first milk

'the farmers' business'

EXECUTIVE SUMMARY
REVIEW OF THE YEAR
2021/2022

Contents

In the last five years...

Turnover £331m
increased by more than
50%

Cheese sales
volume up
40%

Almost
£40m
capital investment

Milk price
moved into top
25%

Net assets
are
£48.7m

Share of **Export cheese sales**
increase to almost
20%

Fresh raw milk sales
increase more than
15%

Milk volumes
over
850ml

Member milk volumes
up
25%

Pension deficit
reduced by
65%

Chairman's report

CHRIS THOMAS

I'm pleased to report that First Milk has continued to deliver on its plans, despite the uncertainty we've all experienced in recent months. Our focus for the year ending March 31, 2022, was to invest to secure the future by enhancing operational performance and capability. This saw our highest ever single year investment of £14.9m, strengthening our balance sheet and helping deliver a platform for future growth.

With cost inflation putting pressure on our members, as a farmer-owned co-operative we have also prioritised member milk price to help our members deal with the considerable cost inflation they face.

Overall, I'm happy to report that First Milk is in a strong position, with a strengthening balance sheet and performance in line with our expectations for the year. This leaves us well placed to achieve our vision – enriching life every day to secure the future.

Governance

In line with our rules, our Board members are required to retire by rotation. During the year, Robert Craig, Shelagh Hancock, Greg Jardine and Brian Mackie were required to retire and all stood for re-election at the AGM in August 2021. All were re-elected.

In addition, following the retirement of Carl Ravenhall, who had come to the end of his three terms as a non-executive director, Michael Fletcher was appointed to the Board as a non-executive director. Michael is currently the Chief Executive Officer of NISA and before this was the Chief Commercial Officer of Co-op Food and worked at Tesco in a number of senior commercial roles, so brings a wealth of commercial food and grocery industry experience, as well as retail and consumer insight.

Post year end, Brian Mackie will reach the end of his three terms as a non-executive director and will stand down at the 2022 AGM. I would like to thank Brian for his hard work and contribution to the success of First Milk over many years and wish him well for the future. Brian's retirement creates a vacancy on the Board for a non-executive director, and I am delighted to report that we have appointed Frank Colhoun. Frank is an experienced finance professional, having held Chief Financial Officer roles in multinational manufacturing and industrial businesses, and is now Chief Financial Officer of a family run property development and investment company. He brings considerable experience of corporate finance to the Board.

During the period, we also held contested Member Council elections. Existing Council member Scott Calderwood had reached the end of his maximum three terms on Council and retired from Council, whilst Louise Davies and David Walker were due to step down by rotation, with both Louise and David seeking re-election.

I would like to extend my thanks to Scott for his contribution to the Member Council over a long period of time and wish him well for the future.

94%

of members satisfied with First Milk performance

97%

of members say it is important to be part of a co-operative

A stable and secure business, with a clear path for the future

"The developments to the First Milk business over the last five years mean that we have a stable and secure business, with a clear path for the future."

After the election we were pleased to welcome back Louise and David, along with Andrew Smith, who was elected as the new Council member. Andrew farms with his wife near Brampton in North Cumbria and I would like to take this opportunity to formally welcome Andrew to the Council and I look forward to working with him and all the Council members, as they continue to represent member views as an integral part of the governance of the co-operative.

As COVID-19 restrictions eased in the second half of the year, we were able to move from virtual meetings, and held a round of member meetings immediately post year end, which were well attended. Even before these face-to-face meetings recommenced, our Executive and Member Council have worked tirelessly to maintain member involvement and engagement with the business, and I would like to express my gratitude for their efforts in what have been difficult circumstances for all.

Outlook

There is no doubt that the last twelve months have seen major uncertainty across society, with the ongoing COVID pandemic as well as rapidly rising cost inflation and, in the final stages of the year, the conflict in Ukraine. These disruptions, along with the ongoing pressure for climate change mitigation alongside a growing cost of living crisis for consumers mean that 'business as usual' seems an increasingly meaningless phrase.

Yet change is a constant and First Milk is well placed to navigate the challenges ahead. This year has seen us further our capital investment programme, securing additional capacity to enable future growth, whilst simultaneously improving operational efficiency and quality, and reducing our environmental footprint.

Our First4Milk sustainability programme continues to evolve, with a significant move in the last twelve months as we embark on a widescale regenerative agriculture programme that will help us secure the future for our members. We have also strengthened our customer partnerships with Ornua and Nestlé and signed new long-term contracts with both while continuing growth in sales across the globe.

Without doubt, we face interesting times. But that simply reinforces the need for collaborative working, strong relationships, and a real focus on delivering long-term success for our members. The developments to the First Milk business over the last five years mean that we have a stable and secure business, with a clear path for 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.

“Our new contractual relationship with Ornua will see us continuing to supply high quality British cheddar to them on a long-term rolling basis.”

Chief Executive's report

SHELAGH HANCOCK

The last twelve months has seen considerable change within First Milk, as we accelerated our capital investment programme to secure the future for our members. Amid the uncertainty of COVID, rising prices and war in Europe it is testament to the hard work of the First Milk team that we were able to deliver our capital projects on time and on budget, whilst continuing to build on our strong customer relationships, deliver much-needed milk price increases for our members and significantly progress our sustainability agenda. Indeed, we have continued to meet our stated aim of improving total returns to our members throughout the period, improving milk price by 5.8ppl, equivalent to almost £50m, and increasing net assets by 28 per cent during the year.

Of course, a key priority in the year has been maintaining business continuity and keeping our colleagues and members safe during the COVID pandemic. As normality has returned, it is easy to forget the interruption that COVID restrictions had on everyday life for most of the last year.

Without doubt, it has been a challenging year, and I want to thank all First Milk colleagues for their continued dedication to delivering our business plan for the long-term benefit of our farmer members.

Alongside our considerable investment in capital in the last year, we have also progressed our people agenda, with a significant focus on training and development. Indeed, we completed almost 3,200 hours of training through the year – an average of more than 14 hours per person and a real achievement. This is critical as we move the business forward, ensuring our team has the skills and knowledge to maximise the benefits of our capital works in terms of processes and automation.

We've also continued our clear focus on supporting mental health in the year, including our ongoing partnership with Mates in Mind and our support for the Mental Health Foundation. This has been particularly important as we've completed our first full year of virtual working, with the administrative Hub also remaining closed for much of the year due to COVID restrictions.

Strengthening customer relationships
Customers remain at the heart of our business, as we work to deliver sustained value for our farmer members. A significant proportion of our cheddar production is sold to Ornua Foods UK, who we have worked with for eight years in a long-term partnership. I am delighted that immediately post year-end we secured a contractual relationship with Ornua, which will see us continuing to supply high quality British cheddar to them on a long-term rolling basis. This agreement is in the long-term interests of our members and allows us to build upon the great work and mutual understanding already in place to provide security and stability for our business going forward.

We have also completed a contract renewal with Nestlé – our largest raw milk customer – which sees us remain as their single biggest UK raw material supplier, with close co-operation on the delivery of their sustainability objectives through the Nestlé Milk Plan. A key part of this is supporting their commitment to achieve net zero for Kit Kat by 2026 through the adoption of regenerative agricultural principles for the First Milk farmers in their milk pool.

We have also continued to grow our export sales, accessing valuable international markets with our high-quality cheese and dairy products, which are now available in more than 26 countries.

Regenerating the earth

Our First4Milk sustainability programme was already well established prior to the period, with around 95 per cent of members committed to our Pledge, providing cows with access to pasture and following higher standards of animal welfare. But the rapidly developing climate crisis needs urgent attention.

We know that our members are already more sustainable that many other dairy farmers, but we also recognise that more than 90 per cent of our CO2e emissions are at farm level. As such, this needs to be an area of real focus if, collectively, we are to achieve our aim of net zero by 2040.

After extensive research, we firmly believe that regenerative farming practices provide the best opportunity to meet our climate and biodiversity targets and provide a pathway to a solution. That's why during the financial year we launched a Regenerative Farming Programme, which will see our members commit to field level regenerative farming actions. As part of this, we have introduced a 0.5ppl regenerative farming bonus, which commenced from April 1, 2022. I am delighted that more than 90 per cent of members have submitted Regenerative Farming Plans, representing more than 96 per cent of our milk volume – thank you for your support. We are facilitating progress within this programme with a range of expert advice and member workshops, to help members implement the commitments that they have made. As part of this, post year-end we announced that we are setting up a network of Regenerative Pioneer Farms across the country. These will be supported with specific on-farm advice, and we'll share their progress, and the challenges they face with members to drive change.

Investing in soil carbon

A clear strand of our net zero strategy is using regenerative agriculture to improve biodiversity and sequester carbon in the soil. But, whilst the science behind soil carbon sequestration is well accepted, having a commercially viable method for accurately establishing soil carbon levels and monitoring change has been challenging to date.

That's why we were excited to start working with Agricarbon on a pilot project using its proprietary process to deliver robust soil carbon assessment. This technology is key to proving soil carbon levels, which in turn is key to achieving net zero for many sectors of primary agriculture. So, when the opportunity to invest in Agricarbon arose, we acquired 5 per cent of the shares. We believe that this will enable us to further strengthen our position in dairy sustainability, by helping us to demonstrate that, through good soil management, our members can be part of the solution to the climate crisis. Our investment will help Agricarbon scale its business to meet demand and rapidly accelerate its ambitious growth plans.

Investing in the future

Of course, our investment in Agricarbon is only a small part of the investment we are making in the future of our business. The last year has seen us complete a capital investment programme totalling £14.9m – our largest single capital programme to date – which has seen ongoing investment across all our sites, with a particular emphasis at our Lake District Creamery, where we completed a £9m project to build operational resilience and stability and support our growth, as well as improving quality and productivity. The key part of this saw us install five new blockformers in

Regenerative Farming Programme launched with

96%

of milk signed up

Agricarbon

Acquired

5%

of the shares in Agricarbon

Capital investment programme totalling

£14.9m

in the year

CASE STUDY

Golden Hooves launched...

May 1 saw the launch of the first Golden Hooves vending site at Hooks Farm in Borrowash, Derbyshire. First Milk members, the Smith family, who run the farm, first diversified back in 2019 to supply milk vending to the local community through a milk shed on their farm. This has now developed into the very first Golden Hooves site selling fresh milk, milkshakes, cheese and other tasty fresh produce that nourishes the earth through regeneration. More than 200 visitors came to the launch event, which was a fantastic opportunity to see the farm in action, taste delicious cheddar cheese and sample the delicious fresh local milk.

a new state-of-the-art room, with increased levels of automation helping to drive site efficiency. This has already delivered a significant step up in capacity, with daily intake now in excess of 1m litres. In addition, we completed investment in new whey processing assets at Haverfordwest Creamery, which allow the site to process an additional 200,000 litres per week.

We have also invested in Lake District Biogas to improve operational effectiveness and reliability since we acquired it out of adminstration, and this investment is now delivering benefits in terms of improved gas output and more stability in gas production – something that has been particularly beneficial in recent months as world gas prices have rocketed.

Telling our story

Dairy has been in the spotlight in recent years, particularly in the context of its contribution to climate change, yet as I've outlined above, we are undertaking a range of initiatives to ensure that we decarbonise our business and support our members on the journey to net zero. As a primarily B2B organisation, however, it can be hard to share these good new stories with consumers, even though we know that consumer interest in food provenance and the environmental impact of food is growing.

In response to this, and to create further value streams for our members, post year-end we launched our new regenerative brand platform, Golden Hooves. This is a new on-farm branded milk and dairy vending franchise business that will see members across the country have the opportunity to sell milk, cheese and other produce directly from their farm, with the franchise supporting sourcing and supply, payment and central marketing.

For those that are interested, this 'business in a box' could help support farm diversification, and the new business will also support returns for all First Milk members by providing a platform for selling our products to a wider audience.

The brand name 'Golden Hooves' has been chosen to make the connection with regenerative agriculture, representing the important role livestock play in improving soil health, building organic matter and sequestering carbon, whilst supporting crop growth through nutrient cycling. The brand celebrates the role of the cow in nourishing the earth. It is also a step change in the conversation, focusing on the essential nature of dairy in nourishing people and the planet.

Our vision for the future

Around five years ago we updated our vision to 'together we'll deliver dairy prosperity'. This theme remains as relevant today as it did then, but over time the business has evolved, and our sustainability focus has broadened our core activity beyond simply creating prosperity – to be successful for the long-term we must focus more broadly than that.

As a result, we have now updated our vision to 'enriching life every day to secure the future.' As a co-operative business, this is about doing the right thing, collaborating every day and working to nourish future generations, and, by focusing on this, we'll deliver stability and security, ensuring a positive future for all.

Looking forward

As we look to FY23 and beyond, we face ongoing challenges, both in the wider external context and within the business.

Golden Hooves
NOURISH THE EARTH

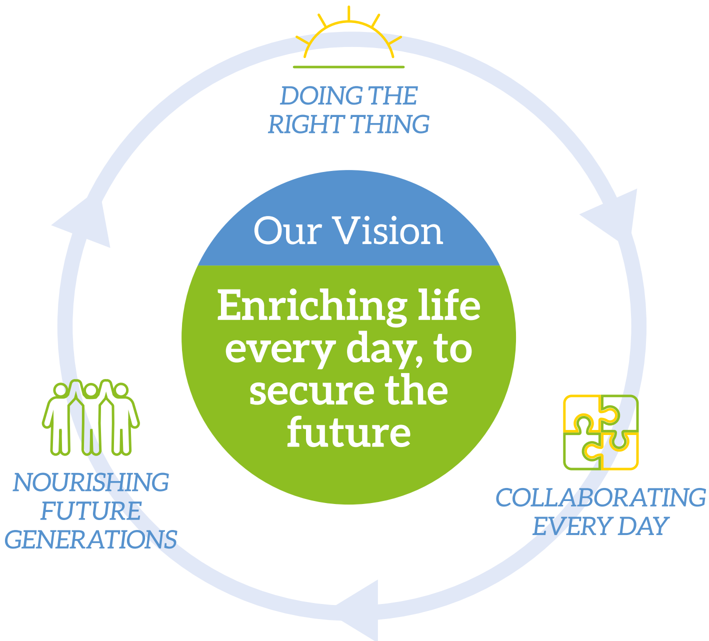
Launched Golden Hooves to create new value-streams and help us tell our story

Updated our vision to reflect business progress

Completed almost
3,200
hours of training in the year to develop our people

Focused on maximising returns to members through unprecedented times

Further capital investment of
£8m
committed in the year ahead



Looking outside the business, persistent inflation, supply chain constraints, the continuing pandemic and war in Ukraine signal a significant slowdown in global GDP growth this year. High levels of inflation are likely to continue, significantly impacting production costs on farm and in dairy processing as well as creating a cost-of-living squeeze across wider society. This puts pressure on margins within the business, which will remain a continued challenge in the near term as we work to mitigate costs and recover margins from the market.

To date, the global dairy market has seen demand continuing to outstrip supply, resulting in record dairy commodity prices that have translated into higher milk prices, broadly keeping pace with increased costs of production. With regard to the security of future milk supply, domestic and international supplies continue to be tight, and this is a challenge as we head towards winter, making milk planning and future growth more difficult. As ever, we will remain focused on maximising returns to members throughout these unprecedented times.

When it comes to First Milk's own business, we will continue to remain focussed on delivering on areas that are within our control. This includes investing around £8m in capital projects in the year ahead, further driving the efficiency of the sites. Most of this investment will be at our Haverfordwest Creamery, where we'll install new milk vats, which will support our future growth by increasing capacity by a further 14%, although we'll also continue investing in other parts of the business, including ongoing works at Lake District Creamery and Lake District Biogas.

Whilst the performance of Lake District Biogas has definitely improved, there is also still more work to do to return this site to a stable, profitable position. Given the wider context, we are confident that it will prove a real asset in the future, once operational stability is secured, particularly as it has the potential to offset much of the energy used at the creamery.

When it comes to sustainability, we need to play our part in restoring balance to nature - something that is intrinsically linked to food security and climate change. Our approach, centred on regenerative principles, is about taking a holistic approach, enhancing ecosystems and giving back to the land. One of our clear priorities as a farmer-owned business is to do the right thing and demonstrate that we can produce nutritious, great tasting dairy products in a way that enriches life, nourishes the soil and replenishes the earth. This will continue to shape our strategic decisions.

To ensure we have sufficient funds to maintain cashflow headroom and meet our business objectives in this inflationary market, post year-end we have successfully refinanced with our incumbent lender, Wells Fargo. Our new arrangement with them recognises the increasing value of our stocks and debtors in a rising marketplace to leverage our secured debt.

Of course, there is no shying away from the realities of the global challenges we all face. But I remain confident that First Milk is well positioned and can continue to deliver for our members. We have great customer relationships, a growing export business, efficient, well invested production sites and a market-leading sustainability programme. That is a great foundation for future success.

I would like to end by thanking my Board colleagues, our Member Council representatives, Executive team and colleagues and, most of all, you, our members, for all your support and I look forward to continuing to work to enrich life every day to secure the future.

"First Milk is well positioned and can continue to deliver for our members. We have great customer relationships, a growing export business, efficient, well invested production sites and a market-leading sustainability programme. That is a great foundation for future success."

Chief Financial Officer's report

GREG JARDINE

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.

Increased net asset value by

28%

Turnover up 11% to

£331m

Cheese sales now account for more than

70%

of milk handled

Financial highlights

	2022	2021
Group turnover	£331m	£300m
Operating profit (before exceptional items)	£5.1m	£8.1m
Net profit for the year	£2.3m	£5.6m
Net bank borrowings	£43.4m	£33.0m
Capital investment across all our sites	£14.9m	£7.8m
Total group capital and reserves	£48.7m	£38.1m

Turnover

Sales for 2021-2022 increased by 11% to £331m through a combination of volume growth and increased values.

Immediately post year-end we secured a new long-term rolling contractual relationship with Ornua, our largest customer, which will see us continuing to supply high quality British cheddar to them on an ongoing basis for sale into major retailers. In addition, we have secured a contract renewal with Nestlé for fresh milk sales into their confectionery and beverages businesses. As part of this, we will continue to work closely with Nestlé as part of their milk plan to drive sustainability across their business.

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.

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.

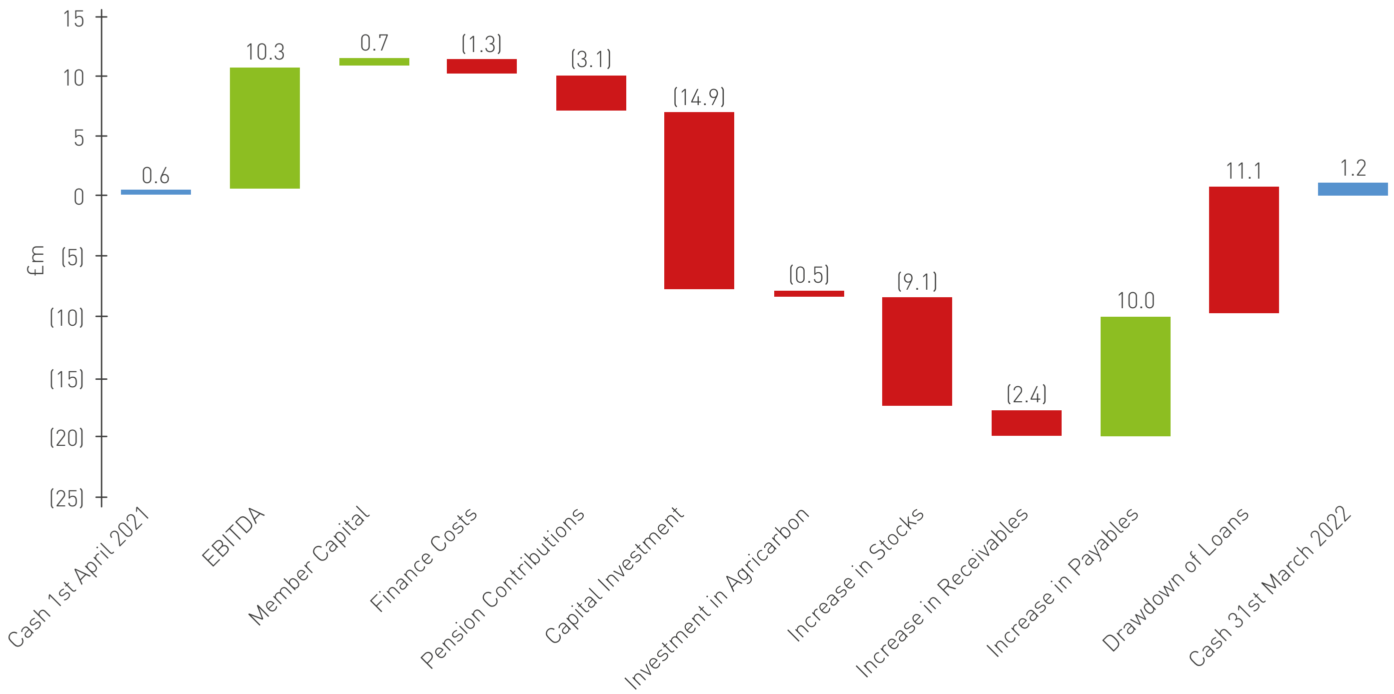
We will continue to invest at our sites in 2022-23, spending £8m to increase production capacity further through the addition of two cheese vats at Haverfordwest, delivering operational stability, while also further improving efficiencies and our environmental footprint.

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. The cashflow waterfall highlights the cash movements in the year to 31 March 2022.

Cash flow for year ended 31 March 2022



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 in the above graph 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.

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 £8.7m and we now have a small pension asset in relation to the Scottish Milk fund of £1.8m. 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 related 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-products 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.

Profit and loss account

FOR THE YEAR ENDED 31 MARCH 2022

	2022	2021
	Group	Group
	£'000	£'000
Turnover	331,077	299,468
Cost of sales	(317,446)	(283,167)
Gross profit	13,631	16,301
Administrative expenses		
- Recurring	(9,194)	(8,219)
- Exceptional items	-	65
Other operating income	667	-
	(8,527)	(8,154)
Operating profit	**5,104**	**8,147**
Finance income	9	54
Finance costs	(2,091)	(2,003)
Profit before taxation	3,022	6,198
Tax on profit	(699)	(600)
Profit / (loss) for the financial year	**2,323**	**5,598**

Balance sheet

AS AT 31 MARCH 2022

	2022 Group £'000	2021 Group £'000
Fixed Assets		
Property, plant and equipment	47,095	37,371
Other investments	500	-
Total fixed assets	**47,595**	**37,371**
Current assets		
Inventories	55,973	46,835
Trade and other receivables	34,010	32,590
Cash and cash equivalents	1,219	570
	91,202	**79,995**
Trade and other payables amounts falling due within one year	(49,031)	(38,671)
Net current assets	42,171	41,324
Total assets less current liabilities	**89,766**	**78,695**
Trade and other payables amounts falling due after more than one year	(43,389)	(32,118)
Total net assets employed excluding pension liability	46,377	46,577
Pension asset / (liability)	2,279	(8,513)
Net assets	48,656	38,064
Capital and reserves		
Called up share capital	77,204	76,699
Profit and loss reserve	(28,548)	(38,635)
Total capital and reserves	**48,656**	**38,064**

Statement of cash flow for the year

FOR THE YEAR ENDED 31 MARCH 2022

	2022	2021
	Group	Group
	£'000	£'000
Net cash from operating activities	5,624	8,446
Taxation paid	-	-
Net cash generated from / (used in) operating activities	**5,624**	**8,446**
Cash flow from investing activities		
Finance income	9	55
Purchase of property, plant and equipment	(14,938)	(7,813)
Investment in Agricarbon	(500)	
Net cash impact from purchase of subsidiary LDB Ltd	-	153
Proceeds from sale of assets	20	655
Repayment of grant	-	(194)
Net cash generated used in investing activities	**(15,409)**	**(7,145)**
Cash from financing activities		
Finance costs	(1,354)	(1,685)
Net proceeds from members	677	521
Increase in bank borrowing	11,111	142
Net cash (used in) / generated from financing activities	**10,434**	**(1,022)**
Net increase in cash and cash equivalents	649	280
Cash and cash equivalents at the beginning of the year	570	290
Cash and cash equivalents at the end of the year	**1,219**	**570**

"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."

Sustainability report

MARK BROOKING

"Our sustainability programme is evolving as we increase our knowledge and understanding along with fantastic support from our colleagues and members. I believe we are on our way to demonstrating that regenerative dairy farming can be part of the climate solution."

Mark Brooking, Sustainability Director.

The last year has continued to be turbulent, with new challenges being thrown at the dairy industry almost continuously. COVID-19 led to labour and associated supply chain issues, which were compounded by the impact of Brexit. Weather conditions in the spring and summer of 2021 also proved difficult for many farmers, impacting forage availability and quality and resulting in many herds seeing milk yields well below expectations.

Meanwhile, awareness of the need for climate action has only increased, with particular interest around the COP26 event held in Glasgow in November last year. This makes our focus on sustainability all the more important and I'm pleased to report that despite the challenges and uncertainty of the last twelve months, we have had a great year of progress in moving towards our ambition to become a leader in sustainability.

Our sustainability commitments have been well received by all our key stakeholders:

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

These commitments are built on the foundations of our previous activity, which falls under the three key pillars of People, Animals and Earth.

In this summary, we've outlined progress on our sustainability commitments as an update on last year's report. Our carbon emissions have now been externally audited and verified to ensure that we are reporting meaningful and accurate data and can disclose performance with total transparency.

PEOPLE building social capital

People are at the heart of our business and are central to all our sustainability activity, as we can only deliver our ambitious commitments with the support of our members and our colleagues.

When it comes to member initiatives, we have continued with our Next Generation programme, with around 238 young members now participating. We continue to encourage further involvement, as this group is an important way of engaging young people in the dairy sector and the many challenges and opportunities ahead.

We have continued to support attendance on the Entrepreneurs in Dairying programme run by RABDF, with 5 young members going through the programme during the year. This business training programme for aspiring dairy producers includes sessions on understanding the milk market, looking at future opportunities, people management, finance, tax and trading structures, business planning and funding and succession planning and provides a fantastic introduction to running a successful dairy farming enterprise.

We have also continued to grow our Women in Agriculture group, which now includes 5 groups across the country with around 59 active participants.

Despite the challenges of getting together during COVID-19 restrictions, these groups have continued to help us build the community around First Milk membership, providing an important outlet for sharing experiences and knowledge and for building a network of contacts.

We also continue to survey our membership each year to identify any areas of concern and to help shape our membership offer. This survey has been conducted every year since 2017 and shows growing confidence in the future, with the majority of our members reporting that they have successors in place and intend to continue producing milk in the future. Member engagement with First Milk continues to improve, with satisfaction levels increasing for the fourth consecutive year.

When it comes to our colleagues, we continue to focus on our people agenda and on establishing a culture and set of behaviours that will deliver success. Our 'lunch and learn' programme has continued throughout the year, with short virtual learning sessions being delivered on subjects as diverse as cheese grading, sustainability, customer insights and regenerative agriculture. These informal training events have been well supported and will continue in the future, as they provide an effective way to build knowledge.

We have also continued to recognise achievement in the business through our Gold Star awards, which see colleagues recognised for demonstrating and living our behaviours in their every day working lives to effectively deliver business performance.

Recognising the impact that two years of COVID-19 restrictions have had on all colleagues, we have also maintained our focus on mental health. All colleagues have completed mental health awareness training, with our team of accredited mental health first aiders supporting colleagues, as well as providing access to an Employee Assistance Programme for free confidential support for employees and their families.

As part of our focus on people development, we have ramped up our learning and development agenda, and have delivered almost 3,200 hours of training across the business during the year, despite the difficulties of doing so during COVID lockdowns.

As outlined above, we are mindful that we cannot achieve our sustainability goals without engaging our people and so we launched an initiative with DoNation during the year where colleagues were encouraged to sign up for individual pledges that would improve their environmental performance. These could be as simple as wearing a jumper rather than turning the heating up at home or pledging to walk or cycle for some short journeys rather than using the car. Overall, this initiative saw 723 pledges made and a total of 62,743 kg of carbon emissions eliminated as a result. In addition to this the participants collectively reduced water usage by 5,442,620 litres and waste by 343,447 kgs annually. But, more importantly, it helped to engage our teams with the issue of climate change and demonstrate how simple changes in our personal and work lives can be easily accommodated and can make a meaningful difference.

ANIMALS a life worth living

We know that animal welfare remains a key concern for consumers when purchasing dairy and that is why our First4Milk Pledge is such an important part of our sustainability approach.

I am pleased to report that we have continued to increase commitment to this pledge, with 95 per cent of our members now signed up to it.

We have continued to seek initiatives that help our members improve animal health and welfare, and a great example of this has been the introduction of every collection testing of milk, which provides members with additional information about somatic cell counts, helping them more rapidly target mastitis issues. This delivers improved milk quality and faster identification and treatment of any underlying infections in the herd. On a similar theme, we have worked with National Milk Records to trial and launch innovative new 'Genocells' technology which is set to transform herd management. This uses genomic data from cows to enable bulk milk testing for somatic cell count to be conducted but individual cows to be identified, enabling more rapid identification and treatment of infection and providing an opportunity to reduce antibiotic use further through targeted selective dry cow therapy.

We have also continued as a project partner in an Innovate UK project along with Nestlé, McQueens, SRUC and the University of Strathclyde looking at identifying the best sensor technologies to use to deliver a verifiable automated health and welfare index on farm. 26 farms have participated in this project, with sensors measuring positive welfare outcomes such as rumination and lying times, in combination with Qualitative Behavioural Assessment to tie such automated measures to indicators of animal welfare.

Member satisfaction increased for fourth consecutive year

CO_2

723

pledges made by First Milk staff, eliminating almost

63 tonnes

of carbon

Innovative Genocells technology launched with NMR to help improve cow welfare and milk quality

Our DoNation initiative saw colleagues make pledges that saved

5.4m

litres of water use

The findings of this research were shared with members during the round of Regenerative Cow workshops held in the spring of 2022.

These workshops focused on animal health and welfare and shared the findings of the Innovate UK project in terms of the best sensor technologies that can be used to improve animal health and welfare. The events also saw the practical launch of the Genocell service to members, as well as sessions with Claire Whittle, a specialist vet who shared information on how to effectively reduce the use of anthelmintics and antibiotics whilst maintaining cow health and welfare, and how such an approach could have a positive impact on soil biology, particularly in relation to dung bettle populations – a key part of effective regenerative farming.

When it comes to antibiotics, we continue to monitor antibiotic use on members' farms to ensure that we are meeting or exceeding RUMA targets for antibiotic reduction. This scheme, which is administered independently for us by Kingshay, works by collating data of medicine purchase records via veterinary practices serving our members. To the end of March 2022, 523 of our members have participated in the programme, an increase of around 92 farms compared to last year. During the year, First Milk members recorded an average total antimicrobial usage of 16.5 mg/kg PCU, which is 22 per cent lower than the 2020 RUMA target, although it is 6 per cent higher than last year, which may have been as a result of farmers changing the products used as they move away from using critically important products. In total 77 per cent of herds were below the RUMA target, with only 0.13 per cent of antimicrobials used classed as critically important.

We have also continued Farm Business Reviews during the year, prioritising farms that hadn't been visited for some time due to the limitations on travel during COVID restrictions. These reviews continue to inform our policy decisions and enable us to promote our members' business. Of particular note was the fact that 25 per cent of members report an intention to invest in new livestock buildings in the near future – a positive sign of growth and improvement in facilities for animals.

EARTH enriching life every day

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.

Minimising CO2e emissions

Last year 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

First Milk members' antibiotic use is

22%

lower than RUMA targets

Carbon emissions down almost

5%

year on year

More than

300

members attended regenerative farming workshops

GHG Emissions Summary FY22 v FY21

GHG Reporting Scope	FY22 GHG Emissions (Tonnes CO_2)	FY21 GHG Emissions (Tonnes CO_2)	Change (Tonnes CO2e)
Scope 1 - Direct emissions	18,426	16,999	1,427
Scope 2 - Electricity indirect emissions	1,623	2,354	(730)
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	410
Scope 3.6 - Business travel	64	-	64
Scope 3.7 - Employee commuting	142	142	0
Scope 3 Total	**849,040**	**888,711**	**(39,671)**
Total Scope 1, 2 and 3 GHG emissions	**869,089**	**908,063**	**(38,974)**
Scope 4 - LDB benefit	3,797		
Net Scope 1,2 and 3 GHG emissions	**865,292**	**908,063**	**(42,772)**

This table shows some key changes in the year. Our Scope 1 emissions have actually 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 CO2e 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 per cent.

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.

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 CO_2e 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 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 and have submitted over 900 samples for analysis to Lancrop.

During the year we have launched our regenerative farming programme, with the introduction of a 0.5ppl bonus from April 1, 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 per cent of First Milk milk volume has been signed up to the Regenerative Farming programme, demonstrating our members' commitment to delivering our sustainability goals.

To date, the data collected shows us that 88% of land is used to grow grass.

Of particular note is the fact that 75% of the grassland farmed by our members is kept as permanent pasture, with only 2% of grassland regularly cultivated.

Of course, simply recording the crop by field and what a member intends to do with that field in the year ahead does not make for a regenerative farming plan – to do that, we are encouraging members to consider the five principles of regenerative farming when managing their land.

As such, members have been asked to provide information about every relevant regenerative intervention that they plan for each of their fields which support their dairy enterprise.

Livestock integration

Introducing livestock can improve soil fertility and function. The 'golden hooves' impact of animals stimulates soil biology, helping water infiltration and increasing organic matter.

Overgrazing (animals spending too long in one area) can damage a sward and reduce the most palatable species - it results in less root biomass and hence lower or nil/negative sequestration. What this means is that even if a field is permanent pasture, it may not sequester meaningful amounts of carbon if it is not allowed to recover after each grazing/cutting event. Therefore, members are being encouraged to rotationally graze their land.

Regenerating the earth every day to enrich lives and nourish future generations

Our members are implementing regenerative practices on a greater land area than the equivalent of the combined area of Glasgow, Manchester, Cardiff and Bristol.

Minimise soil disturbance - aligned interventions
Soil disturbance through cultivation breaks up the network of mycorrhizal fungi attached to plant roots that enable crops to access nutrients. It also causes soil to burn up organic matter and release CO_2. For example, ploughing a field releases approximately 3 tonnes of CO_2 per hectare - more if cultivation is vigorous (e.g. rotavator or power harrow)

In the year ahead our members have committed to 12,762 interventions linked to minimising soil disturbance over 49,396 Ha. Just 7 per cent of all land is to be ploughed during 2022 (5,651Ha).

Maintain living roots (incorporating "keep soil covered") - aligned interventions
Soil organisms need feeding, relying on the nutrients provided by living plants. In the absence of plants, these organisms begin to die off. By maintaining a living root, some of the plant sugars are distributed into the soil. Maintaining living roots also helps minimise soil erosion, as the presence of growing plants and their roots prevents run off.

In the year ahead, our members have committed to interventions linked to maintaining living roots over 41,762 Ha. By using data provided and adding to this the area of permanent pasture not due to be ploughed, we can estimate that 65,847 Ha – 85% of all our members' farmed land - will have a living root for 12 months of the year

Increase species diversity - aligned interventions
Different species have different tolerances to mixed weather conditions. For example, using a multi-species sward can extend grazing periods and be more resilient, as well as providing a more nutrient-rich diet. Mixed species also complement and benefit each other. For example, the nitrogen-fixing ability of legumes assists grasses, while deeper-rooting species help combat compaction and aid root growth of neighbouring plants. From a carbon sequestration perspective, the roots of different plants use sunlight to deposit carbon, and the broader rooting system from herbal leys increases the potential for gas and water exchange.

In the year ahead, our members have committed to 14,295 interventions linked to encouraging plant diversity across 54,946 Ha of land.

Wider biodiversity and sequestration interventions
Another important measure of carbon sequestration is the number and type of management received to hedgerows and trees on members' land and where watercourses are protected from livestock preventing valuable top-soil being transferred into watercourses.

In the year ahead, our members have committed to 52,758 interventions linked to biodiversity across 68,994 Ha of land.

Members chose
130,873
interventions on over 78,399 Ha of land

63,335 Ha
82% of all land will be grazed by livestock during 2022, for an average of 7 months

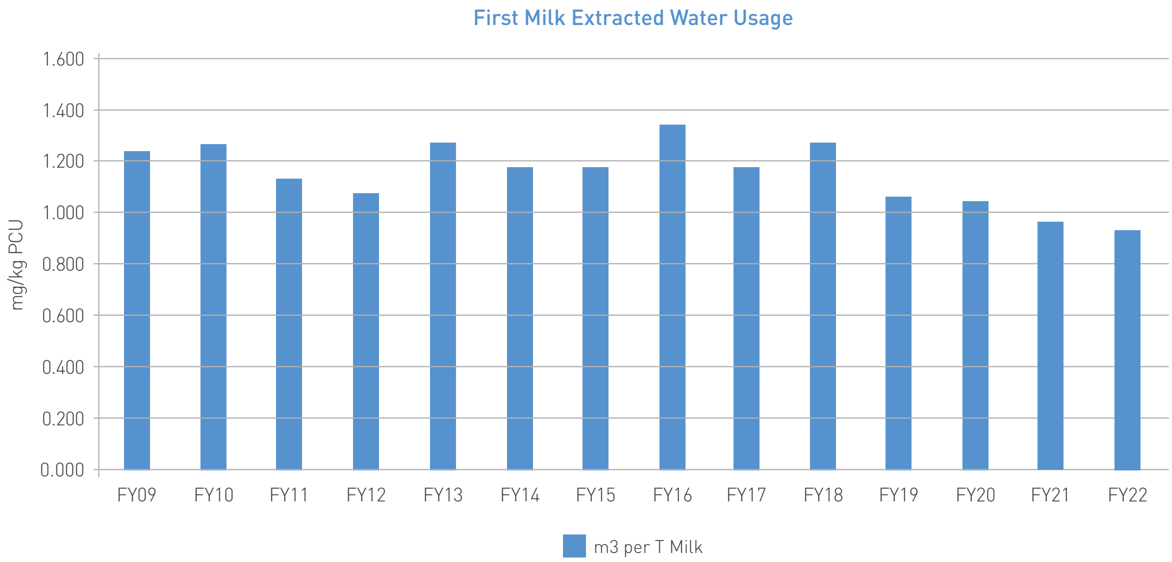
45,920 Ha
60% of all land will be rotationally grazed during 2022, for an average of 23 days grazed and 20 days rest

The mapping system we use has the ability to provide the lengths of field boundary and this is a feature which will be activated shortly. Having this information, together with farm intervention data will enable us to calculate the kilometres of hedgerow and numbers of trees growing on members' land and provide data to measure the amount of carbon being sequestered annually through woodland and hedgerows.

The key strength of pursuing a regenerative farming strategy is that it is a holistic strategy delivering positive outcomes for the multiple challenges of carbon, water, nutrients and biodiversity. Those who follow a carbon centric approach may well need to return to the other challenges in coming years.

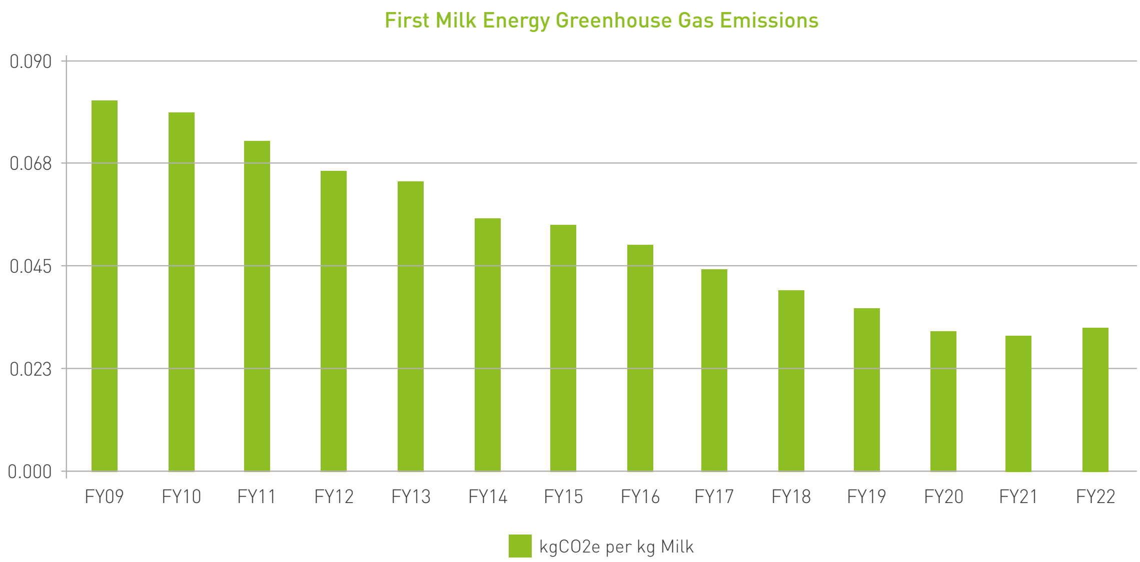
Reducing water use

One of our long-term environmental commitments is around reducing water use at our processing sites. The following chart shows our progress in reducing the amount of extracted water we use per tonne of milk. This has mainly been achieved by recovering and reusing water within our processes. Recovered water now represents over 30% of water used.



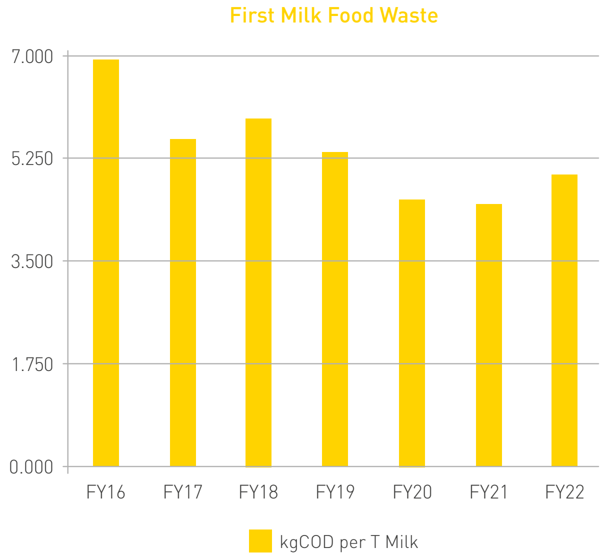
Energy usage kgCO2e per Kg Milk

The following chart shows the progress we are making in reducing the greenhouse gas intensity, this represents a 61% reduction since FY09. We did see a slight increase in the last financial year being 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.



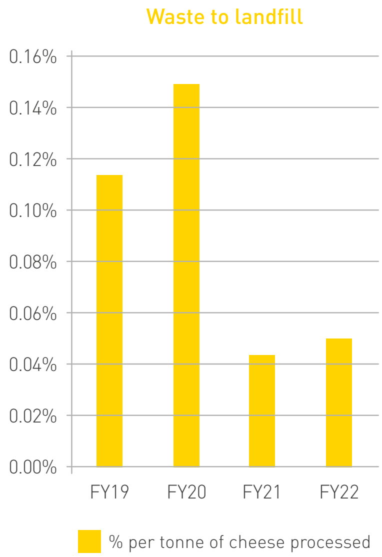
Food waste kg COD (Chemical Oxygen Demand) per tonne of milk

The following chart shows our progress on reducing the amount of waste in our factories. Whilst we have made significant progress in recent years we saw an increase in the reporting year. This will in part be due to the short term uplift in effluent loadings following a period of significant investment at both creameries. As new equipment is being 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.



Waste to Landfill

Whilst very small amounts, we monitor the amount of waste which is sent to landfill. The following chart shows the progress over the last 4 years. FY22 has seen a small increase which is a result of the investment made in new equipment and the need to remove and dispose of the equipment it has replaced.



Protecting watercourses

We have continued to operate our Haverfordwest Nutrient Group, to offset the Nitrates, Phosphates and sediment from the creamery effluent treatment plant (ETP). 33 members in the area have played a key role, successfully employing mitigation measures on their land to reduce the amount of these nutrients entering the water courses around their land.

The following tables show the loading of nutrients from the ETP, and the amount of nutrients offset by the members within the group.

Haverfordwest Creamery Effluent Discharge

Discharge volume for period 1st December 2020 to 30th November 2021 (m^3)	Ammonium-N Discharge period 1st December 2020 to 30th November 2021 (kg)	Phosphate Discharge for period 1st December 2020 to 30th November 2021 (kg)	Total Suspended Solids Discharge for period 1st December to 30th November 2021 (kg)
460,778	135	195	2,402

Nutrient offset achieved by Haverfordwest farmer group

Farmscoper output for Farm group (33 farms)	Nitrate-N	Phosphorus	Sediment
Potential farm reduction (kg)	30,449	1,275	154,287

At our Lake District Creamery we also started a nutrient offset group in 2020. Although Covid restrictions slowed down the rate of progress last year, we are now working with 16 of our members to implement similar mitigation measures as part of a non-regulatory scheme to protect local watercourses in Cumbria.

The most popular measures chosen were:

- Use a fertiliser recommendation system
- Do not apply P fertilisers to high P index soils
- Increase the capacity of farm slurry stores to improve timing of slurry applications
- Do not spread slurry or poultry manure at high-risk times
- Monitor and amend soil pH status for grassland

The forecast combined nutrient loss savings from all the farms is:

Nitrates = 12,495 kg pa

Phosphate = 780 kg pa

Sediment = 84,472 kg pa

Summary

Both groups of members are implementing practices which result in nutrient loss reductions which far exceed our approved creamery discharges. With the HW group being established over 8 years their level of reduction is greater and demonstrates the progress which we hope to also achieve within our "younger" group attached to the Lake District Creamery, who have nevertheless already achieved the calculated offset required.

"If there is one thing for certain it is that the world of sustainability doesn't stand still and the need for action grows daily. We are making great progress thanks to the support from our members and colleagues as we work to become a leader in dairy sustainability."

Other activities

We are committed to delivering meaningful change through our sustainability programme, but it is important that we can communicate our progress to key stakeholders in an effective way. To this end, during the last year we have completed an Ecovadis assessment, which provides an easy to understand and externally verified sustainability score for the business. I am pleased to report that we scored Silver on the Ecovadis assessment, which recognises the progress we've made since we introduced our sustainability programmes in 2019. One of the advantages of this assessment is that it provides guidance on areas that require further focus, and we are now working on those to ensure that we improve our score on reassessment.

We have also applied for B Corp certification, and our assessment for this is currently being reviewed. B Corp is a non-profit network of businesses transforming the global economy to be a force for good for people, communities and the planet. Certified B Corporations are companies that are verified to meet the highest standards of social and environmental performance, transparency and accountability, and we look forward to the outcome of our assessment.

We are also participating in the 'Strength in Places Digital Dairy Chain' project, which focuses on developing a highly efficient and sustainable supply chain from farm to plate. This project, which runs for five years from September 2021, supports the full digitalisation of the dairy supply chain in South-west Scotland and Cumbria and is supported with £21m of funding from UK Research and Innovation. This has the potential to allow optimisation of low-carbon logistics, improved on-farm efficiency and enhanced efficiency in milk processing, and we look forward to collaborating with Lactalis McLelland, Arla, SRUC and the Universities of Strathclyde and West Scotland on this important initiative.

Recognising success

Our 2021 Responsible Farming Award winners were announced immediately post year-end at our member meetings in April 2022. The Awards reflect the First4Milk Pledge priority areas of Animals, Earth and People and are externally judged.

Animals

WINNER: Marc and Lucy Allison, Sychpant Farm, Rhoshill, Cardigan.

Marc and Lucy Allison have a closed autumn-block calving herd of 300 cows which they farm with Lucy's parents, John and Mair. They're milking three times a day from October to March, with an average yield of 11,000 litres a year. They are grazing April to September.

The family is showing outstanding herd health management with only six cases of mastitis in three years. Their antibiotic use is low at 6.9mg/ kg PCU with selective dry cow therapy resulting in only 17.6% of cows tubed with antibiotics at drying off.

They also have the only fully forced ventilation cubicle building in the UK, with sand bedding and all passageways being flood washed.

Earth

WINNER: Mike and Gem King, Old Green Farm Dairy, Alveston, Bristol.

Mike and Gem King run a fully automated system with milking robots, grazing gates, a self-fill feeding system, a robotic scraper and a robotic feed wagon, enabling them to remove a tractor from the farm. All are powered with electricity generated from solar panels, with the excess power exported to the grid. Rainwater is harvested to provide wash water, which is heated by the milk heat recovery system.

Maize has been replaced by wholecrop for an earlier harvest and maintenance of a living root to prevent run off. All grass reseeds are direct drilled and an umbilical system has reduced compaction and keeps tankers off the roads. Farm tours are carried out for local schools and a vending machine has been in place for three years.

People

WINNER: Matthew and Sarah Workman, The Beeches, Carleton, Carlisle.

Matthew and Sarah Workman work tirelessly to promote dairy farming to consumers. Their successful vending machine achieves sales of £200/day, while also supporting local charities by using colour-coded bottle tops. These include national organisations and local children with life-limiting conditions.

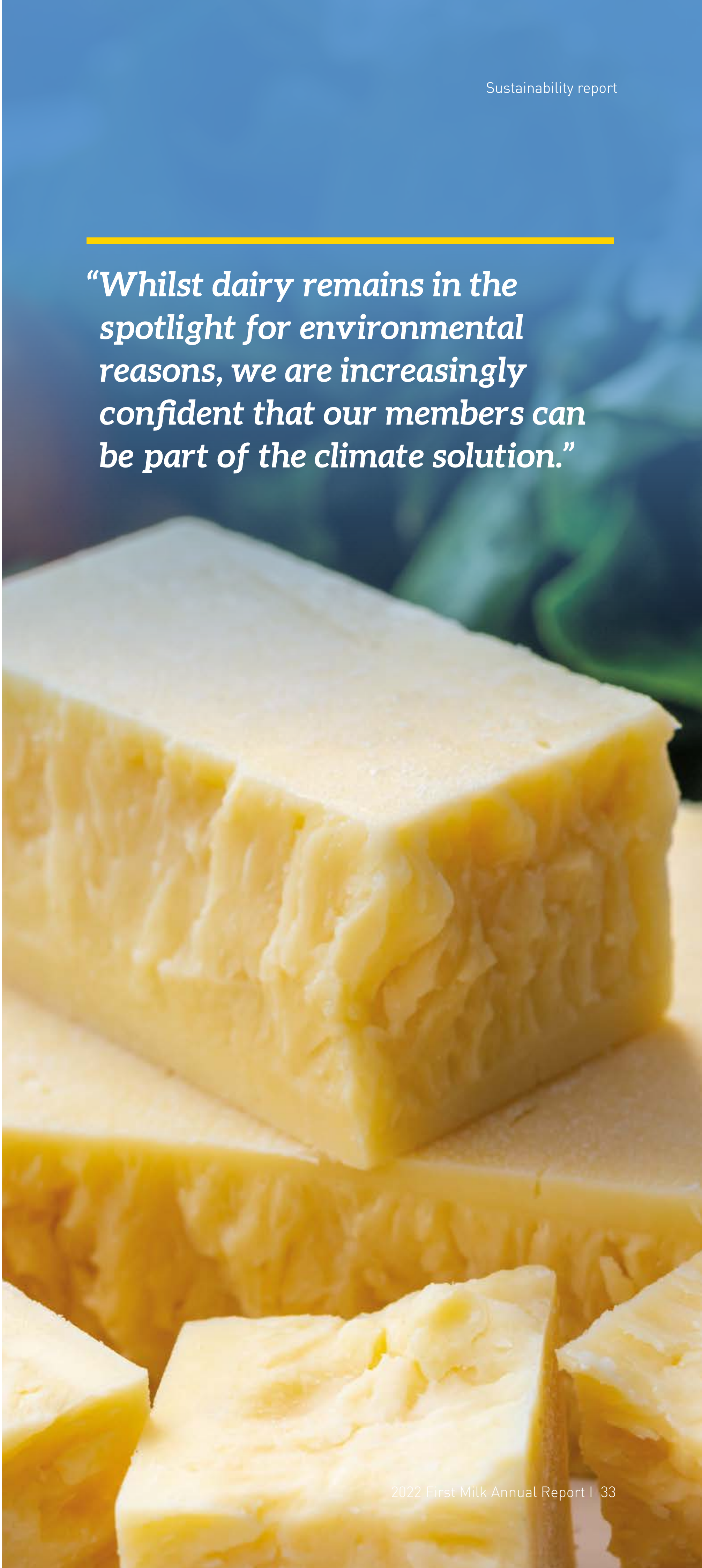
They also work closely with the younger generation, having created a play barn for local schools to teach children about farming. They have a 'study letter' each week, relating to a farm animal or product. Ex-teacher Sarah also runs phonics sessions for the under-fives.

Looking forward

If there is one thing for certain it is that the world of sustainability doesn't stand still and the need for action grows daily. We are making great progress and I would like to thank our members and colleagues for their support and commitment as we work to become a leader in dairy sustainability. Of course, our existing programmes will continue to take our focus moving forward, but we are also mindful to continue expanding our activity to ensure we meet all of our commitments. In particular, we are focusing on investigations into future fuels for vehicles and factories to ensure we meet our commitment for all transport and processing activity to be using renewable fuel sources by 2030. We are not in a position to decide this as yet, as technology developments are moving fast, but it remains a priority. We are also looking at implementing a salary sacrifice scheme for electric vehicles for all colleagues to encourage the adoption of EVs. These innovative schemes really do offer a win, win, in that they come at no cost to the organisation and deliver significant cost savings to the individual, making electric cars more accessible and attractive for those considering a new vehicle.

We will, of course, also continue supporting our Golden Hooves enterprise as it grows in the year ahead, as sustainability and regeneration are a key part of the brand message. Whilst dairy remains in the spotlight for environmental reasons, we are increasingly confident that our members can be part of the climate solution through the ambitious programmes we have put in place, and look forward to delivering that outcome in the years ahead.

"Whilst dairy remains in the spotlight for environmental reasons, we are increasingly confident that our members can be part of the climate solution."



How our First4Milk sustainability activity matches the UN Sustainable Development Goals

Whilst some of the UN Sustainable Development goals are not directly relevant to our business activity, our First4Milk programme closely maps to the following goals:

2 **Zero Hunger** – by promoting sustainable agriculture through our First4Milk programme we are securing future food supply to meet the growing global demand arising from growing population numbers.

3 **Good Health and Wellbeing** – we are supporting mental health at work and in the community through our fundraising activity for the Mental Health Foundation and our partnership with Mates in Mind.

4 **Quality Education** – by offering apprenticeships and personal development opportunities for colleagues, we are promoting lifelong learning and supporting the development of meaningful and rewarding careers. Our Next Generation programme is also supporting the development of young farmers, helping them become more resilient.

5 **Gender equality** – our Women in Agriculture group is supporting and encouraging women to get more involved in dairy farming businesses and in the governance of our co-operative. We also monitor gender pay to drive equality among colleagues.

6 **Clean water and sanitation** – our unique nutrient offset programmes at Haverfordwest and at our Lake District Creamery are helping protect the natural water supplies of Pembrokeshire and Cumbria.

8 **Decent work and economic growth** – our investment of more than £30m over the last three years, as well as our commitment to securing a better future for our colleagues and our farmer members ensures that we'll deliver long-term prosperity and employment in rural areas.

9 **Industry, innovation and infrastructure** – we are investing to ensure that our food manufacturing facilities are resilient, energy and water efficient and meet the highest production standards.

12 **Responsible consumption and production** – we are working hard to reduce the environmental impact of dairy farming and milk processing, reducing the carbon footprint, energy and water use, eliminating food waste and reducing plastic use.

13 **Climate action** – our First4Milk commitments see us make a bold commitment to achieving net zero by 2040 at the latest, with significant reductions in emissions from farm and processing activity before that.

15 **Life on land** – our commitment to rolling out regenerative agricultural action plans with all our members will ensure we protect and enhance the natural habitats in which we operate, promoting biodiversity.

17 **Partnerships for the goals** – we know that we can't make real progress on sustainability by working alone. That's why we are partnering with our farmer members, our suppliers and customers, and other industry contacts to drive our sustainability agenda further, faster.

The Board AS AT 31 MARCH 2022

From left to right: Brian Mackie, Angus Waugh, Mike Smith, Michael Fletcher, Shelagh Hancock, Robert Craig, Greg Jardine and Chris Thomas

Brian Mackie NON-EXECUTIVE DIRECTOR
Brian has held a range of international chief financial officer roles in a number of large businesses; Starbev/Molson Coors Europe, Maxxium Worldwide and Cott Corporation. He has also had international responsibility for IT, Legal, Human Resources, and Commercial Operations during his career. Brian also has Non-Exec Board roles with Ypeople and The Gipsy Hill Brewing Company.

Angus Waugh GENERAL COUNSEL AND COMPANY SECRETARY
Angus qualified as a solicitor in 1991 and worked first in private practice then in local government before becoming First Milk's general counsel and company secretary in 2004. In his role, Angus provides corporate governance, legal and secretariat support to the business and oversees the member capital structure.

Mike Smith FARMER DIRECTOR
Mike farms in partnership with his brother, Peter, at Pelcomb Farm near Haverfordwest. The 650-acre farm runs a 450-cow autumn block calving herd. Mike has previously Chaired the Welsh Assembly Dairy Strategy Group and been a member of its Dairy Task Force.

Michael Fletcher NON EXECUTIVE DIRECTOR
Michael joined the First Milk board in 2021. In addition to his Non-Exec role at First Milk, he is Chief Executive at NISA. Before this he was Chief Commercial Officer at Co-op Food. 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.

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.

Robert Craig FARMER DIRECTOR
Robert is a partner in three dairy farms. He is past county chairman of Cumbria NFU and a Nuffield scholar. In 2012, he became chairman of Penrith & the Border Conservative Association and in 2013 he jointly won the Farmers Weekly Dairy Farmer of The Year Award. Robert is also a trustee of RABDF.

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 Tulip UK, Adelie Foods, Bakkavor, St. Ivel, PepsiCo and Mars. He is currently non-executive Chairman of G's Convenience Foods and Street Eats Food Ltd and a non-executive director of Espersen.

Member Council AS AT 31 MARCH 2022

From left to right: Andrew Smith, Jessica Mills, Alan Trainer, David Walker, Willie Campbell, Louise Davies, Christine Kelsall, Sean Rickard

A Word from Sean Rickard, Council Chair

First Milk's impressive performance over the past 5 years makes it an exemplar for British producer coops; the more so at a time when the challenges posed by Brexit and global turbulence are bearing down on the industry. One reason for First Milk's success is a governance structure that secures operational independence for a professional executive while ensuring that your views as members are fully taken into account in all major decisions. Your interests are represented by your elected Council which I have the privilege of chairing. Council's role is to hold the Board to account but such a bland phrase does not do the Council justice. Council members face the pressures of managing their own farms and while undoubtedly a strength that they are seized of the issues and concerns facing dairy farmers, for me it is the commitment and many hours of hard work they bring to the role that makes

their representation effective. This is manifested in a professional, transparent relationship between Board and Council that facilitates a clear vision for the business and informed decision making. In addition to monthly meetings with Shelagh and her team, Council are directly involved in discussions regarding specific issues such as; pricing structures, regenerative farming and contracts. Outside this cycle of activity, Council members function as communicators, including 'farmhouse meetings,' to ensure that you are kept abreast of strategic developments while feeding back your views to the executive. Council members can serve for a maximum of six years and it has become a stepping stone to the Board as a farmer Director. As a member you can put yourself forward for election to Council and I hope that you will give this serious consideration – ultimately First Milk's success depends in no small measure on the active engagement of its members.

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