He is now the Chief Financial Officer of family-run property development and investment business, Surplus Property Solutions.

The Council

The Member Council oversees the Board to ensure the business acts in the best interest of its members, the planet and our people, whilst maintaining its co-operative principles. The Council also support communication between our farmers, the Board and Executive, ensuring members' views are represented. The Member Council consists of seven farmer members and an independent chair.

Sean Rickard
Independent Chairman

James Macpherson
Farmer member, Staffordshire



Peter Rees
Farmer member, South Wales

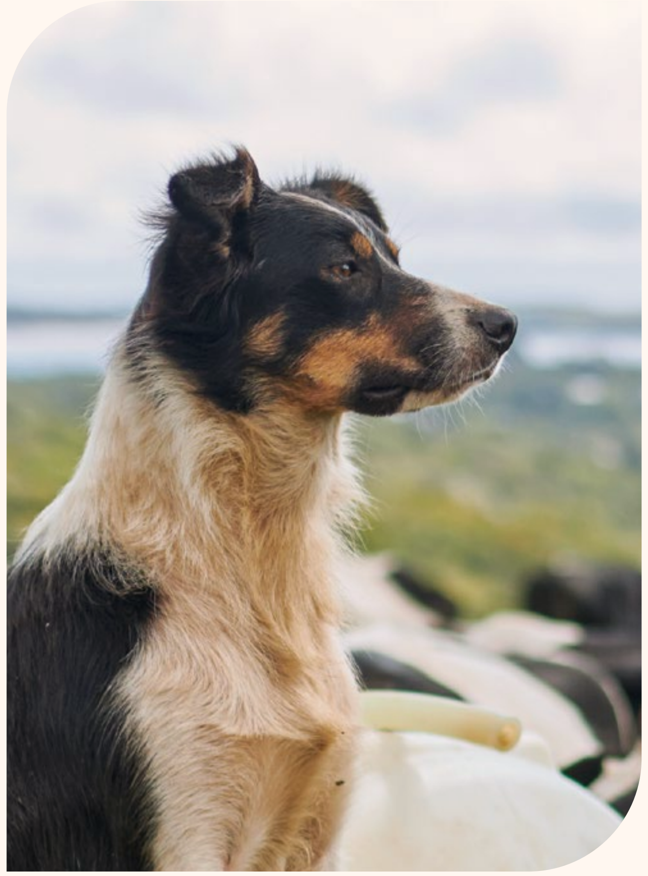
Louise Davies
Farmer member, Cardigan

Andrew Smith
Farmer member, Cumbria

Alan Trainer
Farmer member, Lanarkshire

Robert Young
Farmer member, Ayrshire

Mark Lee
Farmer member, Cumbria

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