first milk

ANNUAL REPORT
AND
FINANCIAL STATEMENTS 2015

the farmers' business

FIRST MILK LIMITED
ANNUAL RESULTS
YEAR ENDED 31 MARCH 2015

Executive Summary

A summary of the key financial information is:

- Group turnover was £442.2m (2014: £610.5m)
- Pre-tax losses were £24.9m (2014: £4.3m)
- Members received returns on their capital in April 2014 totalling £1.3m (2014: £2.5m)
- Our net bank borrowings reduced to £60.3m (2014: £62.7m)
- We invested £5.4m across all our sites in the year (2014: £8.4m) to improve efficiencies

Chairman Sir Jim Paice commented:

The financial performance in the year to 31 March 2015 was materially affected by the decline in market values impacting all areas of the business as well as performance issues in a number of areas. The level of losses incurred was not acceptable and the Board have taken steps to ensure that they do not recur.

In the previous year, returns from commodity markets supported higher milk prices being paid to members, with milk prices increasing progressively to record levels. Since the spring of 2014 there has been a collapse in the value of dairy products. This has resulted in a decline in value in excess of 50% with material reductions month-on-month.

Given the level and speed of these reductions, milk prices paid to our members were not aligned with the returns being generated by the business. In addition, consistent with the rest of the British dairy industry, there has been a significant increase in the amount of milk produced by our members. The situation was exacerbated by the termination of a material customer contract at short notice in March 2014. This resulted in more milk than expected being processed into products where there was uncertainty with regards to the revenues that would be generated. This led to significant losses as commitments were made with regard to the milk price that would be paid for supplies before the associated revenues, which were impacted by falling market values, were confirmed.

The Board have taken a number of actions to minimise the risk of such circumstances arising again by:

- minimising the level of product manufactured which has not been forward sold and therefore providing visibility of the anticipated return prior to paying for the relevant milk supplies;
- removing the previous practice of announcing milk price decisions up to thirty days in advance; and
- introducing a retrospective milk price announcement with regards the amount payable for circa 20% of milk supplied from members.

The business was also impacted by a number of operational issues during the year. The primary issue faced was in relation to the value that could be realised in relation to cheese. Whilst our contract with Adams Foods Limited provided a solid base for the sale of cheese, there were issues with regards to the value generated for cheese sales to other customers particularly given the decline in market values and a higher than expected level of quality issues, which was partially attributable to the high level of throughput at the creameries. Steps have been taken to minimise the reoccurrence of such issues.

Other factors that impacted the financial performance of the business during the year included;

- a breakdown at our facility for processing whey at LDC resulted in a prolonged shutdown and additional costs which amounted to circa £1m;
- the financial performance of our CNP business was below our expectations and as a result we could not support the previous valuation of this business which resulted in an additional £1.2m impairment charge in the year; and
- a decision to write off £0.6m of a loan with First Milk Energy Limited (a joint venture exploring opportunities in the renewable energy sector).

Executive Summary (continued)

Given the above, a pre-tax loss of £24.9m was incurred during the year which created significant pressure on the cash available to the business. As a result a number of measures have been implemented to address these pressures, which included:

- a number of milk price reductions were made throughout and subsequent to the year ended 31 March 2015;
- the milk payment to members planned for 12 January 2015 was deferred to 26 January 2015 and all future payments have been deferred by two weeks;
- the amount of capital that a member is obliged to invest in the business was increased from 5.0 to 7.0 pence per litre based on an annual average volume supplied over three years;
- the retention in respect of the members' capital investment has been increased from 0.5 to 2.0 pence per litre for milk supplied from December 2014 up to August 2015; and
- changes to its milk pricing mechanisms in order to better align markets and milk production. The changes included the introduction of additional milk groups to allow returns to be more closely aligned to their relevant markets. In addition, milk prices now incorporate "A" and "B" pricing, with the "B" price being applied to circa 20% of the volume and which is adjusted retrospectively to reflect the latest market returns.

The Board is pleased to report that given these steps the financial performance in the current year is much improved and the level of net debt has continued to reduce. There remains considerable volatility in the returns generated from globally traded dairy commodities and we will continue to adjust the amount paid for milk supplies to reflect these returns. The last financial year has been a disappointing one for First Milk but steps have been taken in recent months to address the trading issues that were experienced and the Board will continue to improve our financial performance and returns to members.

Annual Report

Year ended 31 March 2015

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Officers and Professional Advisers

Directors
Sir Jim Paice (chairman)
Nigel Evans (vice chairman)
Jim Baird
Willie Campbell
Mike Gallacher
Brian Mackie
Wendy Radley

Secretary
Angus Waugh

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Independent Auditors
PricewaterhouseCoopers LLP
Chartered Accountants and
Statutory Auditors
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Strategic Report

The directors of First Milk Limited ("First Milk", the "Group" or the "Society") present their strategic report for the year ended 31 March 2015.

The Business and Principal Activities

First Milk Limited is a dairy farmers' co-operative registered under the Co-operative and Community Benefit Societies Act 2014 (number: IP29199R). The principal activities of the Group and Society are the marketing of milk on behalf of its members and the manufacture and sale of dairy and lifestyle nutritional products.

Results

The financial statements on pages 16 to 38 detail the trading results and financial position of the Group and Society, which includes The First Milk Cheese Company Limited, Scottish Milk Products Limited, Scottish Milk Dairies Limited and joint ventures: Westbury Dairies Limited, Fast Forward FFW Limited and First Milk Energy Limited.

Key Financial Performance Indicators

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

Financial KPI	2015	2014
Deficit/surplus before tax and non-recurring items	Deficit of £23.5 million	Surplus of £3.5 million
Deficit before tax after non-recurring items	Deficit of £24.9 million	Deficit of £4.3 million
Net assets employed	£6.0 million	£36.0 million
Net bank debt	£60.3 million	£62.7 million

The Group's and Society's income and expenditure accounts and balance sheets are shown on pages 16 and 17.

Prospects and Strategic Aspiration

The Group is focused on returning to profitability and securing a competitive and sustainable milk price for its members.

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

- Focusing on the core business of the manufacture of cheddar and other hard cheeses and the brokering of raw milk;
- Addressing the long term funding of the business; and
- Reducing costs and maximising efficiencies across the business.

Review of the Business

At the end of May 2014, the Group closed its packing facility. This followed a strategic review, which concluded that the Maelor packing facility was no longer economically viable, resulting in a non-recurring charge in the accounts for the year ended 31 March 2014 of £7.5m representing a write down of assets of £4.9m and redundancy and other closure costs of £2.6m.

On 31 December 2014, Bob Stott resigned as a director of the Society for health reasons.

On 8 January 2015, the Board announced that:

- the milk payment to members planned for 12 January 2015 would be deferred until 26 January 2015 and all future payments would also be deferred by 2 weeks;
- members' capital investment target would increase from 5.0 to 7.0 pence per litre; and
- members' capital investment would increase from 0.5 to 2.0 pence per litre for milk supplied from December 2014 up to August 2015, in order to build their total capital towards the 7.0 pence per litre target.

On 18 February 2015, the Society announced changes to its milk pricing mechanisms in order to better align markets and milk production. The changes included the introduction of additional milk groups to allow returns to be more closely aligned to their relevant markets. In addition, milk prices now incorporate "A" and "B" pricing, with the "B" price being applied to circa 20% of the volume and which is adjusted retrospectively to reflect the latest market returns.

On 26 March 2015, Mike Gallacher was appointed as chief executive and a director of the Society, in place of Kate Allum.

In March 2015, the Board decided to delay all capital repayments (including all instalments of capital repayments) by one year and to then split each capital repayment so that it is paid out over three years.

Strategic Report (continued)

Post Balance Sheet Events

On 1 April 2015, Kate Allum resigned as a director of the Society.

On 3 June 2015, the Group reached formal agreement with Lloyds TSB Commercial Finance and Barclays Commercial Bank to extend its bank facilities to February 2016 on the basis that they are repayable on demand.

On 15 June 2015, Brian Mackie was appointed as a director of the Society.

On 23 June 2015, Sir Jim Paice announced his resignation as chairman and a director of the Society and that he would step down when his replacement is appointed.

On 30 September 2015, Gerry Sweeney resigned as a director of the Society.

On 30 September 2015, Richard Davis resigned as a director of the Society.

Principal Risks and Uncertainties

Loss of milk production volumes

The Board addresses the risk of losing milk volumes by paying its members the maximum milk price possible through a market related pricing structure which recognises that market returns and costs to supply in different markets vary. As a result, the business aims to return prices to members that are in line with the actual return received for their milk.

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

Competitive risk

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

The First Milk Cheese Company sells hard cheese into export markets and sells other dairy foods and lifestyle nutrition foods to retailers and the out of home sector. In doing so, it faces competition from other similar companies at home and abroad. It also manufactures milk derivatives and faces the risk of customers using alternative supplies or substituting milk derivatives with non-dairy alternatives in their own products.

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

Regulatory risk

The Group and Society is required to comply with various regulatory regimes in areas such as competition law, health & safety and environmental regulation. This is achieved through the adoption of appropriate policies and structures, risk assessments, monitoring and review of performance, recruitment and training of suitably qualified staff and support from external consultants, including legal advisers, where appropriate.

Input cost risk

First Milk is exposed to market price movement for commodities, including electricity, gas, plastics and cardboard. This risk is mitigated in relation to many input costs by maintaining awareness of markets and by forward buying where this is appropriate. In addition, the use of such commodities is kept to a minimum and reduced where possible. The business addresses the exposure to electricity costs by buying electricity in the wholesale market, with expert assistance from energy consultants.

Financial Risks

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

Price risk

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

Credit risk

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

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

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

Strategic Report (continued)

Interest rate risk
The Group and Society's activities expose it to the financial risks of changes in interest rates. The Group and Society uses interest rate swap contracts, where appropriate, to hedge these exposures.

Liquidity risk
In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future developments, the Group and Society aims to use a mixture of long-term and short-term debt finance. Management monitors rolling forecasts of the Group's liquidity reserve and cash and cash equivalents on the basis of expected cash flows. Further information with regard to the management of current liquidity risk is contained in note 1 to the financial statements on pages 19 and 20.

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

Approved by the Directors
and signed by order of the Board

Angus Waugh
Secretary
6 October 2015

Directors' Report

The directors present their report and the audited consolidated financial statements of First Milk Limited for the year ended 31 March 2015.

Future Developments

The future developments of the Group are considered in the strategic report.

Employees

The recruitment, development, retention and maintenance of a highly skilled workforce is key to the future of the business. It is the policy of the Board of Directors to enlist the commitment of all employees in attaining the Group's and Society's objectives. Implementation of this policy is by encouraging employee involvement through effective communications, which includes an induction process for new employees, team briefings, newsletters, a company intranet and any other appropriate means of individual or collective consultation.

Disabled Employees

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

Political Donations

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

The Board of Directors

The directors who held office during the year to 31 March 2015 and up to the date of signing the financial statements were as follows:

Sir Jim Paice	-	non-executive director and chairman
Kate Allum	-	executive director (ceased to hold office on 1 April 2015)
Jim Baird	-	non-executive farmer director
Willie Campbell	-	non-executive farmer director
Richard Davis	-	non-executive farmer director (resigned 30 September 2015)
Nigel Evans	-	non-executive farmer director and vice-chairman
Mike Gallacher	-	executive director (appointed 26 March 2015)
Brian Mackie	-	non-executive director (appointed 15 June 2015)
Wendy Radley	-	non-executive farmer director
Bob Stott	-	non-executive director (resigned on 31 December 2014)
Gerard Sweeney	-	executive director (resigned on 30 September 2015)

The non-executive farmer directors' capital account balance and interests in the preference shares of the Society at 31 March 2015 and 31 March 2014 were:

	£	£	£	£
Jim Baird	96,137	17,179	65,716	17,179
Willie Campbell	30,437	5,605	21,908	5,605
Richard Davis (resigned 30 Septmber 2015)	37,697	6,529	26,460	6,529
Nigel Evans	44,385	7,046	30,240	7,046
Wendy Radley	16,153	-	6,927	-

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

Directors' Report (continued)

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

Current Trading
There has been considerable volatility in the returns generated from globally traded dairy commodities. Substantial losses were incurred in the year to 31 March 2015 which were partially attributable to milk prices paid not being aligned with the returns generated by the business. These circumstances were exacerbated by the persistent decline in market values which resulted in returns being generated when products were sold at less than the costs incurred when the product was manufactured.

Following the decisions made with regards to milk prices in the second half of the year to 31 March 2015 and the subsequent adjustment to milk prices, the Group's trading position, while still loss making, has improved since March 2015. In addition, the Group's bank debt has reduced by £11.7m at 31 August 2015 to £48.6m.

Existing Funding
The business is financed through a combination of members' capital contributions and bank facilities. Members' capital contributions were collected through the retention of 2.0 pence per litre from each member's milk payment for deliveries supplied from December 2014, which reduced to 0.5 pence per litre in relation to milk supplied after the end of August 2015.

As at 31 March 2015, each member's capital target was 7.0 pence per litre, based on an average annual volume over three years, having been increased from 5.0 pence per litre in January 2015.

The Group has bank facilities available to it until 1 February 2016. These facilities are secured by fixed securities over certain Group assets, a floating charge over Scottish Milk Products Limited and a debenture over First Milk Limited and The First Milk Cheese Company Limited. There are no financial covenants applicable to the facilities which are repayable on demand. The total possible facility available to the Group is £102.4m, which is dependent on the value of stock and debtors at the time and is based on a percentage entitlement specified by the bank at the start of the facility agreement. In addition, the facility includes a term loan based on plant and machinery values. The amount available from the drawdown facility at 31 August 2015 was £49.3m (31 March 2015: £62.2m). The Board's forecasts show that there is minimal headroom within the available bank facilities at certain points over the next year and consequently the Group may need to obtain additional facilities from its lenders or funding from other sources.

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

- the price paid for milk supplies and other costs will fluctuate with returns available to the business to ensure the projected profitability is achieved;
- there is no material diminution in the facilities available to the Group as a result of the deemed market value of stock falling, given this is a factor in establishing the amount of the borrowing facilities available to the Group, or other adverse working capital movements;
- the lenders will not seek early repayment of the existing facility and will continue to make it available to the Group; and
- the existing bank facilities will be extended or renewed from February 2016 and similar and sufficient facilities will be available to the Group for at least one year from the date of the approval of these accounts; and
- key customer and supplier contracts continue as per their existing commercial arrangements over the contractually agreed periods.

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

Conclusion on Going Concern
At the date of these financial statements, the directors consider that, based upon the financial projections and the ability of the Society to maintain adequate banking facilities prior to the expiry of the current facility, the Group will have sufficient funding to continue as a going concern for at least the next twelve months although it is noted that the current funding is repayable on demand.

The directors have concluded that the dependency upon the continued support of the bank from the date of these financial statements, the risk of not obtaining adequate banking facilities beyond February 2016 and the risk of not achieving the forecast performance, represent the existence of material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. This may mean that the Group is unable to continue to realise its assets and discharge its liabilities in the normal course of business.

Nevertheless, after making enquiries and, in particular, considering the measures taken by the Group as set out above, the directors have a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future, and for this reason, they continue to adopt the going concern basis of accounting in preparing the annual financial statements. Accordingly, the directors consider it appropriate to prepare the financial statements on a going concern basis.

Directors Report (continued)

Disclosure of Information to Auditors

In the case of each of the persons who are directors of the Group and Society at the date when this report was approved:

- So far as each of the directors is aware, there is no relevant audit information of which the Group and Society's auditors are unaware; and
- Each of the directors has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Group and Society's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Statement of Directors' Responsibilities

The directors are responsible for preparing the annual report and financial statements in accordance with applicable law and regulations.

The directors have chosen to prepare the financial statements for the Group and Society in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

Legislation requires the directors to prepare such financial statements for each financial year which give a true and fair view of the state of affairs of the Group and Society and of the surplus or deficit of the Group and Society for that year and comply with UK GAAP and the Co-operative and Community Benefit Societies Act 2014 and the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969. In preparing those financial statements the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed subject to any departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to assume that the Group and Society will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Society and enable them to ensure that the financial statements comply with the Co-operative and Community Benefit Societies Act 2014 and the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969. They are also responsible for safeguarding the assets of the Group and Society and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that they have complied with these requirements and, having a reasonable expectation that the Group and Society have adequate resources to continue in operational existence for the foreseeable future, have adopted the going concern basis for preparing the financial statements.

Independent Auditors

PricewaterhouseCoopers LLP, have indicated their willingness to continue in office as independent auditors and a resolution that they be reappointed will be proposed at the Annual General Meeting ("AGM").

By order of the Board

Angus Waugh

Angus Waugh
Secretary
6 October 2015

Corporate Governance Report

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

The Board

The Board of Directors is committed to operating the business with integrity, high-ethical values and professionalism and aims to achieve high standards of corporate governance.

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

The Code sets out a number of high-level and supporting principles across a range of areas of governance covering the Board and its committees, member participation in governance, and the audit and Annual Report. The Code also sets out specific provisions against which a co-operative's own governance can be measured. First Milk's compliance with the Code will be independently assessed regularly, beginning later in 2015.

A copy of the Code can be found at http://www.soas.coop/member-services/

As a consequence, this Corporate Governance report focuses on those aspects that are covered by the Code and should be read in conjunction with the Audit, Finance and Risk Committee and Remuneration reports on pages 12 and 13.

Role of the Board

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

Composition of the Board

The First Milk Board is structured to bring a variety of skills and experience to the performance of its roles.

The farmer directors constitute a majority of the Board as required by First Milk's rules.

First Milk's Rules provide that one-third, or a number as close as possible to one-third, of the farmer directors retire by rotation each year. Any retiring directors may put themselves forward for re-appointment, subject to the maximum of three terms of office. Each year, the Board invites nominations from the membership for farmer director positions through various communications that are sent to members. This year, Richard Davis will retire from the Board at the AGM that is scheduled for 29 October 2015 and will not seek re-appointment. Jim Baird will retire by rotation and is seeking re-appointment. Nominations for board positions have been invited from the membership and the Board will make recommendations for farmer director appointments for approval by members at the AGM.

Two other non-executive directors, one of whom is the chairman, bring experience from diverse backgrounds. Following the resignation of Bob Stott with effect from 31 December 2014, the Board appointed Brian Mackie as a non-executive director in his place on 15 June 2015.

Two executive directors, the chief executive and group finance director, bring the composition of the Board to nine.

All director appointments are subject to ratification by members at the AGM.

Corporate Governance Report (continued)

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

Director	External Appointments
Sir Jim Paice	Camgrain Limited The Game and Wildlife Conservation Trust (Trustee director) National Institute of Agricultural Botany (Trustee) The Kings School, Ely (Governor director)
Nigel Evans	UK Weir Castle Ltd Cherry Orchard Homes Ltd Celtic Shire Property Ltd Aberavon Properties LLP Evanridge LLP Evanridge Properties LLP Evanridge Founder Partner LLP Evanridge Founder Shareholder LLP Evanridge Trustee LLP Sweden Evanridge Sweden AB Evanridge Sweden 3 AB Evanridge Plastkannan 1 AB
Mike Gallacher	Fast Forward FFW Limited*
Wendy Radley	Datag Limited
Gerry Sweeney	Dairy Energy Savings Limited* Westbury Dairies Limited* Fast Forward FFW Limited* First Milk Energy Limited* The Scottish Milk Limited Retirement Benefits Plan* (trustee) Assured Food Standards Limited
	*denotes directorship held as nominated First Milk director

Proceedings of the Board

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

The implementation of strategy and day-to-day operational matters are delegated to First Milk's Management Team, which operates under terms of reference set by the Board. The Management Team is led by Mike Gallacher (chief executive), who reports to the Board on its activities, and also consists of Gerry Sweeney (group finance director), Kenny Bain (group operations director), Paul Flanagan (membership and external relations director), Maureen Ross (HR and corporate services director), Glyn Hughes (commercial director), Owen Shearer (transformation director) and Angus Waugh (secretary).

Board Committees

In order to be able to devote sufficient time to strategic issues, the Board delegates certain tasks to its standing committees, which operate under set terms of reference. Each committee comprises either non-executive directors only, or a mixture of non-executive directors and executives, as appropriate. Other executives attend Board committees as required. All four committees are chaired by non-executive directors, who make regular reports to the Board on the activities of their respective committees.

First Milk's board committee structure comprises the following four committees, all of which have four scheduled meetings each year:

- Audit, Finance and Risk
- Nomination and Remuneration
- Membership
- Sustainability

Corporate Governance Report (continued)

Audit, Finance and Risk Committee

The Audit, Finance and Risk Committee is chaired by Brian Mackie and also comprises Jim Baird and Nigel Evans.

Its roles include overseeing the annual external audit, reviewing the effectiveness of internal controls and risk management and monitoring First Milk's budget process, ongoing forecasts of financial performance and capital requirements. A report on the activities of the Audit, Finance and Risk Committee can be found on page 12.

Nomination and Remuneration Committee

The Nomination and Remuneration Committee is chaired by Nigel Evans and also comprises Brian Mackie and Sir Jim Paice.

Its roles include identifying and nominating, for Board approval, candidates for Board vacancies, considering succession planning and the structure, size and composition of the Board and approving remuneration policies for the First Milk Group and specific remuneration packages for senior executives.

When vacancies for the chairman and farmer directors are under consideration, an expanded Nomination Committee for these purposes is created that includes the leader and deputy leader (if there is one appointed) of the Area Representatives.

A Remuneration report can be found on page 13.

Membership Committee

The Membership Committee is chaired by Richard Davis and also comprises Willie Campbell, Paul Flanagan (membership and external relations director) and the leader and deputy leader (if there is one appointed) of the Area Representatives.

Its roles include considering specific matters affecting the membership, reviewing communications with members and member-facing events and reviewing the frequency and structure of Area Representatives meetings.

Due to the importance of the membership related matters addressed during the year to 31 March 2015, the role of the Membership Committee was undertaken by the Board during that period.

Sustainability Committee

The Sustainability Committee is chaired by Wendy Radley and also comprises Mike Gallacher (chief executive), Paul Flanagan (membership and external relations director), Lee Truelove (communications manager), along with other Management Team members, who lead key workstreams. Its role is to review First Milk's compliance with legal requirements on health & safety, environment and employment matters and to lead a sustainability strategy for the Group, focused on areas such as reducing environmental impact, energy efficiency, waste minimisation, reducing packaging requirements, on-farm quality standards, animal health and welfare, training and development for employees and sustainable sourcing.

Area Representatives

The members of First Milk Limited elect 15 Area Representatives, who each represent a geographical area.

The roles of the Area Representatives are to promote the business aims of First Milk Limited, assist the Board in communicating with members, make representations to the Board concerning matters in their areas, approve certain changes to the Rules in accordance with the relevant provisions of the Rules and ratify the Board's appointments of selected farmer directors.

Board and Area Representative Training and Evaluation

The Board is committed to developing its knowledge, capabilities and performance. To this end, it undertakes periodic evaluation exercises. Appropriate improvements in the operation of the Board and training needs of directors are identified from these evaluations.

Newly appointed directors go through a comprehensive induction process that includes training in the role of the Board and duties of directors. The Board also receives periodic training as a group on areas such as health & safety and directors' general legal duties.

The Board also provides performance evaluation and training for the Area Representatives, to assist them in the effective performance of their duties.

Corporate Governance Report (continued)

As First Milk is a member owned business, member participation in governance is vital and the Board encourages members to participate in the election of area representatives. Member participation in the AGM is also encouraged by holding it in different parts of the country by rotation and expanding it into a conference covering various topics relating to the business and the wider industry. In addition, each member receives a proxy form with their AGM Notice that enables them to vote on resolutions being proposed at the AGM even if they cannot attend.

The Board also encourages member participation through Farmer Forums in local areas, roadshows held in the summer months, liaison groups at creameries and through workshops and conferences arranged through First Milk's farm sustainability programme.

Governance review

In May 2015, the Board decided that an independent review would be conducted of the governance and commercial learnings from the business's recent disappointing performance. This review will seek to identify clear recommendations, which will be shared with members, when finalised, with an expectation that this will be at or before the AGM.

For and on behalf of the Board

Angus Waugh

Angus Waugh
Secretary
6 October 2015

Audit, Finance and Risk Committee Report

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

External Audit

The Audit, Finance and Risk Committee meets with the external audit firm twice in the course of the year, first to review the scope of the external audit plan and then to receive and discuss the audit report and financial statements. The Committee also makes recommendations on the appointment of the external auditors, the fees payable for work carried out by the audit firm and reports to the Board in respect of non-audit services carried out by the auditors. In considering all of the above, the Committee has due regard to the cost effectiveness, independence and objectivity of the audit function.

PricewaterhouseCoopers LLP was re-appointed by members as First Milk's external auditors at the Annual General Meeting in January 2015. Their report on the financial statements can be found on pages 14 and 15.

Internal Audit and Risk

The Audit, Finance and Risk Committee monitors internal control procedures and reviews their effectiveness on an on-going basis. There are inherent limitations in any system of internal control, which can provide only reasonable, and not absolute, assurance with respect to the preparation of financial information and the safeguarding of assets.

The key features of the internal control system that operated throughout the year covered by the financial statements are:

- A control environment based on a clearly defined organisational structure;
- The identification and evaluation of business risk, control actions and monitoring activities to manage risk and establish priorities for the allocation of resources;
- The operation of control procedures covering financial transactions, verification and reconciliation procedures, commitment and authorisation limits, asset recording and protection; and
- A monitoring process particularly through the budget, forecast review and trading reporting processes, which highlights the key business performance indicators, risks and significant variances from expectations.

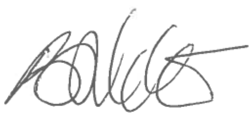
The Audit, Finance and Risk Committee and the Board review the key risk areas and relevant controls to ensure that, as far as possible, controls are being operated in line with the established procedures. Risks are monitored through the maintenance and review of a risk register that identifies the key risks faced by the business and actions to control and reduce these risks. In addition, the committee receives reports from the Risk Management Group (comprising members of the Management Team, who meet quarterly), monitors and reviews specific risk areas and oversees First Milk's insurance arrangements. On an on-going basis, steps are taken to deal with areas of improvement which come to the attention of management and the Board.

The internal auditors, KPMG LLP, review specific areas of the business as agreed in consultation with management and the Audit, Finance and Risk Committee. Reviews of key risk areas and relevant controls across the Group are carried out and reported to the Committee together with any recommendations for improvements.

Budget process, forecasts, financial performance and capital requirements

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

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



Brian Mackie
Chairman of the Audit, Finance and Risk Committee
6 October 2015

Remuneration Report

The Board has overall responsibility for both executive and non-executive remuneration within First Milk Limited and has delegated its duties relating to their remuneration to the Nomination and Remuneration Committee under agreed terms of reference.

Executive Remuneration

The following principles are applied to executive remuneration within First Milk:

- Total remuneration for all executives should be sufficiently market competitive in total annual cash terms to attract and retain the calibre of executive required, bearing in mind that this must also reflect the nature and purpose of First Milk Limited as a member owned co-operative;
- The overall remuneration policy is to operate a clear, consistent and easy to communicate remuneration structure based around competitive salaries and a bonus scheme that rewards excellent corporate and individual performance. In particular the bonus scheme must take account of the absence of any share option scheme.

These principles apply to executives across the Group.

In 2014, the HayGroup (a consulting firm that has expertise in people and organisational effectiveness and operates across a range industries, including the food sector) carried out a job evaluation exercise across the Group. The purpose of this exercise was to provide benchmarking information that enables the business to ensure that people are in the right grades and are paid the right remuneration.

First Milk Limited operates a Performance and Development Review system that is designed to monitor and improve the performance of all employees. The results of these reviews are used in setting salaries through a performance related pay structure.

In addition, members of the Management Team participate in a longer term strategic incentive bonus plan (the “Plan”). This potentially rewards performance against strategic objectives over a three year period. Under the Plan, if certain business objectives relating to the development of the business are achieved in a year, a proportion of the available payment is paid out with the remainder being retained.

Details of the remuneration of the Chief Executive and Group Finance Director in the years to 31 March 2015 and 31 March 2014 can be found in note 6 to the financial statements on page 23.

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

Non-executive Remuneration

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

Currently the annual fees paid to the non-executive chairman and other non-executive directors of First Milk are £90,000 and £35,000, respectively.

In addition, the vice-chairman, who is also a farmer director, receives a total annual fee of £60,000, comprising the fee paid to other non-executive directors and a further £25,000 to reflect the additional time commitment required.

In early 2014, the HayGroup was asked to carry out a benchmarking exercise to assess the appropriateness of these fees. Their conclusion was that the chairman’s fee is appropriate on the basis of market data and that the fees paid to other non-executive directors are also appropriate.

On this basis, and on the recommendation of the Nomination and Remuneration committee, the Board is not proposing that any change be made to the fees currently paid to the chairman, the vice-chairman and the other non-executive directors.

For and on behalf of the
Nomination and Remuneration Committee

N Evans

Nigel Evans
Chairman of the Nomination and Remuneration Committee
6 October 2015

Independent Auditor's Report to the Members of First Milk Limited

Report on the Financial Statements

Our opinion

In our opinion, First Milk Limited's Group financial statements and Society financial statements (the "financial statements"):

- give a true and fair view of the state of the Group's and of the Society's affairs as at 31 March 2015 and of the Group's and the Society's loss and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Co-operative and Community Benefit Societies Act 2014.

This opinion is to be read in the context of what we say in the remainder of this report.

Emphasis of matter – Going Concern

In forming our opinion on the Group's and the Society's financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 1 to the financial statements concerning the Group's and the Society's ability to continue as a going concern. The Group incurred a loss of £27.5 million during the year ended 31 March 2015 and continued to be loss making for the 6 month period to 30 September 2015. Additionally, the Group's and the Society's bank facilities are payable on demand and are available until 1 February 2016. As set out in the directors' report and note 1 to the financial statements, the ability of the Group and the Society to realise their assets and discharge their liabilities in the normal course of business is dependent upon the adequacy of the bank facilities and the continued support of their lenders, achievement of forecast financial performance and securing financing for the period beyond the expiry of the current facility. These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of material uncertainties which may cast significant doubt upon the Group's and the Society's ability to continue as a going concern. The Group's and the Society's financial statements do not include the adjustments that would result if the Group and the Society were unable to continue as a going concern.

What we have audited

The financial statements comprise:

- the Group and the Society balance sheets as at 31 March 2015;
- the Group and the Society income and expenditure accounts and statements of total recognised gains and losses for the year then ended;
- the Group and the Society statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example, in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Other matters on which we are required to report by exception

Adequacy of accounting records, system of internal control and information and explanations received

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

- a satisfactory system of control over transactions has not been maintained; or
- we have not received all the information and explanations we require for our audit; or
- proper accounting records have not been kept by the Society; or
- the Society's financial statements are not in agreement with the accounting records.

We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of the Directors' Responsibilities set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the members of First Milk Limited as a body in accordance with Section 87 (2) of the Co-operative and Community Benefit Societies Act 2014 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Independent Auditor's Report to the Members of First Milk Limited (continued)

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the Society's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Kenneth Wilson (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow
6 October 2015

(a) The maintenance and integrity of the First Milk Limited website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the annual accounts since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of annual accounts may differ from legislation in other jurisdictions.

Income and Expenditure Accounts for the Year Ended 31 March 2015

	Notes	2015 Group £'000	2015 Society £'000	2014 Group £'000	2014 Society £'000
Turnover - continuing operations	2	460,087	384,565	626,573	515,547
Less: share of joint ventures' turnover		(17,895)	-	(16,064)	-
Total turnover		442,192	384,565	610,509	515,547
Cost of sales	3	(446,170)	(378,880)	(583,144)	(501,784)
Gross (loss)/profit		(3,978)	5,685	27,365	13,763
Administrative expenses					
- Recurring		(17,494)	(13,070)	(20,861)	(9,434)
- Non-recurring	4	(1,371)	(45,785)	(7,816)	(3,542)
		(18,865)	(58,855)	(28,677)	(12,976)
Operating (deficit)/surplus					
- Continuing operations	5	(22,843)	(53,170)	(1,312)	787
Share of operating surplus/(deficit) in joint ventures		634	-	(162)	-
Investment income		-	-	-	3,377
(Deficit)/surplus before interest		(22,209)	(53,170)	(1,474)	4,164
Interest receivable and similar income	8	526	873	248	1,762
Interest payable and similar charges	9	(3,252)	(810)	(3,106)	(801)
(Deficit)/surplus on ordinary activities before taxation		(24,935)	(53,107)	(4,332)	5,125
Tax on (deficit)/surplus on ordinary activities	10	(2,552)	(905)	(835)	(682)
(Deficit)/surplus for the financial year	22	(27,487)	(54,012)	(5,167)	4,443

Statements of Total Recognised Gains and Losses for Year Ended 31 March 2015

	Notes	2015 Group £'000	2015 Society £'000	2014 Group £'000	2014 Society £'000
(Deficit)/surplus for the financial year:					
Group/Society		(28,121)	(54,012)	(5,005)	4,443
Associates and joint ventures		634	-	(162)	-
		(27,487)	(54,012)	(5,167)	4,443
Actuarial loss relating to the pension schemes	28	(10,391)	(6,300)	(4,421)	(2,500)
UK deferred tax attributable to actuarial loss		2,078	1,260	434	269
Total recognised gains and (losses) since last annual report		(35,800)	(59,052)	(9,154)	2,212

Balance Sheets at 31 March 2015

	Notes	2015 Group £'000		2015 Society £'000	2014 Group £'000		2014 Society £'000
Fixed Assets							
Intangible fixed assets	11		2,573	-		4,465	-
Tangible fixed assets	12		33,855	966		33,737	1,073
Investments in subsidiary undertakings	13		-	34,523		-	40,212
Investments in joint ventures:	13		-	1,282		-	1,282
Share of gross assets		7,978		-	7,971		-
Share of gross liabilities		(5,851)		-	(6,478)		-
			2,127			1,493	
Total fixed assets			38,555	36,771		39,695	42,567
Current assets							
Stocks	14		58,693	370		75,151	541
Debtors	15		43,867	41,133		72,830	105,743
Cash at bank and in hand			390	-		714	338
			102,950	41,503		148,695	106,622
Creditors: amounts falling due within one year	16		(112,528)	(47,152)		(135,527)	(68,870)
Net current (liabilities)/assets			(9,578)	(5,649)		13,168	37,752
Total assets less current liabilities			28,977	31,122		52,863	80,319
Creditors: amounts falling due after more than one year	17		(2,811)	(2,155)		(2,983)	(2,121)
Provisions for liabilities and charges	19		(22)	(22)		(22)	(22)
Total net assets employed excluding pension liability			26,144	28,945		49,858	78,176
Pension liability	28		(20,136)	(11,440)		(13,871)	(7,440)
Total net assets employed including pension liabillity			6,008	17,505		35,987	70,736
Capital and reserves							
Share capital	21		8,656	8,656		8,656	8,656
Income and expenditure reserve	22		(53,812)	(42,315)		(16,676)	18,073
Revaluation reserve	22		52	52		52	52
Members' funds	23		(45,104)	(33,607)		(7,968)	26,781
Loan capital	21		51,112	51,112		43,955	43,955
Total capital and reserves			6,008	17,505		35,987	70,736

The financial statements on pages 16 to 38 were approved by the Board of Directors on 6 October 2015 and signed on its behalf by:

Sir Jim Paice – Director

Brian Mackie – Director

Statements of Cash Flows for the Year Ended 31 March 2015

	Notes	2015 Group £'000	2015 Society £'000	2014 Group £'000	2014 Society £'000
Net cash (outflow)/inflow from operating activities	24	(391)	(170)	11,775	(2,975)
Returns on investments and servicing of finance					
Interest received		26	373	48	1,562
Interest paid		(2,969)	(810)	(2,853)	(801)
Net cash (outflow)/inflow from returns on investments and servicing of finance		(2,943)	(437)	(2,805)	761
Members' capital accounts					
Return on members' capital		(443)	(443)	(1,020)	(1,020)
Net proceeds from members		7,191	7,191	4,461	4,461
Net cash inflow from members		6,748	6,748	3,441	3,441
Taxation		-	-	-	-
Capital expenditure and financial investment					
Purchase of tangible assets		(5,364)	(335)	(8,386)	(274)
Proceeds from sale of tangible fixed assets		1,485	-	1,284	-
Sale of intangible assets		2,000	-	6,000	-
Net cash outflow from capital expenditure and financial investment		(1,879)	(335)	(1,102)	(274)
Net cash inflow before financing		1,535	5,806	11,309	953
Financing					
Net cash outflow from financing	25	(1,859)	(6,144)	(10,943)	(615)
(Decrease)/increase in cash in the year		(324)	(338)	366	338

1. Accounting Policies

Basis of Accounting

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of certain fixed assets, and in accordance with applicable United Kingdom Accounting Standards.

The financial statements have been prepared in accordance with the Co-operative and Community Benefit Societies Act 2014 and the Co-operative and Community Benefit Societies (Group Accounts) Regulations 1969.

Going Concern

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

Current Trading
There has been considerable volatility in the returns generated from globally traded dairy commodities. Substantial losses were incurred in the year to 31 March 2015 which were partially attributable to milk prices paid not being aligned with the returns generated by the business. These circumstances were exacerbated by the persistent decline in market values which resulted in returns being generated when products were sold at less than the costs incurred when the product was manufactured.

Following the decisions made with regards to milk prices in the second half of the year to 31 March 2015 and the subsequent adjustment to milk prices, the Group's trading position, while still loss making, has improved since March 2015. In addition, the Group's bank debt has reduced by £11.7m at 31 August 2015 to £48.6m.

Existing Funding
The business is financed through a combination of members' capital contributions and bank facilities. Members' capital contributions were collected through the retention of 2.0 pence per litre from each member's milk payment for deliveries supplied from December 2014, which reduced to 0.5 pence per litre in relation to milk supplied after the end of August 2015.

As at 31 March 2015, each member's capital target was 7.0 pence per litre, based on an average annual volume over three years, having been increased from 5.0 pence per litre in January 2015.

The Group has bank facilities available to it until 1 February 2016. These facilities are secured by fixed securities over certain Group assets, a floating charge over Scottish Milk Products Limited and a debenture over First Milk Limited and The First Milk Cheese Company Limited. There are no financial covenants applicable to the facilities which are repayable on demand. The total possible facility available to the Group is £102.4m, which is dependent on the value of stock and debtors at the time and is based on a percentage entitlement specified by the bank at the start of the facility agreement. In addition, the facility includes a term loan based on plant and machinery values. The amount available from the drawdown facility at 31 August 2015 was £49.3m (31 March 2015: £62.2m). The Board's forecasts show that there is minimal headroom within the available bank facilities at certain points over the next year and consequently the Group may need to obtain additional facilities from its lenders or funding from other sources.

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

- the price paid for milk supplies and other costs will fluctuate with returns available to the business to ensure the projected profitability is achieved;
- there is no material diminution in the facilities available to the Group as a result of the deemed market value of stock falling, given this is a factor in establishing the amount of the borrowing facilities available to the Group, or other adverse working capital movements;
- the lenders will not seek early repayment of the existing facility and will continue to make it available to the Group; and
- the existing bank facilities will be extended or renewed from February 2016 and similar and sufficient facilities will be available to the Group for at least one year from the date of the approval of these accounts; and
- key customer and supplier contracts continue as per their existing commercial arrangements over the contractually agreed periods.

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

1. Accounting Policies (continued)

Going Concern (continued)

Conclusion on Going Concern
At the date of these financial statements, the directors consider that, based upon the financial projections and the ability of the Society to maintain adequate banking facilities prior to the expiry of the current facility, the Group will have sufficient funding to continue as a going concern for at least the next twelve months although it is noted that the current funding is repayable on demand.

The directors have concluded that the dependency upon the continued support of the bank from the date of these financial statements, the risk of not obtaining adequate banking facilities beyond February 2016 and the risk of not achieving the forecast performance, represent the existence of material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. This may mean that the Group is unable to continue to realise its assets and discharge its liabilities in the normal course of business.

Nevertheless, after making enquiries and, in particular, considering the measures taken by the Group as set out above, the directors have a reasonable expectation that the Group will have adequate resources to continue in operational existence for the foreseeable future, and for this reason, they continue to adopt the going concern basis of accounting in preparing the annual financial statements. Accordingly, the directors consider it appropriate to prepare the financial statements on a going concern basis.

The principal accounting policies, adopted by the directors, which have been applied consistently, are set out below.

Basis of Consolidation

The Group financial statements incorporate the financial statements of First Milk Limited and its subsidiary undertakings made up to 31 March 2015.

Goodwill arising on consolidation and goodwill on acquisition (representing the excess of the fair value of the consideration over the fair value of the separable net assets and liabilities acquired) is capitalised and amortised on a straight line basis over its estimated useful economic life. During the prior year the estimated useful life of the existing goodwill asset was reduced from 20 years to 5 years.

Each year the Group undertakes impairment reviews to assess the recoverability of the carrying value of goodwill, where there is an indication that an impairment review is required.

Investments

Except as stated below, investments held as fixed assets are stated at cost less provision for any impairment.

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

The Group's share of the net assets of these undertakings is shown in the consolidated balance sheet. Goodwill arising on the acquisition of a joint venture is capitalised as part of the carrying amount in the consolidated balance sheet and amortised over its estimated useful life.

The Group's share of joint venture turnover is included in total turnover in the income and expenditure account.

Tangible Fixed Assets

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

Depreciation is calculated to write off the cost or valuation of tangible fixed assets by equal annual instalments over their estimated useful lives.

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

Tangible fixed assets include the capitalised fair value of assets acquired by finance leases and hire purchase contracts. Assets acquired by finance leases and the related lease obligations are included in the balance sheet at the present value of the minimum rental payments. The assets are depreciated over the shorter of their lease term or their useful lives in accordance with normal depreciation policy.

1. Accounting Policies (continued)

Government Grants

Government grants relating to tangible fixed assets are treated as deferred income and released to the income and expenditure account over the expected useful lives of the assets concerned. Other grants are credited to the income and expenditure account as the related expenditure is incurred.

Operating Leases

Rentals under operating leases are charged in equal annual amounts to the income and expenditure account over the lease term.

Stocks

Stocks of milk are valued at the lower of cost and net realisable value. Cost is the prevailing monthly payment for milk purchased from members. Stocks of cheese and other stocks are valued at the lower of cost and net realisable value. Where applicable, cost includes direct costs, direct labour and an attributable proportion of manufacturing overheads based on normal levels of activity. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and sale. Provision is made for obsolete, slow moving or defective items where appropriate.

Provisions

A provision is recognised when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, expected future cash flows are discounted using a pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Taxation

Current tax, comprising UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Except where balances are not assessed to be recoverable, deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted. Deferred tax assets in respect of pension liabilities have been recognised in full.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Pension Costs

For the defined benefit schemes, the amounts charged to operating surplus are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the income and expenditure account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

The defined benefit schemes are funded, with the assets of the schemes held separately from those of the Group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet.

For defined contribution schemes the amount charged to the income and expenditure account in respect of pension costs is the contribution payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

1. Accounting Policies (continued)

Financial Instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all contractual liabilities.

The capitalised costs of raising finance from bank borrowings have been set off against the liabilities to which they relate and amortised on a straight line basis over the period of the borrowing facility to which they relate.

The Group uses derivative financial instruments to reduce exposure to foreign exchange and interest rate movements. The Group does not hold or issue derivative financial instruments for speculative purposes. For an interest rate swap to be treated as a hedge, the instrument must be related to actual assets and liabilities or a probable commitment and must change the nature of the interest rate by converting a fixed rate to a variable rate or vice versa.

Interest differentials under these swaps are recognised by adjusting net interest payable over the periods of the contracts.

Foreign Currencies

Transactions denominated in foreign currencies are translated into Sterling at the exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the exchange rate ruling at the balance sheet date.

All exchange differences are dealt with through the income and expenditure account.

2. Turnover

Group

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

The majority of turnover is to the UK with £41,063,310 (2014: £12,622,538) being to Continental Europe and £213,000 (2014: £469,414) invoiced to the rest of the World.

Society

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

3. Cost of Sales

Cost of sales primarily includes payments made to members for milk supplied each month. These payments are made up of payments for compositional quality and hygienic quality adjustments and reflect deductions for milk collection charges. Cost of sales also includes the costs of ex-farm milk collection, distribution to customers and testing the milk for compositional and hygienic quality as well as costs of production of cheese and other dairy and lifestyle nutritional products.

4. Administrative Expenses

The non-recurring items in the Group profit and loss account for 2015 comprise a credit of £2,900,000 (net of fees) relating to the sale of our UK customer base for hard cheese to Adams Foods Limited, professional fees of £2,082,000 associated with the work undertaken to review the financial position and prospects of the business and to secure appropriate funding, an impairment of goodwill of £1,200,000, a write off of a loan with First Milk Energy Limited of £598,000 and restructuring and redundancy charges of £391,000.

The non-recurring items in the Group profit and Loss account for 2014 comprise a credit of £3,055,000 (net of fees) relating to the sale of our UK customer base for hard cheese to Adams Foods Limited; a charge of £7,524,000 associated with the closure of our packing facility; restructuring and redundancy charges of £534,000, an impairment of goodwill of £1,675,000 and acceleration of the amortisation of goodwill of £1,138,000.

The non-recurring items in the Company Profit and Loss account for 2015 comprise a provision for a £37,000,000 balance owed by a subsidiary undertaking reflective of the accumulated trading losses in that subsidiary , the write off of investments in subsidiary undertakings totalling £5,889,000, professional fees of £2,082,000 associated with the work undertaken to review the financial position and prospects of the business and to secure appropriate funding, a write off of a loan with First Milk Energy Limited of £598,000 and restructuring and redundancy charges of £216,000.

The non-recurring items in the Company Profit and Loss account for 2014 comprise the write-off of investments totalling £3,525,000 and restructuring and redundancy charges of £17,000.

5. Operating (Deficit)/Surplus

	2015		2014	
	Group £'000	Society £'000	Group £'000	Society £'000
Operating (deficit)/surplus is stated after charging/(crediting):				
Depreciation and impairment of owned assets	3,653	442	9,556	142
Goodwill amortisation	892	-	1,535	-
Impairment of goodwill	1,200	-	1,675	-
Write down of investment in subsidiary undertakings	-	5,889	-	3,525
Write down of balance due from First Milk Cheese Co. Limited	-	37,000	-	-
Write down of loan to First Milk Energy Limited	598	598	-	-
Operating lease rentals:				
-land and buildings	199	91	166	91
-plant and machinery	175	131	255	87
Auditors' remuneration:				
Audit Services:				
-audit of society and group financial statements	65	65	65	65
-audit of subsidiary companies	75	-	75	-
Non-Audit services:				
-tax services	33	33	34	34
-services relating to corporate finance transactions	773	773	117	117
-pension advisory services	-	-	5	5
Government grants released	(206)	-	(238)	-
Loss/(gain) on disposal of fixed assets	83	-	(182)	-
Dividend income from subsidiary undertakings	-	-	-	3,377

6. Directors' Remuneration

The remuneration received by the executive directors, excluding pension contributions, was as follows:

	Salary £	Benefits in kind £	Bonuses £	2015 Total £	2014 Total £
Kate Allum	318,150	13,588	-	331,738	340,531
Gerard Sweeney	204,000	13,735	-	217,735	197,007
Mike Gallacher (from 26 March 2015)	3,788	197	-	3,985	-
	525,938	27,520	-	553,458	537,538

The remuneration received by the non-executive and farmer elected and selected directors was as follows:

	2015	2014
	£	£
Sir Jim Paice (from 1 November 2013)	90,000	37,500
Nigel Evans	60,000	45,417
Richard Davies	35,000	35,000
James Baird (from 1 November 2013)	35,000	14,583
Willie Campbell (from 1 November 2013)	35,000	14,583
Wendy Radley (from 1 November 2013)	35,000	14,583
Bob Stott (to 31 December 2014)	26,250	35,000
Bill Mustoe (to 31 October 2013)	-	70,000
Thomas Campbell (to 31 October 2013)	-	35,000
Mark James (to 31 October 2013)	-	20,417
Hugh Parker (to 31 October 2013)	-	20,417
Simon Weaver (to 31 August 2013)	-	14,583
	316,250	357,083

7. Employee Information

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

	2015		2014	
	Group £'000	Society £'000	Group £'000	Society £'000
Staff costs				
Wages and salaries	14,536	3,963	21,665	4,551
Social security costs	1,438	497	1,986	483
Other pension costs	871	330	1,101	361
	16,845	4,790	24,752	5,395
Employee numbers	Number		Number	
Selling and distribution	18		22	
Administration	133		173	
Production	279		454	
	430		649	

8. Interest Receivable and Similar Income

	2015		2014	
	Group £'000	Society £'000	Group £'000	Society £'000
Interest on short-term deposit with banks	1	1	-	-
Interest from Joint Venture	25	25	48	27
Interest from subsidiary undertakings	-	347	-	1,535
Pension scheme finance income (note 28)	500	500	200	200
	526	873	248	1,762

9. Interest Payable and Similar Charges

	2015		2014	
	Group £'000	Society £'000	Group £'000	Society £'000
Bank loans, overdrafts and revolving credit facilities	2,946	787	2,845	793
Preference shares	5	5	3	3
Pension scheme finance cost (note 28)	283	-	253	-
Other	18	18	5	5
	3,252	810	3,106	801

10. Tax on (deficit)/surplus on ordinary activities

	2015		2014	
	Group £'000	Society £'000	Group £'000	Society £'000
Current tax				
Adjustments in respect of prior periods	-	-	(77)	-
Deferred tax				
Origination and reversal of temporary differences	3,151	968	623	370
Adjustments in respect of previous years	(521)	(77)	(107)	(64)
Effects of change in tax rates	(78)	14	396	376
Tax on (deficit)/surplus on ordinary activities	2,552	905	835	682

The standard rate of tax for the year, based on the UK standard rate of corporation tax, is 21% (2014: 23%). The actual tax charge for the current and the previous year differs from the standard rate for the reasons set out in the following reconciliation:

	2015		2014	
	Group £'000	Society £'000	Group £'000	Society £'000
(Deficit)/surplus on ordinary activities before tax	(24,935)	(53,106)	(4,332)	5,125
Tax credit/(charge) on (deficit)/surplus on ordinary activities at standard rate of 21% (2014: 23%)	(5,236)	(11,152)	(996)	1,179
Factors affecting the charge for the year:				
Expenses not deductible for tax purposes	974	9,357	1,501	841
Capital allowances in excess of depreciation	(589)	(49)	1,591	(1)
Other timing differences	(63)	(285)	(482)	(207)
De-recognition of deferred tax/(utilisation of tax losses)	5,421	2,509	(1,169)	(469)
Non-taxable income	(507)	(380)	(445)	(1,343)
Adjustments in respect of prior periods	-	-	(77)	-
Total amount of current tax	-	-	(77)	-

The UK corporation tax rate fell from 23% to 21%, effective from 1 April 2014.

In addition to this change in rate, further changes to the UK corporation tax system were announced in the March 2013 UK Budget statement. Legislation to reduce the main rate of corporation tax from 23% to 21% from 1 April 2014, and to 20% from 1 April 2015, was included in the Finance Act 2013, which was substantively enacted in July 2013.

Changes to the UK corporation tax rates were also announced in the Chancellor's Budget on 8 July 2015. These include reductions to the main rate to 19% from 1 April 2017 and to 18% from 1 April 2020. As the changes had not been substantively enacted at the balance sheet date their effects are not included in these financial statements. The overall effect of these changes, if they had applied to the deferred tax balance at the balance sheet date, would not have a material impact on these financial statements.

11. Intangible Fixed Assets - Group

	2015	2014
	£'000	£'000
Goodwill		
Cost/Valuation		
At 1 April 2014	10,437	10,437
Additions	200	-
At 31 March 2015	10,637	10,437
Accumulated amortisation		
At 1 April 2014	5,972	2,762
Amortised in year	892	1,535
Impairment	1,200	1,675
At 31 March 2015	8,064	5,972
Net book value		
At 31 March 2015	2,573	4,465
At 31 March 2014	4,465	7,675

In assessing the carrying value of goodwill held by the Group at 31 March 2015, which relates to the CNP business acquired in 2012, the key assumptions applied were a discount rate of 12%, an average growth rate of 12% for the three years ending 31 March 2020 and thereafter a terminal growth rate 2%. The increase to goodwill during the year represents an additional deferred consideration of £200,000 due to the former owners of CNP Professional Limited.

12. Tangible Fixed Assets - Group

	Freehold land and buildings	Plant, equipment and vehicles owned	Plant, equipment and vehicles leased	Total
	£'000	£'000	£'000	£'000
Cost/Valuation				
At 1 April 2014	12,423	60,868	1,195	74,486
Additions	1,149	4,215	-	5,364
Transfers	446	(446)	-	-
Disposals	(1,000)	(654)	-	(1,654)
At 31 March 2015	13,018	63,983	1,195	78,196
Accumulated depreciation				
At 1 April 2014	5,598	33,956	1,195	40,749
Charge for the year	683	2,970	-	3,653
Disposals	-	(61)	-	(61)
At 31 March 2015	6,281	36,865	1,195	44,341
Net book value				
At 31 March 2015	6,737	27,118	-	33,855
At 31 March 2014	6,825	26,912	-	33,737

12. Tangible Fixed Assets – Society

	Freehold land and buildings	Plant, equipment and vehicles	Total
	£'000	£'000	£'000
Cost/Valuation			
At 1 April 2014	1,700	5,501	7,201
Additions	-	335	335
At 31 March 2015	1,700	5,836	7,536
Accumulated depreciation			
At 1 April 2014	1,149	4,979	6,128
Charge for the year	270	172	442
At 31 March 2015	1,419	5,151	6,570
Net book value			
At 31 March 2015	281	685	966
At 31 March 2014	551	522	1,073

Land and buildings of the Group and Society were valued on an open market basis at 31 October 1994. The Group has elected to adopt the transitional rules of FRS 15 for its revalued assets and consequently these valuations will not be updated. The historical cost net book value of land and buildings at 31 March 2015 was as follows:

	2015		2014	
	Group	Society	Group	Society
	£'000	£'000	£'000	£'000
Freehold land and buildings	7,588	495	8,086	495

13. Fixed Asset Investments

Society	Shares in subsidiary undertakings	Investment in Joint Ventures	Total
	£'000	£'000	£'000
Cost			
At 1 April 2014	48,837	3,150	51,987
Additions (note 11)	200	-	200
At 31 March 2015	49,037	3,150	52,187
Provisions			
At 1 April 2014	8,625	1,868	10,493
Impairment	5,889	-	5,889
At 31 March 2015	14,514	1,868	16,382
Net book value			
At 31 March 2015	34,523	1,282	35,805
At 31 March 2014	40,212	1,282	41,494

13. Fixed Asset Investments (continued)

Details of the principal subsidiary undertakings in the Group at 31 March 2015 are as follows:

	Nature of business	Proportion of ordinary shares held
Scottish Milk Products Limited	Manufacture and sale of cheese	100%
Scottish Milk Dairies Limited	Non-trading	100%
The First Milk Cheese Company Limited	Manufacture and sale of cheese and other dairy and lifestyle nutritional products	100%
CNP Professional Limited	Non-trading	100%

Details of the joint ventures in the Group at 31 March 2015 are as follows:

	Nature of business	Proportion of ordinary shares held
Westbury Dairies Limited	Manufacture and sale of dairy products	59.3%
Fast Forward FFW Limited	Sale of whey product	49%
First Milk Energy Limited	Renewables	50%

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

14. Stocks

	2015		2014	
	Group £'000	Society £'000	Group £'000	Society £'000
Raw materials and consumables	4,360	-	4,704	-
Finished goods and goods for resale	54,333	370	70,447	541
	58,693	370	75,151	541

15. Debtors

	2015		2014	
	Group £'000	Society £'000	Group £'000	Society £'000
Due within one year:				
Trade debtors	34,357	10,316	60,244	23,969
Amounts owed by subsidiary undertakings	-	24,721	-	75,341
Amounts owed by joint ventures	2,208	2,208	3,028	3,028
Other debtors	3,432	3,185	4,031	2,096
Value added tax	1,159	485	317	317
Deferred tax asset (note 19)	-	-	2,040	645
Prepayments and accrued income	2,711	218	3,170	347
	43,867	41,133	72,830	105,743

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

16. Creditors: Amounts Falling Due Within One Year

	2015		2014	
	Group £'000	Society £'000	Group £'000	Society £'000
Bank loans and overdrafts (note 18)	60,729	8,004	63,442	20,046
Trade creditors: amounts due to members	25,684	25,684	37,732	37,732
Trade creditors: other	11,102	6,005	13,238	8,070
Amounts owed to subsidiary undertakings	-	101	-	102
Other taxes and social security	658	203	3,032	229
Other creditors	200	200	75	-
Accruals and deferred income	14,155	6,955	18,008	2,691
	112,528	47,152	135,527	68,870

Trade creditors: amounts due to members represents purchases of milk at the prevailing monthly payment value, which are payable according to standard terms of trade (refer to note 3 for basis of payments). The directors consider that the carrying amount of trade payables approximates to their fair value. There are no fixed repayment dates for amounts owed to subsidiary undertakings or joint ventures.

17. Creditors: Amounts Falling Due After More Than One Year

	2015		2014	
	Group £'000	Society £'000	Group £'000	Society £'000
Debentures	2,155	2,155	2,121	2,121
Deferred income	656	-	862	-
	2,811	2,155	2,983	2,121

On ceasing to be a member of First Milk Limited, the “B” preference shares held by a member at that time are converted into debentures on the basis of £1 debenture for each £1 of “B” preference shares held (note 21).

18. Bank Borrowings

Bank loans and facilities are repayable as follows:

	2015		2014	
	Group £'000	Society £'000	Group £'000	Society £'000
Within one year	60,943	8,004	64,257	20,046
Unamortised issue costs	(214)	-	(815)	-
	60,729	8,004	63,442	20,046

Group bank borrowings at 31 March 2015 of £60.9m (2014: £64.3m) are secured by fixed securities over certain Group assets, a floating charge over Scottish Milk Products Limited and a debenture over First Milk Limited and First Milk Cheese Company Limited.

Under the Group’s bank facility agreement, the provision of bank borrowings was subject to various financial covenants. The Group’s lenders waived the requirement for the Group to satisfy these financial covenants during the year. The Group has subsequently extended its bank facilities to 1 February 2016. These facilities are not subject to any financial covenants and are repayable on demand.

19. Provisions for Liabilities and Charges

Deferred tax asset

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

	2015		2014	
	Group £'000	Society £'000	Group £'000	Society £'000
Opening balance	(2,040)	(645)	(2,538)	(1,147)
Income and expenditure account charge (note 10)	2,552	905	912	682
Credit to equity	(2,078)	(1,260)	(434)	(269)
Movement in deferred tax on pensions (note 28)	1,566	1,000	20	89
Closing balance (note 15)	-	-	(2,040)	(645)

	Group		Society	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Provision of deferred tax asset consists of the following amounts:				
Losses	(191)	(1,567)	285	(379)
Short term timing differences	(152)	(170)	(50)	(12)
Accelerated capital allowances	343	(303)	(235)	(254)
	-	(2,040)	-	(645)

A deferred tax balance of £9,955,462 in relation to losses carried forward has not been recognised as at 31 March 2015 (31 March 2014: £1,321,000) due to the uncertainty of the timing of the recoverability of this balance.

Other provisions

	Environmental provision £'000
At 1 April 2014 and 31 March 2015	22

Other provisions relate to environmental costs, which are expected to be incurred over the next year and are held within the Society.

20. Financial Commitments

	2015		2014	
	Group £'000	Society £'000	Group £'000	Society £'000
Annual commitments under non-cancellable operating leases which expire:				
In respect of land and buildings:				
within one year	138	-	-	-
within two to five years	91	91	166	91
	229	91	166	91
In respect of plant and equipment:				
within one year	81	71	53	14
within two to five years	43	9	202	73
	124	80	255	87

21. Share and Loan Capital

Share capital (Group and Society)	Ordinary shares of £5 each	Ordinary shares of £10 each	New Preference Shares of £1 each	Total
	£'000	£'000	£'000	£'000
Called up, allotted and fully paid				
At 1 April 2014 and 31 March 2015	16	30	8,610	8,656

Loan Capital (Group and Society)	'B' Preference	Member Capital Accounts	Total
	£'000	£'000	£'000
At 1 April 2014	202	43,753	43,955
Repayments during year	-	(2,806)	(2,806)
Transfer of 'B' preference shares to debentures	(34)	-	(34)
Increase in year	-	9,997	9,997
At 31 March 2015	168	50,944	51,112

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

'B' Preference Shares may only be held by members of the Society and attract interest at 2% above base rate. The 'B' Preference Shares of shareholders who cease to be members of First Milk Limited are exchanged for debentures on the basis of £1 debenture for each £1 preference share. The debentures attract interest at base rate and are repayable on 1 April 2020.

'B' Preference Shares carry no voting rights other than certain class consents.

On 1 April 2013, New Preference Shares were issued to each member in proportion to capital invested in the business. The Board has discretion as to whether a return is paid on New Preference Shares.

Members and former members have certain rights to trade capital. In particular, former members are entitled to sell their New Preference Shares for a period of three years at which point, if not sold, they are cancelled.

Under First Milk's rules, when a member retires from milk production, to the extent it has not been sold, capital can either be:

- transferred to a permitted successor; or
- repaid in 5 annual instalments from the date of cessation of membership as follows: 10% on the first anniversary, 20% on the second and third anniversary and 25% on the fourth and fifth anniversary.

If a member resigns from First Milk to supply another milk buyer, their Member Capital Account balance is repaid five years after cessation of membership.

The rules also give the Board the power to alter or extend the terms for repayment of capital. In March 2015, the Board decided to delay all capital repayments (including all instalments of capital repayments) by one year and to then split each capital repayment so that it is paid out over three years.

The Board has discretion as to the interest that is paid to members and former members on their Member Capital Account balances.

The Member Capital Account ranks behind all other creditors, including preference shareholders, on any winding up of the Society.

22. Movements in Reserves

	Group		Society	
	Income & expenditure account	Revaluation reserve	Income & expenditure account	Revaluation reserve
	£'000	£'000	£'000	£'000
At 1 April 2014	(16,676)	52	18,073	52
Deficit for the financial year	(27,487)	-	(54,012)	-
Return on loan capital	(1,336)	-	(1,336)	-
Actuarial loss on pension scheme net of deferred tax	(8,313)	-	(5,040)	-
At 31 March 2015	(53,812)	52	(42,315)	52

23. Reconciliation of Movements in Members' Funds

	Group	
	2015	2014
	£'000	£'000
Deficit for the financial year	(27,487)	(5,167)
Return on loan capital	(1,336)	(2,461)
Actuarial loss on pension scheme net of deferred tax	(8,313)	(3,987)
Net reduction to members' funds	(37,136)	(11,615)
Opening members' funds	(7,968)	3,647
Closing members' funds	(45,104)	(7,968)

	Society	
	2015	2014
	£'000	£'000
(Deficit)/surplus for the financial year	(54,012)	4,443
Return on loan capital	(1,336)	(2,461)
Actuarial loss on pension scheme net of deferred tax	(5,040)	(2,231)
Net reduction to members' funds	(60,388)	(249)
Opening members' funds	26,781	27,030
Closing members' funds	(33,607)	26,781

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24. Reconciliation of Operating (Deficit)/Surplus to Operating Cash Flows

	2015		2014	
	Group £'000	Society £'000	Group £'000	Society £'000
Operating (deficit)/surplus	(22,843)	(53,170)	(1,312)	787
Depreciation and impairment charges	3,653	6,331	9,556	3,667
Goodwill amortisation and impairment	2,092	-	3,210	-
Loss/(gain) on sale of fixed assets	83	-	(182)	-
Decrease in stocks	16,458	171	6,662	-
Decrease/(increase) in debtors	28,143	63,145	(10,201)	(6,803)
(Decrease)/increase in creditors	(27,977)	(16,647)	4,042	(626)
Net cash (outflow)/inflow from operating activities	(391)	(170)	11,775	(2,975)

25. Net Cash Flows from Financing

	2015		2014	
	Group £'000	Society £'000	Group £'000	Society £'000
Financing				
Debt due within one year:				
(Repayment)/increase of loans	(2,713)	(6,998)	(10,167)	161
Movement in loans with joint ventures	820	820	(808)	(808)
Increase in debt facilities	34	34	32	32
Net cash outflow from financing	(1,859)	(6,144)	(10,943)	(615)

26. Analysis of Net Debt

	Group			
	At 1 April 2014 £'000	Cash Flow £'000	Non-cash changes £'000	At 31 March 2015 £'000
Cash at bank and in hand	714	(324)	-	390
Bank debt due within one year	(63,442)	2,713	-	(60,729)
Net bank debt	(62,728)	2,389	-	(60,339)
Debentures	(2,121)	-	(34)	(2,155)
	(64,849)	2,389	(34)	(62,494)

	Society			
	At 1 April 2014 £'000	Cash Flow £'000	Non-cash changes £'000	At 31 March 2015 £'000
Cash at bank and in hand	338	(338)	-	-
Bank debt due within one year	(20,046)	12,042	-	(8,004)
Net bank debt	(19,708)	11,704	-	(8,004)
Loans with subsidiary undertakings	42,656	(5,044)	-	37,612
Debentures	(2,121)	-	(34)	(2,155)
	20,827	6,660	(34)	27,453

27. Reconciliation of Net Cash Flow to Movement in Total Net Debt

	2015		2014	
	Group £'000	Society £'000	Group £'000	Society £'000
(Decrease)/increase in cash in year	(324)	(338)	366	338
Cash outflow/(inflow) from decrease/(increase) in loans	2,713	6,998	10,167	(161)
Non-cash changes	(34)	(34)	(32)	(32)
Decrease in net debt in year	2,355	6,626	10,501	145
Opening net debt	(64,849)	20,827	(75,350)	20,682
Closing net debt	(62,494)	27,453	(64,849)	20,827

28. Pension Schemes

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

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

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

The Scottish Plan is structured such that the Society and other participating Group companies cannot separately identify its share of the underlying assets and liabilities of the scheme. The FRS 17 deficit of this scheme is therefore only reflected within the Group financial statements.

The Group also operates two defined contribution schemes - Stakeholder Group Pension Plans with Standard Life and Norwich Union.

28. Pension Schemes (continued)

The figures below for the defined benefits schemes have been based on the most recent actuarial valuations at 31 March 2012, updated to the current year-end by qualified independent actuaries. The major assumptions used for the actuarial valuation were:

Assumptions at 31 March	Scottish Plan % pa		Milk Fund % pa	
	2015	2014	2015	2014
Discount rate	3.2	4.4	3.2	4.4
Rate of increase in pensions in payment	2.3	2.5	1.8 to 3.0	2.1 to 3.3
Rate of increase in pensions in deferment	2.0	2.4	1.9 to 3.0	2.4 to 3.4
Inflation assumption (RPI)	3.0	3.4	3.0	3.4
Inflation assumption (CPI)	2.0	2.4	1.9	2.4

The fair value of assets in the scheme, the present value of liabilities in the scheme and the expected rates of return (shown before the deduction of administration expenses) at each balance sheet date were:

Asset	Scottish Plan Expected long term rate of return % pa		Milk Fund Expected long term rate of return % pa		Scottish Plan £'000		Milk Fund £'000	
	2015	2014	2015	2014	2015	2014	2015	2014
Equities, diversified growth and hedge funds	n/a	7.5	n/a	7.5	16,499	14,818	26,500	26,300
Gilts/LDI funds	n/a	3.4	n/a	3.4	16,370	13,343	4,300	3,500
Bonds	n/a	4.4	n/a	4.4	10,107	8,478	13,300	12,600
Property	n/a	-	n/a	7.5	-	-	6,900	6,200
Cash	n/a	-	n/a	0.5	216	221	1,500	200

The Company will move to reporting under FRS 102 for the financial year ending on 31 March 2016. Under FRS 102, the "expected return on assets" item is effectively calculated using the discount rate and expected return on assets assumptions for the various classes of assets held by the respective funds are not required as at 31 March 2015.

	Scottish Plan £'000		Milk Fund £'000	
	2015	2014	2015	2014
Total market value of assets	43,192	36,860	52,500	48,800
Present value of scheme liabilities	(54,062)	(44,899)	(66,800)	(58,100)
Deficit in the scheme	(10,870)	(8,039)	(14,300)	(9,300)
Related deferred tax asset (note 19)	2,174	1,608	2,860	1,860
Net pension liability	(8,696)	(6,431)	(11,440)	(7,440)

28. Pension Schemes (continued)

Liabilities	Scottish Plan £'000 2015	Scottish Plan £'000 2014	Milk Fund £'000 2015	Milk Fund £'000 2014
Opening	(44,899)	(43,770)	(58,100)	(41,000)
Current service cost	-	-	-	-
Interest cost	(1,932)	(1,886)	(2,500)	(1,800)
Benefits paid	1,996	1,820	2,400	1,600
Settlements	-	-	300	-
Actuarial loss	(9,227)	(1,063)	(8,900)	(16,900)
Closing	(54,062)	(44,899)	(66,800)	(58,100)

Assets	Scottish Plan £'000 2015	Scottish Plan £'000 2014	Milk Fund £'000 2015	Milk Fund £'000 2014
Opening	36,860	36,480	48,800	33,300
Expected return on scheme assets	1,649	1,633	2,900	2,000
Actuarial gains/(losses)	5,136	(858)	2,600	14,400
Benefits paid	(1,996)	(1,820)	(2,400)	(1,600)
Settlements	-	-	(200)	-
Employer contributions	1,543	1,425	800	700
Closing	43,192	36,860	52,500	48,800

Mortality	Scottish Plan Years 2015	Scottish Plan Years 2014	Milk Fund Years 2015	Milk Fund Years 2014
Longevity at age 65 for current pensioners				
Men	22	22	23	23
Women	24	24	26	26
Longevity at age 65 for future pensioners				
Men	24	24	25	25
Women	26	26	28	28

Cumulative actuarial gains and losses recognised in the statement of total gains and losses ("STRGL") are:

	2015 Scottish Plan £'000	2015 Milk Fund £'000	2014 Scottish Plan £'000	2014 Milk Fund £'000	2013 Scottish Plan £'000	2013 Milk Fund £'000
Opening cumulative STRGL	(9,456)	(11,600)	(7,535)	(9,100)	(8,217)	(4,800)
Actuarial (losses)/gains	(4,091)	(6,300)	(1,921)	(2,500)	682	(4,300)
Closing cumulative STRGL	(13,547)	(17,900)	(9,456)	(11,600)	(7,535)	(9,100)

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28. Pension Schemes (continued)

Analysis of movement in the scheme deficit during the year:	2015		2014		2013		2012		2011	
	Scottish Plan £'000	Milk Fund £'000	Scottish Plan £'000	Milk Fund £'000	Scottish Plan £'000	Milk Fund £'000	Scottish Plan £'000	Milk Fund £'000	Scottish Plan £'000	Milk Fund £'000
Current service cost	-	-	-	-	-	-	-	-	(140)	(100)
Total included within operating surplus	-	**-**	**-**	-	-	-	**-**	**-**	**(140)**	**(100)**
Contributions	**1,543**	**800**	**1,425**	**700**	**1,052**	**300**	**1,196**	**300**	**1,123**	**300**
Amounts included as other finance income:										
Expected return on pension scheme assets	1,649	2,900	1,633	2,000	1,339	1,100	1,674	1,100	1,677	900
Interest cost on pension scheme liabilities	(1,932)	(2,500)	(1,886)	(1,800)	(1,985)	(1,000)	(2,087)	(1,100)	(2,118)	(1,000)
Gains on curtailments and settlements	-	100	-	-	-	-	-	-	-	-
Net finance (cost)/income	**(283)**	**500**	**(253)**	**200**	**(646)**	100	**(413)**	**-**	**(441)**	**(100)**
Analysis of the actuarial gains and losses in the statement of total recognised gains and losses:										
Actual return less expected return on pension scheme assets										
Amount	5,136	2,600	(858)	*14,400	2,828	*15,800	436	(400)	(53)	-
Percentage of scheme assets	12%	5%	(2%)	30%	8%	47%	1%	(2%)	0%	0%
Experience gains and losses arising on the scheme liabilities										
Amount	-	800	5	*(16,900)	314	*(16,400)	(16)	(400)	(398)	100
Percentage of present value of scheme liabilities	0%	1%	0%	(29%)	1%	(40%)	0%	(2%)	1%	1%
Changes in financial assumptions underlying the scheme liabilities										
Amount	(9,227)	(9,700)	(1,068)	-	(2,460)	(3,700)	(2,126)	(1,300)	810	700
Percentage of present value of scheme liabilities	(17%)	(15%)	(2%)	-	(6%)	(9%)	(5%)	(6%)	(2%)	(4%)
Total actuarial gains and (losses) recognised in the statement of total recognised gains and losses	**(4,091)**	**(6,300)**	**(1,921)**	**(2,500)**	**682**	**(4,300)**	**(1,706)**	**(2,100)**	**359**	**800**
Deficit at 1 April	(8,039)	(9,300)	(7,290)	(7,700)	(8,378)	(3,800)	(7,455)	(2,000)	(8,356)	(2,900)
Movement in year:										
Pension expense	-	-	-	-	-	-	-	-	(140)	(100)
Employer contributions	1,543	800	1,425	700	1,052	300	1,196	300	1,123	300
Net finance cost	(283)	500	(253)	200	(646)	100	(413)	-	(441)	(100)
Actuarial gain/(loss)	(4,091)	(6,300)	(1,921)	(2,500)	682	(4,300)	(1,706)	(2,100)	359	800
Deficit at 31 March	**(10,870)**	**(14,300)**	**(8,039)**	**(9,300)**	**(7,290)**	**(7,700)**	**(8,378)**	**(3,800)**	**(7,455)**	**(2,000)**

* At 31 March 2014, 13% of the total assets and liabilities in the Milk Pension Fund were recognised on the balance sheet (31 March 2013: 9%). This is the principal reason for the increase in experience gains on assets and experience losses on liabilities during the year ended 31 March 2014. Included in the 13% recognised at 31 March 2014 is a proportion of the 'Orphan' assets and liabilities, which relate to former employers who no longer participate in the fund. 'Orphan liabilities' refers to the expected future cost of providing the promised benefits to these orphan members. 'Orphan assets' refers to the proportion of the fund's total assets that the trustee of the fund has notionally allocated to the orphan group of the fund for the purpose of setting contribution rates. These orphan assets and liabilities were recognised on the balance sheet for the first time at 31 March 2013, and this is the principal reason for the increase in experience gains on assets and experience losses on liabilities during the year ended 31 March 2013.

29. Related Party Transactions

During the year, the directors supplied raw milk from their farms to the Group and the Society at normal commercial rates totalling £1,714,930 (2014: £3,504,938). The outstanding balance owing to the directors at 31 March 2015 was £100,474 (2014: £347,445).

The Group processed milk with Westbury Dairies Limited, a joint venture between First Milk Limited, Arla Foods Limited and Milk Link Limited, during the year ended 31 March 2015. The cost charged to the Group for processing in the year was £8.1m (2014: £7.1m). The outstanding balance owed to Westbury Dairies Limited by the Group was £775,404 (2014: £293,653). The outstanding loan balance owed to the Group by Westbury Dairies Limited was £274,260 (2014: £274,260).

During the year, the Group supplied Fast Forward FFW Limited ("FFW"), a joint venture between First Milk Limited and Fonterra (Europe) Coöperatie U.A, with liquid whey amounting to £3,695,000 (2014: £4,331,000) and invoiced FFW for manufacturing costs totalling £4,001,000 (2014: £4,002,000). The outstanding balance owed by the joint venture company at 31 March 2015 amounted to £767,000 (2014: £2,190,130). The outstanding loan balance owed to the Group by FFW at 31 March 2015 was £1,226,000 (2014: £1,226,000).

During the year, the Group invoiced First Milk Energy Limited ("FME"), a joint venture between First Milk Limited and Green Engineering (Scotland) Limited, for management services amounting to £nil (2014: £127,880). The outstanding balance owed by the joint venture company at 31 March 2015 amounted to £1,000 (2014: £43,760). The outstanding loan balance owed to the Group by FME at 31 March 2015 was £500,000 (2014: £1,307,550).

Amounts due to members at 31 March 2015 and 31 March 2014 for the purchase of milk are disclosed in note 16.

30. Capital and Other Financial Commitments

	2015 Group £'000	2014 Group £'000
Contracts placed for future capital expenditure not provided in the financial statements	1,400	1,500