

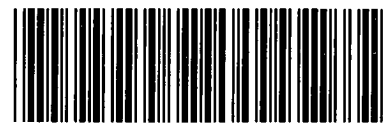
BAIRDS MALT LIMITED

Registered Number: 03580592

Strategic Report, Directors' Report and Financial Statements

For the year ended 30 September 2021

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BAIRDS MALT LIMITED

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BAIRDS MALT LIMITED

COMPANY INFORMATION, OFFICERS AND PROFESSIONAL ADVISORS

DIRECTORS

R Broadbent
B A Weimann
L J Kovats

SECRETARY

B A Weimann

REGISTERED OFFICE

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Essex
CM8 2DU

INDEPENDENT AUDITORS

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Chartered Accountants and Statutory Auditors
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Glasgow
G2 7EQ

BANKER

HSBC Bank plc
7 West Nile Street
Glasgow
G1 2RQ

BAIRDS MALT LIMITED

STRATEGIC REPORT

The directors present their strategic report for the year ended 30 September 2021.

BUSINESS REVIEW

The year under review has been challenging with external factors having a significant impact on the performance of the business. The loss before tax was £7,336,000 (2020: Profit before tax £2,233,000). The company has incurred higher administrative expenses in the financial year including an impairment charge, site closure costs, group management / oversight costs and Enterprise Resource Planning system upgrade costs.

Notwithstanding the loss in the year, the Malting divisions overall sales volumes were up 9.6% on 2020. The increase in sales volumes was partially due to the Arbroath expansion completing, which led to increased deliveries into the distilling sector. This was offset by lower export and domestic brewing delivery volumes. The division has seen a reduction in its gross margins, as it incurred higher barley purchase costs and higher supply chain costs that were not immediately recoverable from its customers.

The Group's Merchanting division has achieved a similar level of profitability to the prior year. The strength of this division lies with the broad spectrum of services it can provide, from farm input sales (fertiliser, seed, chemicals) to professional advice on the market in addition to the products. This service allows the division to continue to operate from a position of strength with good relationships with its growers and customers. With regards to Covid-19, as the vast majority of the division's customers are involved in the food sector, the division has continued to operate at or near its expected operational levels. The division has also invested in its people for the future by building succession plans. The outlook for the Merchanting division for 2022 is a reduction in profitability from 2021, as a result of the grain market supply and demand issues following the Ukraine/Russian war.

The directors, in consultation with its ultimate parent undertaking United Malt Group Limited, made the decision in February 2021 to consolidate its brewing operations into one site in England and consequently the Grantham plant ceased operations. This resulted in an impairment charge and closure costs of £1,602,000 in period.

In May 2021 a third-party grain storage contractor, Alexander Inglis & Sons Limited, entered administration. The company has made a provision for a stock loss of £2,779,000 in the financial year. The lost grain impacted gross margins in the current year and will impact 2022 as the replacement barley was more expensive. The failure of this grain storage contractor left the company with a grain drying and storage shortfall as it goes into the 2022 harvest. In the 2022 year the company has been successful in securing a long-term grain drying and storage services agreement for a minimum of 8 years with a major farmer that compensates.

Following the IFRS Interpretations Committee agenda decision on Configuration or Customisation Costs in a Cloud Computer Arrangement in March 2021, the company has reconsidered the accounting treatment and adopted the treatment set out in the IFRS Interpretations Committee decision, which is to recognise those costs as intangible assets only if these activities create an intangible asset that is separate from the software and the entity controls the asset and it meets the recognition criteria. Costs that do not meet the criteria of capitalisation are expensed as incurred, unless they are paid to the supplier of the cloud-based software to significantly customise the product for the company, in which case they are recorded as a prepayment for services and amortised over the expected term of the cloud computing arrangement. Costs expensed related to software as a service in the current period were £658,000. The directors believe that the upgrade to its existing ERP system, which is over 7 years old, as part of a global ERP system for the United Malt Group will benefit the company through process efficiencies, enhanced reporting and lower total cost of ownership.

The values of the company are paramount in everything we do, both at work and outside, with our customers, contractors, vendors, suppliers, staff, friends and families. They are part of who we are as a business and as human beings, regardless of what country we live in, where we come from or the brands we associate with. We hold ourselves and those around us accountable to champion these values. These values are:

- Safety,
- Passion,
- Quality and
- Integrity.

BAIRDS MALT LIMITED

STRATEGIC REPORT (continued)

The company, its directors and its senior management team continue to work on the health and safety of the company's employees. **Safety** of all who work or perform work at any of the company's sites is of paramount importance. Safety is part of the company's way of life and requires the commitment of everyone throughout the organisation. This extends to the health and wellbeing of ourselves, to everyone around us and to the environment in which we operate.

To ensure and reduce the risk of injury to person or damage to property the company has a risk assessment for each and every activity that occurs on any of its sites. This is supported by extensive training programmes designed to assist employees in identifying potential hazards in the workplace before they result in an injury. In the financial year under review the company experienced an increase in the number of lost time injuries from 2 to 6 either through poor manual handling technique, impact injury or from a slip, trip or fall from insufficient situational awareness. The company continues its proactive identification and reporting and embedded a leader engagement programme to observe and reinforce good working practices and behaviours. Throughout the company over 4,000 observations were completed. The continued focus on our safety and wellbeing of the employees has allowed the business to proactively respond to the health challenge that Covid-19 presented in 2020.

The company has continued to operate during the Covid-19 pandemic as it and its customers are operating in the essential food and drink sector. Since the start of the pandemic the company introduced a number of measures such as split production shifts containing skeleton staff, have 42% of its workforce working from home, introduced social distancing and increased hygiene measures to reduce the risk of transmission of the virus. As the guidance from government has changed the company's Business Continuity Committee has reviewed the guidance to consider the impact on its employees, contractors and any third parties that may be required on any of the company's site to maintain its operation. To date the company and its employees have been successful in achieving this objective with no workplace transmissions occurring. The directors thank the employees for their input into the processes put in place to ensure that the company's sites are Covid secure. As both the Scottish and United Kingdom governments relaxed and continue to relax restrictions society is returning to a more normal structure. The company has reviewed its operations and, where roles allow, the company is implementing a hybrid working structure that has its employees working in the office for a minimum of 50% of the time over a rolling two-week period.

Quality for the company is defined as providing outstanding ingredients and unsurpassed service that deliver premium value to our customers. At every step in the process and in our roles, we come together as a team to make sure that we always strive to provide the best products to meet our customers' expectations. We believe that nothing is more important than behaving with the highest levels of **integrity** which is fundamental to who we are. Our **passion** comes from the company being proud of its industry, its business and the people who work for it. In addition, the company is proud to be part of a wider community and we aim to be positive stewards in the way we work.

In terms of the market environment, beer consumption in the UK in the calendar year to December 2020 declined year on year due to the impact of the severe restrictions on the hospitality sector as the country tries to contain the spread of Covid-19 resulting in significant fall in on-trade sales. According to statistics published in May 2022 by the Office of National Statistics (ONS) on the UK GDP Gross Value Added (GVA) for 2021 the ONS, Food and Beverage services, which includes pubs, increased by 37.0% however this is still 15.7% below 2019. Alcohol drink manufacturing, which includes breweries, grew by 12.3% however this is still 9.9% lower than 2019. Data produced in 2022 by the British Beer & Pub Association (BBPA) that the on-trade lost £5.7 billion of revenue from beer sales alone in 2021 – equivalent to 1.4 billion pints of which pubs accounted for 1.1 billion of lost pints, or £4.5 billion in revenue. Although stark, the figures are an improvement from 2020 where trading was down 55% compared with 2019. Although the off-trade (take home) sales increased due to the lockdown they have not compensated for the loss of volume in the hospitality sector. This trend continues to apply pressure to established main beer brands which impacts their malt purchasing as brewery utilisation levels reduce. This impact has been felt by the company as like for like sales into its brewing customers across large national brewers, regional brewers and craft brewers have fallen from the prior year.

The company believes it will continue to be well placed to successfully meet brewing and its export sector's expectations for good quality brewing ingredients supported by efficient pricing and superb customer service.

BAIRDS MALT LIMITED

STRATEGIC REPORT (continued)

The whisky industry, overall, continues to drive increased demand for malt as they see medium to long term increased demand for their products. The industry has been impacted by Covid-19 as well as the continued tariffs imposed by the United States of America, which have now been lifted. The sector has seen a significant rebound in volumes in the 2021 calendar year. According to the Scottish Whisky Association the impact on 2021 export of Scotch Whisky has been an increase of 18.5% in value and 5.6% in volume in the calendar year to December 2021. With the additional capacity coming into operation in Arbroath in February 2021 the company experienced an increase in its deliveries into the distilling section for the financial year 2021. The company continues to focus on quality product with high quality service. The prospects for 2022 deliveries into UK distilling are indicating an increase in volumes compared to 2021.

Covid-19 continued to have a significant impact on the company and its employees. In the 2021 year under review the company continued to operate throughout the year which resulted in the company meeting all its obligations to its employees, customers and its suppliers. The directors thank all the employees for their diligence to Covid Secure guidelines and application of the measures in place through the pandemic.

The directors are confident that the financing facilities in place for the company will allow the company to continue to meet its strategic objectives which includes its investment plans. These facilities comprise of an inventory financing facility, overdraft facilities as well as an injection of £40m in debt in January 2021 to fund the company's expansion in Scotland.

As reported in prior years in 2018 the company had announced a significant investment to expand the Arbroath and Inverness malting capacity. The investment will add a minimum of 79,000 tonnes of annual malting capacity by upgrading its Arbroath facility and construction of a new state-of-the-art malting plant at the Inverness site. The expansion will bring Bairds total annual capacity to over 285,000 tonnes following the closure of the Grantham plant. The new capacity will enable the company to build on its strong relationships and remain a supplier of choice across the Scottish distilling industry. The Arbroath expansion completed in February 2021 and has been operating at capacity since its commencement. In addition, the production capacity achieved has been higher than business case. The Arbroath commencement was later than previously expected due to a delay in design work as well as the impact of Covid-19 however it is performing in line with expectations.

The Inverness expansion is expected to be complete in late 2022. It has been impacted by Covid Secure requirements resulting in less tradespeople able to be on site at the same time, challenges in supply chains due to interruptions in shipping channels as a result of the pandemic and higher material costs. Across both Arbroath and Inverness the company expects a total project cost of £71m. To support the Inverness expansion, on 26 February 2021 the company successfully secure a lease extension with the landlord on the Inverness site thereby securing the site for a further 99 years to 25 February 2120.

Since the year end both the energy market and the grain markets have seen significant volatility. Whilst this does not impact the year under review it is leading to significant grain inflation as global supply and demand is extremely tight. The company expects grain inflation to be high compared to the prior harvest and will pass on these increased costs through to customers when the new contracts are negotiated.

The directors consider the company to be well positioned to address commodity price movements and the competitive malt markets across Europe and are confident that, given the continued funding, the company is well positioned to develop opportunities in both the brewing and distilling sectors.

The UK's decision to leave the European Union on 31 December 2019 continued to create uncertainty within the economy during the transitional period to 31 December 2020 as well as the risk of increasing the level of complexity of doing business with Europe. Since the transition date occurred the company has experienced increased administration requirements with an increase in declaration charges as its imports, mostly for capital projects and some small volumes of malt purchases from EU, and exports, mostly malt, to the EU. The overall cost of the fees is small however the administration burden per shipment has increased. During the year the company was accredited with the Authorised Economic Operator (AEO) status. The overall impact on the business is not material. The company has not experienced any tariffs as of yet on any of the goods it continues to import from and export to the EU. The directors are confident that they are taking appropriate steps to provide resilience to the business.

BAIRDS MALT LIMITED

STRATEGIC REPORT (continued)

RISK MANAGEMENT

The company's activities expose it to a number of financial risks including cash flow risk, price and supply risk, and credit risk. The strategic report has covered some of the impact seen by the company of utility and grain price risk and the Directors' Report details how the company manages these risks.

SECTION 172(1) COMPANIES ACT STATEMENT

The directors of the company consider that they have acted in good faith and in a way that promotes the success of the company for the benefit of its members as a whole. In accordance with the Section 172 (1) of the Companies Act, in doing so the directors have regard (amongst other matters) to:

- a) The likely consequences of any decision in the long term,
- b) The interest of the company's employees,
- c) The need to foster the company's business relationships with customers and others,
- d) The impact of the company's operations on the community and the environment,
- e) The desirability of the company to maintaining a reputation for high standards of business conduct, and
- f) The need to act fairly as between members of the company.

The company has a 3-year Strategic Plan that is reviewed on an annual basis by the directors and by the senior Executive Leadership Team ("ELT") of the company's ultimate & controlling parent undertaking, United Malt Group Limited. From this annual review which takes place approximately two to three months prior to the start of the financial year the directors build the plan for the forthcoming financial year. This annual and Strategic Plan is built from the following key factors:

- a) Customer and market outlook by sector based on regular extensive discussions and feedback from our customers or potential customers,
- b) Production capabilities to meet those customer demands resulting in a capital expenditure, infrastructure and maintenance plans to ensure the successful continued operation of the plants,
- c) Raw material storage, supply and continuity of supply to meet the customer product specifications,
- d) People development including succession planning across all major areas.

This annual and strategic plan includes an assessment of the impact of any actual or potential decisions on the company from a financial and operational perspective for the medium to long term to ensure that these decisions promote the success of the company. These impacts are understood by the directors and communicated to the ELT of United Malt Group Limited. In addition, the directors operate within approved global delegations that are determined by and communicated from the Board of Directors of United Malt Group Limited which is the ultimate controlling member. Where there are significant decisions, business case proposals are prepared for the directors with consultation with and or approval from United Malt Group Limited ELT. Dependent on the United Malt Group Limited delegations business case approval may be required from the Board of Directors of United Malt Group Limited. Management has a strict reporting regime with operating results measured against the annual business plan which is monitored on a periodic basis with the executive leadership team of the company as well as divisional and plant review meetings. The internal reporting structure includes a number of key indicators which the directors consider commercially sensitive. As a result, not all of these have been disclosed in the financial statements.

The company continues to focus on key customers and where possible reduce the exposure to volatile markets. Malting facilities are operated to optimise local logistics and meet customer requirements. The company is committed to maintaining customer service and consistent product quality. The company monitors its performance against the customer specifications on a regular basis and performance outside of the parameters specified by the customer are reported to the directors. It is the policy of the company to review its production capability in light of customer demand requirements and quality of grain being supplied to it thereby ensuring that the risk of non-supply or supply of low quality product to its customers is absolutely minimised. It was following one of these reviews that the company made the decision to consolidate its English operations into one site and led to the closure of its Grantham facility. In addition, the company reviews its operating costs so that the business can continue to be competitive and retain the ability to invest in the future. Following administration of Alexander Inglis & Sons the company has secured a long-term grain drying and storage agreement with a major farmer thereby ensuring that the company will continue to be in a position to procure the harvest barley required to meet its expansion strategy.

BAIRDS MALT LIMITED

STRATEGIC REPORT (continued)

Safety of all who work or perform work at any of the company's sites is of paramount importance with a target of Zero Harm, Safe for Life. Key to this is the support, guidance and training for all our employees. The company encourages an environment where there are open forums for the identification and resolution of areas that could impact any of our employees or visitors to site.

The success of the company and achievement of its business plan is built on its employees who are integral to delivering on the company's values. Regular dialogue takes place with employees, objectives linked to their role or business strategy are set each year and monitored against those objectives. Training and development needs are collated through discussions between the employee and their line manager with input from the Human Resources team. The company aims to be a responsible employer in its approach to pay and benefits with the company conducting regular benchmarking exercises to determine where its pay fits within the broader comparable employment sectors. The company, in conjunction with United Malt Group Limited, have commenced a review, post year end, of remuneration across all grades to benchmark against the sector in which it operates.

The company continues to be mindful of the environment and community in which it operates and continues to work on reducing the environmental footprint of its operations through energy efficiency capital programs and reviewing operations to ensure that plant is run at the optimal times and for the optimal efficiency. The company continues reducing the water usage in its operations and is investing in its second Reverse Osmosis ("RO") plant with the Inverness expansion. This plant commenced dry commissioning in April 2022, and it will be able to recycle the existing plant effluent at the site prior to the expansion being completed. The company anticipates that it will reduce its mains water consumption by a minimum of 50%. The first Reverse Osmosis (RO) plant installed by the Company in Witham, Essex facility has reduced the Company's mains water usage by approximately 50% through recycling production waste effluent through the RO plant to produce potable quality water.

The company aims to act responsibly, respectfully and fairly with its suppliers, contractors, banking and credit providers, insurers, regulators and government agencies ensuring, wherever it is possible, that the company's business plans are aligned with the desires of the stakeholders.

STREAMLINED ENERGY AND CARBON REPORTING

The company continues to review its use of natural resources with the objective to seek alternative sources of energy to reduce its impact on the environment. There are several projects currently in implementation phase, including an effluent treatment facility at the Inverness site to significantly reduce the water and effluent impact of our production capacity expansion and an Anaerobic digestion facility at Arbroath to lessen the impact of our effluent on the environment. There are numerous other projects under review which could result in a major reduction in consumption, provided they are financially viable.

Consumption statistics over the past year are as follows:

		2021	2020
Gas consumption	MWh	180,888	172,864
Electricity consumption	MWh	38,688	36,099
Intensity metric	MWh/Production tonne capacity	0.99	0.97
Co2 emissions	K Tonnes	42,917	41,784
Co2 emissions per production tonnes	K Tonnes	0.204	0.211

The consumption is based on actual usage supported by supplier invoices with emissions calculated using government conversion factors. The main factors impacting the Co2 total emissions increasing are a consequence of the closure of Grantham, the increased production in Arbroath facility following its expansion and the increased production levels compared to 2020. On a per production tonnes basis the company has reduced its emissions.

BAIRDS MALT LIMITED

STRATEGIC REPORT (continued)

KEY PERFORMANCE INDICATORS

Management have a strict reporting regime with operating results measured against the annual business plan which is monitored on a periodic basis. The internal reporting structure includes several key indicators which the directors considers commercially sensitive. As a result, these are not disclosed in the financial statements.

Key performance indicators which the company considers important and which are available from the information contained in the attached financial statements include the following:

- EBITDA, calculated as Operating Profit adding back tangible asset depreciation, intangible asset amortisation and depreciation of Right of Use Assets, reflects the operational ability to generate cash flow, was £717,000 (2020: £7,689,000). EBITDA excludes other income of £2,779,000 for 2021 (2020: £nil) which was the loss at a third-party storekeeper.

- EBITDA generated per employee, which is part of the measure of the operational efficiency, was £3,794 (2020: £37,691)

- Working capital (excluding cash and current debt) as a % of net sales, which highlights the efficiency of management of funds invested in the working capital of the business, was 3.1% (2020: 8.8%)

- The net assets of the company show a decrease of £3,624,000 from £93,477,000 as at 30 September 2020 to £89,853,000 as at 30 September 2021

Approved by the board of directors and signed by their order by:



B A Weimann
Secretary
30 June 2022

BAIRDS MALT LIMITED

DIRECTORS' REPORT

The directors present their report and the audited financial statements of the company for the year ended 30 September 2021.

The company has adopted Financial Reporting Standard 101 "Reduced Disclosure Framework" (FRS 101), the Financial Reporting Standard applicable in the United Kingdom and the Companies Act 2006.

RESULTS AND DIVIDENDS

The company's financial loss after taxation for the financial year amounted to £7,036,000. (2020: Profit after taxation £958,000). The financial statements present on pages 16 to 38 reflect the results for the financial year.

The directors do not recommend the payment of a dividend (2020: £nil).

DIRECTORS

The directors of the company serving during the financial year and up to the date of signing this report are:

B A Weimann

J S Rasanayagam (resigned 27 April 2021)

R Broadbent

R G Woodley (resigned 31 December 2020)

L J Kovats (appointed 6 May 2021)

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

BAIRDS MALT LIMITED

DIRECTORS' REPORT (continued)

QUALIFYING THIRD PARTY INDEMNITY PROVISIONS

The company's articles of association contain 'qualifying third party indemnity provisions', as defined in section 234 of the Companies Act 2006. Under these provisions each director and officer is entitled to be indemnified by the company, so far as permitted by law, in respect of certain liabilities which may attach to him in the exercise of his duties.

The company maintains insurance to cover its directors and officers, including non-executive directors, in the discharge of their duties against the loss and legal expenses incurred by each insured person due to a wrongful act. This cover provides for company reimbursement if the company pays the loss and legal expenses arising from any wrongful act of an insured person. The policy does not provide payment where the director or officer has acted fraudulently, maliciously or dishonestly.

FUTURE DEVELOPMENTS

The expansion in Scotland at the Arbroath site (22,000 tonnes of malt production) and the Inverness site (57,000 tonnes of malt production) are the most significant developments for the Company underway. Arbroath commenced commercial production in February 2021 with Inverness planned for the end of calendar year 2022.

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The company's activities expose it to a number of financial risks including cash flow and liquidity risk, price and supply risk, credit risk and pension scheme risk. The use of financial derivatives is governed by the company's policies approved by the board of directors and are documented within the company's Charter of Operations (specifically established to cover the enlarged company's UK operations). In addition, these policies are in line with the policies issued by its ultimate parent company, United Malt Group Limited. The company does not use derivative financial instruments for speculative purposes.

Management continuously review risks and their effects on the business. The company has outlined the risks around Brexit in the Strategic Review. This forms part of the management reporting system and covers all aspects of the business including the following:

Cash flow risk

The company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates. The company uses foreign exchange forward contracts to hedge its committed exposure.

The company is exposed to liquidity risk which comprises of credit advanced to our customers (credit risk), credit received from our suppliers, capital expenditure programs as well as seasonal fluctuations in working capital which peaks in late September early October each year for the company as a result of its significant harvest intake of malting barley. This liquidity risk is managed through banking facilities, inventory financing facilities and United Malt Group

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

facilities in the form of loans. The company is party to the Common Terms Deed which allows the company to draw down funds to meet its funding requirements.

The company regularly prepares balance sheet and forecast funding requirements which allows it to ensure that appropriate facilities are in place to enable it to meet its funding requirements. The company has sufficient head room in these facilities to enable it to meet the liquidity demands that arise in its operations. The risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Price and supply risk

The company is exposed to commodity price risk which it manages through the use of grain futures to protect margins, as well as managing grain positions within approved limits based on market conditions. These positions are managed through United Malt Position & Trading Risk Management Policy which is overseen by the United Malt Group Chief Financial Officer and the Audit and Risk Committee.

BAIRDS MALT LIMITED

DIRECTORS' REPORT (continued)

The company is exposed to energy price risk which it manages through a structured procurement strategy to minimise the impact on the company. The strategy takes into account stop loss limits that the company accepts as reasonable as well as minimum levels of cover based on production and sales volumes. The company has appointed expert energy brokers who advise the company to reduce the volatility of these costs. The company has seen significant price volatility in energy prices in the later part of the financial year with this being particularly impactful in the first quarter of the new financial year. The long-term contracts that the company has with its customer allow the company to pass these increased costs through to its customers which the company has been successful in implementing for the 2022 calendar year contracts.

The company is exposed to grain supply risk, including disease, pests, rainfall and extreme weather conditions impacting agronomical yields, which it manages through its direct relationships it has with its grain suppliers across the UK. The company has the ability to manage the risk associated with the supply of grain by providing growers with assured seed, agricultural inputs, advice and contracting with these growers for their harvests. The company maintains a diversified network of growers and leverages its strong supplier relationships thereby reducing the risk to the company of a loss of a key supplier or group of suppliers. The company has in place forward contracts with multiple growers, co-operatives and grain companies and the company seeks to renew these well in advance of expiry. In addition, the company has very strong links with fellow United Malt Group divisions based in North America and Australia which allows the company to effectively and efficiently manage its risk of supply in the UK grain market. The company has seen significant price volatility in grain prices since the financial year end and this has been exacerbated since February 2022 due to the Ukraine war. The contracts that the company has with its customer allow the company to pass these increased costs through to its customers which the company has been successful in implementing for the 2022 calendar year contracts.

The company is exposed to a malt supply risk for its customers which is managed through preventative maintenance programmes, safety initiatives, standard operating procedures across all its sites as well as an active capital replacement program for key items of manufacturing equipment. In addition, production is not concentrated on one site which enables the company to switch supply requirements between sites should there be a loss of a particular site for a period of time.

The company is exposed to a risk that the loss of a key customer or customers or suppliers could result in an adverse impact on its financial performance through a reduction in revenue. The company has strong relationships with its key customers and suppliers in its production, merchanting and craft businesses. The majority of the key relationships are codified in the form of long-term agreements providing stability in the form of forward orders that allow the company to control its costs, deliver savings to customers and providing our suppliers with certainty. Each key customer and supplier have a dedicated account manager servicing them thereby building and maintaining relationships with those parties.

Credit risk

The company's principal financial assets are bank and cash balances, trade and other debtors and investments. The company's credit risk is primarily attributable to its trade debtors. 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 loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers. The company has credit insurance in place that provides significant cover should an insured customer default. Not all customers are covered by the insurance policy and for those that are not the company maintains credit limits which are reviewed at least annually ensuring that the credit risk exposure is appropriate. Relationships with key customers are closely monitored by the directors with regular customer feedback obtained, discussed and evaluated by senior management within the company.

Climate and environmental risk

The company continues to monitor its risks associated with climate and environmental changes as a result of its operations. The company is intrinsically linked to grain crops grown around the United Kingdom and the world. Climate change can impact the global grain supply, in particular barley, in which the company depends for its core functions of processing and distribution malted products. Climate could lead to higher costs, lower margins and potentially increase costs associated with the business functions.

BAIRDS MALT LIMITED

DIRECTORS' REPORT (continued)

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The company uses natural gas, power and water in its business operations. The company continues to monitor, review and, where possible, reduce its consumption of water and fossil fuels. The company continues to review its use of natural resources with the objective to seek alternative sources of energy so as to reduce its impact on the environment. Water is an essential component of the malting process and access to high quality water may be impacted by Climate Change, long term drought or widespread contamination of local aquifers leading to adverse financial impacts on the company through increased costs or reduction in product quality. The company is focused on consumption reduction strategies, recycle, reclamation and effluent management regimes with the aim to reduce our consumption of water and creation of wastewater. Projects to reduce use of natural resources are incorporated in the company's 3 to 5-year strategy for capital expenditure programs.

Covid-19 risk

Covid-19 continues to represent a risk to the company. The company's first priority is the health, safety and wellbeing of its employees, customers, suppliers and contractors. To this extent the company has continued to implement measures that make its sites Covid secure in line with government recommendations and reduce the risk of transmission of the virus. The company continues to operate the Business Continuity Committee which meets once a week to assess any impact of regulation or guidance changes on its operations. The Committee regularly review the Covid secure arrangements in place thereby ensuring that they are operating as designed. At all stages of the pandemic the company has followed the relevant government guidance resulting in no workplace transmissions. Since the year end the company has commenced with a hybrid working structure for those roles that it is considered appropriate with a minimum of 50% of time over a rolling two week period in the office. Whilst the company cannot currently predict the extent and duration of the impact of Covid-19 the company is confident in its strategic objectives and investments as well as access to sufficient finance to maximise its long-term potential.

Defined benefit pension scheme

The company is exposed to pension risk due to the funding requirements on its defined benefit pension scheme. This risk is impacted by investment performance as well as actuarial factors such as longevity and inflation. The company manages this through a board of directors for the Corporate Trustee of which the company has the right to appoint three company nominated trustee directors, pension scheme advisors and receives regular financial updates on the progress of the pension scheme. Any pension scheme deficit or surplus is derived from the use of accounting standards which provides a different surplus or deficit compared to an actuarial valuation. Under the accounting standards the company experience an actuarial gain of £4,549,000 (2021: £1,714,000) in the year resulting in a pension asset of £4,232,000 (2020: liability of £2,384,000) in its balance sheet at 30 September 2021

Systems, reporting and control risks

The company is exposed to a risk that a major system outage to one of the company's core software or system platforms could increase costs and could lead to regulatory or government intervention in the form of costs, investigations, penalties or liabilities. The company relies on IT systems that, if breached could lead to a loss of confidential data, deterioration in reputation and impact on suppliers or customers. All of these outcomes would have an adverse impact on the company and financial performance. The company deploys many methods to protect its system, including but not limited to security infrastructures such as firewalls, virus scanning, data back-up systems, network performance monitoring, geographically dispersed redundancies, an Information Security Management System, Access Control Standards, Disaster Recovery and Business Continuity Plans. In addition, expert IT support is provided to the company as part of the United Malt Group. The company, as part of the United Malt Group, is in the process of upgrading its ERP system. The new system is Dynamics 365 Finance & Operation and is expected to go live in the 2023 financial year. The directors believe that the upgrade to its existing ERP system, will benefit the company through process efficiencies and enhanced reporting.

BAIRDS MALT LIMITED

DIRECTORS' REPORT (continued)

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Taxation and Regulatory change risks

Changes in taxation laws (or their interpretation) could materially affect the company's financial performance. In addition, governments may impose additional or higher excise or other taxes on beer and whisky, which may have an adverse effect on consumer buying patterns and may adversely impact the company's financial results. The company works closely with its advisors to consider and confirm that it adheres to tax regulations and potential liabilities associated with doing business where the company operates. The company reviews all major contracts and governance requirements with its advisors to ensure that it is compliant. In addition, where appropriate compliance oversight responsibilities are assigned to specific job roles.

Market preference risks

The company operates in the food and beverage sector specialising in the production of malted products for the brewing and distilling sectors as well as providing products into the animal feed and food sector. There is a risk that the company may not optimally align with consumers, or that beer and whisky consumption could fall or that the products the company supplies could be used less often in the customers end products leading to a reduction in market share resulting in adverse financial impact to the company. The company employees gather and act on customer feedback at all times. This includes formal research (utilising Net Promotor Scores and other research methods) as well as providing training to members of staff in managing customer relationships. In addition, the company regularly assess market trends to ensure that the portfolio of products meet the demands of the customer and the end consumer.

EMPLOYEE INVOLVEMENT

Within the bounds of commercial confidentiality, staff at all levels are kept informed of matters which affect the progress of the company, financially and economically, and which are of interest to them as employees. The company aims to conduct regular consultation with employees or their representatives so that the employees' views can be taken into account in making decisions that are likely to affect their interest. This is normally through the employees forming a representative working group to consult with the company on the employee's behalf. The company and its ultimate parent conduct engagement surveys which facilitates the discussion of areas to improve to ensure a high proportion of the workforce is kept informed and are engaged in the business.

DISABLED EMPLOYEES

The company gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

Where existing employees become disabled, it is the company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion wherever appropriate.

POST BALANCE SHEET EVENTS

There are no significant post balance sheet events that require disclosure or adjustment.

INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP have expressed their willingness to continue in office as auditors and a resolution to re-appoint them will be proposed at the annual general meeting.

By order of the board



B A Weimann
Secretary
30 June 2022

Independent auditors' report to the members of Bairds Malt Limited

Report on the audit of the financial statements

Opinion

In our opinion, Bairds Malt Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 30 September 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Strategic Report, Directors' Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 30 September 2021; the statement of comprehensive income and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

BAIRDS MALT LIMITED

Report on the audit of the financial statements (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 30 September 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to the Companies Act 2006 and UK tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the

BAIRDS MALT LIMITED

Report on the audit of the financial statements (continued)

principal risks were related to posting inappropriate journal entries and the risk of management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Enquiries of management around known or suspected instances of non-compliance with laws and regulations, claims and litigation, and instances of fraud;
- Understanding of management's controls designed to prevent and detect irregularities;
- Challenging management on assumptions and judgements made in their significant accounting estimates; and
- Identifying and testing journal entries to assess whether any of the journals appeared unusual.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Kenneth Wilson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow
30 June 2022

BAIRDS MALT LIMITED

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September 2021

	Note	2021 £'000	2020 £'000
Turnover	4	138,955	127,733
Cost of sales		(120,652)	(107,559)
Gross profit		18,303	20,174
Distribution costs		(4,437)	(4,759)
Administrative expenses		(17,804)	(13,084)
Government grants	6	2	295
Other operating expense	6	(2,779)	(23)
Operating (Loss)/Profit		(6,715)	2,603
Finance income	7	20	19
Finance costs	8	(641)	(389)
(Loss)/Profit before taxation		(7,336)	2,233
Tax on (Loss)/Profit	9	300	(1,275)
(Loss)/Profit for the financial year		(7,036)	958
Other comprehensive income			
Actuarial gain on pension scheme	20	4,549	1,714
Deferred tax expense on actuarial gain		(1,137)	(326)
Total other comprehensive income		3,412	1,388
Total comprehensive (expense)/income for the year		(3,624)	2,346

BAIRDS MALT LIMITED

STATEMENT OF FINANCIAL POSITION As at 30 September 2021

	Note	2021 £'000	2020 £'000
Fixed Assets			
Intangible assets	10	23	338
Property, plant and equipment	11	81,163	63,889
Investments	12	-	-
Right of use assets	13	3,326	1,253
		84,512	65,480
Current Assets			
Asset held for sale	11	1,313	-
Inventories	14	65,565	59,421
Trade and other receivables	15	32,304	34,438
Cash and cash equivalents		43,374	24,416
		142,556	118,275
Trade And Other Payables: amounts falling due within one year	16	(93,577)	(82,855)
Net Current Assets		48,979	35,420
Total Assets Less Current Liabilities		133,491	100,900
Trade And Other Payables: amounts falling due after more than one year	17	(40,156)	(150)
Lease liabilities	13	(3,043)	(1,112)
Deferred taxation	18	(4,671)	(3,777)
Net Assets Before Pension Surplus/(Deficit)		85,621	95,861
Pension surplus/(deficit)	20	4,232	(2,384)
NET ASSETS		89,853	93,477
EQUITY			
Called up share capital	19	14,900	14,900
Share premium account		60,610	60,610
Retained earnings		14,343	17,967
TOTAL SHAREHOLDERS' FUNDS		89,853	93,477

Registered number: 03580592

The financial statements on pages 16 to 38 were approved by the board of directors and authorised for issue on 30 June 2022 and signed on its behalf by:



R Broadbent
Director

BAIRDS MALT LIMITED

STATEMENT OF CHANGES IN EQUITY Year ended 30 September 2021

	Called up share capital £'000	Share premium account £'000	Retained earnings £'000	Total shareholders' funds £'000
Balance as at 1 October 2019	14,900	60,610	15,621	91,131
Profit for the financial year	-	-	958	958
Net actuarial gain on pension scheme	-	-	1,388	1,388
Total comprehensive income for the year	-	-	2,346	2,346
Balance as at 30 September 2020	14,900	60,610	17,967	93,477
Loss for the financial year	-	-	(7,036)	(7,036)
Net actuarial gain on pension scheme	-	-	3,412	3,412
Total comprehensive expense for the year	-	-	(3,624)	(3,624)
Balance as at 30 September 2021	14,900	60,610	14,343	89,853

BAIRDS MALT LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2021

1. GENERAL INFORMATION

The company is a private company limited by shares and is incorporated and domiciled in the UK. The address of its registered office Station Maltings, Witham, Essex, CM8 2DU.

The company's principal activity is the manufacture of high quality malt and speciality roast malts for brewers and malts for the distilling industry. In addition the company has grain merchanting operations. There have been no significant changes in the company's principal activities in the year.

2. ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared on the going concern basis under the historical cost convention, except derivative financial instruments which are held at fair value and in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework" (FRS 101), the Financial Reporting Standard applicable in the United Kingdom and the Companies Act 2006 as applicable to companies that apply FRS101.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 3).

The following principal accounting policies have been applied consistently:

Exemptions for qualifying entities under FRS 101

FRS 101 allows a qualifying entity certain disclosure exemptions, subject to certain conditions, which have been complied with, including notification of, and no objection to, the use of exemptions by the Company's shareholders. The Company has taken advantage of the following exemptions:

- IFRS 7, 'Financial instruments: Disclosures'.
- Paragraphs 91 to 99 of IFRS 13, 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities).
- Paragraph 38 of IAS 1, 'Presentation of financial statements' – comparative information requirements in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16, 'Property, plant and equipment'; and
 - paragraph 118(e) of IAS 38, 'Intangible assets' (reconciliations between the carrying amount at the beginning and end of the period).
- The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d) (statement of cash flows); 16 (statement of compliance with all IFRS); 38A (requirement for minimum of two primary statements, including cash flow statements); 38B–D (additional comparative information); 111 (cash flow statement information); and 134–136 (capital management disclosures).
- IAS 7, 'Statement of cash flows'.
- Paragraphs 30 and 31 of IAS 8, 'Accounting policies, changes in accounting estimates and errors' (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective).
- Paragraph 17 of IAS 24, 'Related party disclosures' (key management compensation).
- The requirements in IAS 24, 'Related party disclosures', to disclose related party transactions entered into between two or more members of a group.

Exemption from consolidated financial statements

The company has taken advantage of the exemption from preparing consolidated financial statements afforded by Section 401 of the Companies Act 2006 as it is a wholly owned subsidiary of United Malt Group Limited, which prepares consolidated financial statements. Accordingly, group financial statements have not been prepared and information in these financial statements is presented for the individual company rather than for the group.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured as the fair value of the consideration received or receivable, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before revenue is recognised:

BAIRDS MALT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) **Year ended 30 September 2021**

2. ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Sale of goods

Revenue from the sale of goods is recognised when all of the following conditions are satisfied:

- the Company has transferred the significant risks and rewards of ownership to the buyer;
- the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the transaction; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

Revenue from a contract to provide services is recognised in the period in which the services are provided in accordance with the stage of completion of the contract when all of the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the Company will receive the consideration due under the contract;
- the stage of completion of the contract at the end of the reporting period can be measured reliably; and
- the costs incurred and the costs to complete the contract can be measured reliably.

Investments

A subsidiary is an entity over which the company is in a position to exercise control over the financial and operating policies so as to obtain benefits from their activities. Investments in subsidiaries are recognised at cost less provision for impairment.

Goodwill

Goodwill and intangible assets with indefinite lives are tested for impairment annually or more frequently if circumstances indicate that an asset may be impaired. The company evaluates the carrying value of goodwill to determine if there has been impairment in value which would result in the inability to recover the carrying amount. When it is determined that the carrying value exceeds the recoverable amount, the excess is written off to the Statement of Comprehensive Income.

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost (or deemed cost) less accumulated depreciation and accumulated impairment losses. Cost includes the original purchase price, costs directly attributable to bringing the asset to its working condition for its intended use, dismantling and restoration costs.

(i) Plant and machinery, fixtures and fittings and motor vehicles

Plant and machinery are stated at cost less accumulated depreciation and accumulated impairment losses.

(ii) Depreciation and residual values

Depreciation is calculated, using the straight-line method, to allocate the depreciable amount to their residual values over the expected useful-economic lives of the assets concerned. The principal annual rates used are as follows:

Freehold land and buildings	-	40 years
Plant and equipment	-	up to 30 years

The assets' residual values and useful lives are reviewed, and adjusted, if appropriate, at the end of each reporting period. The effect of any change is accounted for prospectively.

(iii) Subsequent additions and major components

Subsequent costs, including major inspections, are included in the assets carrying amount or recognised as a separate asset, as appropriate, only when it is probable that economic benefits associated with the item will flow to the company and the cost can be measured reliably.

The carrying amount of any replaced component is derecognised. Major components are treated as a separate asset where they have significantly different patterns of consumption of economic benefits and are depreciated separately over its useful life. Repairs, maintenance and minor inspection costs are expensed as incurred.

BAIRDS MALT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) **Year ended 30 September 2021**

2. ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

(iv) Derecognition

Tangible assets are derecognised on disposal or when no future economic benefits are expected. On disposal, the difference between the net disposal proceeds and the carrying amount is recognised in Statement of Comprehensive Income and included in 'Administrative expenses'.

Inventory

Inventory is valued at the lower of cost and estimated selling price less costs to complete and sell. Cost is calculated as the costs incurred in bringing the inventory to their present location and condition.

At the end of each reporting period inventories are assessed for impairment. If an item of inventory is impaired, the identified inventory is reduced to its selling price less costs to complete and sell and an impairment charge is recognised in the Statement of Comprehensive Income. Where a reversal of the impairment is required the impairment charge is reversed, up to the original impairment loss, in the Statement of Comprehensive Income.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities.

Receivables

Short term receivables are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

Payables

Short term payables are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

Research and development

In the research phase of an internal project it is not possible to demonstrate that the project will generate future economic benefits and hence all expenditure on research shall be recognised as an expense when it is incurred. Intangible assets are recognised from the development phase of a project if and only if certain specific criteria are met in order to demonstrate the asset will generate probable future economic benefits and that its cost can be reliably measured. The capitalised development costs are subsequently amortised on a straight line basis over their useful economic lives.

If it is not possible to distinguish between the research phase and the development phase of an internal project. The expenditure is treated as if it were all incurred in the research phase only.

BAIRDS MALT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 30 September 2021

2. ACCOUNTING POLICIES (continued)

Financial instruments

The Company has chosen to adopt Sections 11 and 12 of FRS 101 in respect of financial instruments.

(i) Financial assets

Basic financial assets, including trade and other receivables, cash and bank balances, amounts due from group undertakings and related parties and are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the transaction is measured at the present value of the future receipts discounted at a market rate of interest.

Such assets are subsequently carried at amortised cost using the effective interest method.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment.

If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in the Statement of Comprehensive Income.

If there is a decrease in the impairment loss arising from an event occurring after the impairment was recognised, the impairment is reversed. The reversal is such that the current carrying amount does not exceed what the carrying amount would have been had the impairment not previously been recognised. The impairment reversal is recognised in the Statement of Comprehensive Income.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the asset expire or are settled, or (b) substantially all the risks and rewards of the ownership of the asset are transferred to another party or (c) control of the asset has been transferred to another party who has the practical ability to unilaterally sell the asset to an unrelated third party without imposing additional restrictions.

(ii) Financial liabilities

Basic financial liabilities, including trade payables and short term loans, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest.

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade creditors are recognised initially at transaction price and subsequently measured at amortised cost using the effective interest method.

Financial liabilities are derecognised when the liability is extinguished, that is when the contractual obligation is discharged, cancelled or expires. The Company does not hold or issue derivative financial instruments.

(iii) Offsetting

Financial assets and liabilities are offset and the net amounts presented in the financial statements when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

(iv) Derivatives

Derivatives, including interest rate swaps and forward foreign exchange contracts, are not basic financial instruments. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. Changes in the fair value of derivatives are recognised in profit or loss in administrative expenses. The Company does not currently apply hedge accounting for interest rate and foreign exchange derivatives.

Foreign currency

(i) Functional and presentation currency

The Company's functional and presentation currency is the pound sterling.

(ii) Transactions and balances

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

BAIRDS MALT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 30 September 2021

2. ACCOUNTING POLICIES (continued)

Foreign currency (continued)

(ii) Transactions and balances (continued)

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

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

Finance costs

Finance costs are charged to the Statement of Comprehensive Income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

Borrowing costs

All borrowing costs are recognised in the Statement of Comprehensive Income in the period in which they are incurred.

Interest income

Interest income is recognised in the Statement of Comprehensive Income using the effective interest method.

Related party transactions

The Company discloses transactions with related parties which are not wholly owned within the same Group. Where appropriate, transactions of a similar nature are aggregated unless, in the opinion of the directors, separate disclosure is necessary to understand the effect of the transactions on the Company financial statements.

Share capital

Ordinary and deferred shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares, deferred shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Current and deferred taxation

Taxation expense for the period comprises current and deferred tax recognised in the reporting period. Tax is recognised in the Statement of Comprehensive Income and retained earnings, except to the extent that it relates to items recognised directly in equity. In this case tax is also recognised directly in equity.

Current or deferred taxation assets and liabilities are not discounted.

(i) Current tax

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

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(ii) Deferred tax

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

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

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

BAIRDS MALT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) **Year ended 30 September 2021**

2. ACCOUNTING POLICIES (continued)

Pensions

The company operates a defined benefit pension scheme which has a defined contribution section.

For the defined benefit section the amount charged to operating profit is the current service cost and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss 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 within finance costs and interest receivable. Actuarial gains and losses are recognised immediately in the Statement of Total Recognised Gains and Losses. The defined benefit section is closed to further accrual.

The defined benefit scheme is funded, with the assets of the scheme held separately from those of the company 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 Statement of Financial Position.

For the defined contribution section the amount charged to the Statement of Comprehensive Income in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the Statement of Financial Position.

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATION UNCERTAINTY

Estimates and judgements are continually evaluated, based on historical experience and other factors, including potential future events.

a) Critical judgements in applying the Group's accounting policies

The company has an obligation to pay pension benefits to certain employees under a defined benefit pension scheme. As reflected in note 20 this scheme is closed to future accrual. The cost of these benefits as well as the present value of the obligations are based on a number of factors, such as life expectancy, asset valuations, pension growth rate, rate of inflation and the discount rate of corporate and government bonds. These factors are estimated in determining the net pension obligations in the balance sheet based on available information from the company's pension advisors as well as the general investment markets.

A significant portion of the company's assets comprise of property, plant and equipment. The annual depreciation charge can be impacted by changes in the estimated useful lives of the assets. The assets residual values and useful lives are reviewed annually.

b) Key accounting estimates and assumptions

The company holds significant volumes of raw materials stocks to meet customer annual contracts. It also holds finished goods stocks that are considered appropriate to supply customers. The company assesses the cost recoverability of its inventory through sales contracts with its customers, as well as the marketplace where the inventory is not covered by sales contracts. This assessment takes into account the quality parameters of the stock compared to the customer requirements and any provision made is based on whether it is lower of market value or cost unless the inventory is considered to be classified as feed material in which case it is valued at feed prices. See note 14 for Inventory carrying value.

Included in raw materials stock is a provision for stock losses of £2,779,000 that relate to an anticipated shortfall of barley held at a third-party grain storage contractor, Alexander Inglis & Sons Limited. The company has made a provision following the contractor entering administration in 2021. The company has made the provision based on negotiations with the Administrator which were finalised post the year end.

BAIRDS MALT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 30 September 2021

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATION UNCERTAINTY (continued)

b) Key accounting estimates and assumptions (continued)

Trade receivables are reviewed on a regular basis for recoverability taking into account the payment history, the credit rating of the customer, the level of credit insurance applicable. Any provision required is then made. See note 15 for Trade receivable carrying value.

In arriving at accruals at the end of the financial period, estimates are made based on expected contract costs or estimates of costs based on supplier pricing lists. Individually there is not any particular category that has a significant impact. The accruals are reviewed by management independent of those preparing to ensure that the estimates are correct.

In February 2021 the company announced the closure of its Grantham facility. This resulted in an impairment charge totalling £1,602,000. Land with a net book value of £1,313,000 is being held for sale with formal negotiations with purchasers having commenced but not finalised. The company continues to incur security and maintenance costs on the site and these costs are being charged to the profit and loss account as incurred.

Following the IFRS Interpretations Committee agenda decision on Configuration or Customisation Costs in a Cloud Computer Arrangement in March 2021, the company has adopted the treatment set out in the IFRS Interpretations Committee decision. Recognition of such costs as intangible assets will occur only if these activities create an intangible asset that is separate from the software and the entity controls the asset and it meets the recognition criteria. Costs that do not meet the criteria of capitalisation are expensed as incurred, unless they are paid to the supplier of the cloud-based software to significantly customise the product for the company, in which case they are recorded as a prepayment for services and amortised over the expected term of the cloud computing arrangement. Costs expensed related to software as a service in the current period were £658,000. There were no costs incurred in prior years that required adjustment to prior periods.

4. TURNOVER

Revenue represents the net value of goods invoiced to customers exclusive of value added tax and inclusive of export restitution where applicable.

The revenue and profit before taxation are wholly attributable to the company's principal activity. The geographical analysis of the company's revenue by destination is as follows:-

	Total 2021 £'000	Total 2020 £'000
UK & Republic of Ireland	128,183	113,355
Americas	2,265	2,378
Europe & Middle East	696	119
Asia Pacific	6,898	7,587
Others	913	4,294
	<u>138,955</u>	<u>127,733</u>

BAIRDS MALT LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)**
Year ended 30 September 2021**5. EMPLOYEES INFORMATION AND DIRECTORS' REMUNERATION**

	2021 £'000	2020 £'000
Staff costs during the year (including directors)		
Wages and salaries	8,398	8,929
Social security costs	816	859
Other pension costs (note 20)	784	792
	<u>9,998</u>	<u>10,580</u>
Director's remuneration (total)		
Emoluments	<u>579</u>	<u>396</u>
Director's remuneration (highest paid director)		
Emoluments	<u>238</u>	<u>274</u>

During the prior year and up to 31 December 2020, there was one director in the company's defined benefit pension scheme, at the year-end 2021, the accrued pension benefit of the highest paid director was £nil (2020: £70,112).

During the year, contributions of £24,537 (2020: £13,207) were made to money purchase pension schemes in respect of the directors.

	2021 Number	2020 Number
Monthly average number of persons employed		
Operational	125	139
Office and administration	43	44
Merchanting	21	21
	<u>189</u>	<u>204</u>

BAIRDS MALT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 30 September 2021

6. OPERATING PROFIT

	2021 £'000	2020 £'000
Operating profit is stated after charging/(crediting):		
Depreciation of tangible assets	3,986	4,096
Impairment of tangible assets (note 3b, 11)	1,014	-
Amortisation of software	315	749
Depreciation of right of use assets (note 13)	211	241
Insurance proceeds	-	(114)
Profit on disposal of assets	(12)	-
Foreign exchange loss/(gain)	78	(51)
Government grants – Coronavirus Job Retention Scheme	(2)	(295)
Operating lease charges relating to low value assets	25	17
Movement in fair value of financial instruments (note 23)	(126)	49
Inventory recognised as an expense	99,650	88,128
Spare parts stocks recognised as an expense on plant closure (note 3b)	66	-
Bad debt	-	36
Auditors' remuneration:		
Audit fees – Bairds Malt Limited	180	160
– Malt UK Holdco Limited	5	5
– Ulgrave Limited	5	5
– Maltco 3 Limited	5	5
– United Malt UK Limited	5	5
Non Audit services – Company Secretarial	10	10
Total auditors' remuneration	210	190
Other operating expense includes:		
Provision for stock loss (note 3b)	2,779	-
Demerger costs	-	23
Other operating expense	2,779	23

7. FINANCE INCOME

	2021 £'000	2020 £'000
Bank interest receivable	20	19

8. FINANCE COSTS

	2021 £'000	2020 £'000
Bank and loan interest	567	281
Interest in right of use assets	52	17
Net pension finance costs (note 20)	22	91
	641	389

BAIRDS MALT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 30 September 2021

9. TAX ON PROFIT

	2021 £'000	2020 £'000
<i>Current tax</i>		
UK corporation tax charge for the year	-	58
Group relief payment	(19)	293
Adjustments in respect of prior years	(38)	(96)
	<u>(57)</u>	<u>255</u>
<i>Deferred tax</i>		
Timing differences, origination and reversal	(279)	652
Adjustments in respect of prior years	36	368
	<u>(243)</u>	<u>1,020</u>
Tax (credit)/charge on (loss)/profit	<u>(300)</u>	<u>1,275</u>

The standard rate of tax for the financial year, based on the UK standard rate of corporation tax, is 19% (2020: 19%) for current tax and 19% for deferred tax (2020: 19%).

The actual tax charge for the current year and the previous year differs from the standard rate for the reasons set out in the following reconciliation:

	2021 £'000	2020 £'000
(Loss)/profit before taxation	<u>(7,336)</u>	<u>2,233</u>
Tax (credit)/charge at the UK tax rate of 19.0% (2020: 19%)	<u>(1,394)</u>	<u>424</u>
<i>Factors affecting (credit)/charge for the year:</i>		
Expenses not deductible	25	31
Fixed asset differences	223	259
Adjustments in respect of prior period	(2)	272
Defined Benefit Pension Scheme - short term timing differences	864	326
Deferred tax charged directly to equity	(1,137)	(326)
Transitional adjustment	-	(18)
Remeasurement of deferred tax to changes in tax rates	1,121	329
Group relief surrendered/(claimed)	19	(293)
(Receipt)/payment for group relief	(19)	293
Income not taxable	-	(22)
Total tax (credit)/charge	<u>(300)</u>	<u>1,275</u>

BAIRDS MALT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 30 September 2021

10. INTANGIBLE ASSETS

	Software £'000	Goodwill £'000	Total £'000
Cost			
At 1 October 2020 and 30 September 2021	5,466	9,052	14,518
Accumulated amortisation			
At 1 October 2020	5,128	9,052	14,180
Charge for the year	315	-	315
At 30 September 2021	5,443	9,052	14,495
Net book value			
At 30 September 2021	23	-	23
At 30 September 2020	338	-	338

11. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings £'000	Plant and equipment £'000	Total £'000
Cost			
At 1 October 2020	37,629	104,424	142,053
Additions	-	23,624	23,624
Assets transferred to held for sale (note 3b)	(1,313)	-	(1,313)
Impairment (note 3b)	-	(2,194)	(2,194)
Disposals	-	(225)	(225)
At 30 September 2021	36,316	125,629	161,945
Accumulated depreciation			
At 1 October 2020	28,147	50,017	78,164
Charge for the year	1,247	2,739	3,986
Impairment (note 3b)	-	(1,181)	(1,181)
Disposals	-	(187)	(187)
At 30 September 2021	29,394	51,388	80,782
Net book value			
At 30 September 2021	6,922	74,241	81,163
At 30 September 2020	9,482	54,407	63,889

In February 2021, the company announced the closure of its Grantham site. The land value of this site is classified as an asset held for sale on the statement of financial position. The asset is valued at its fair value less cost to sell at £1,313,000.

BAIRDS MALT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 30 September 2021

12. INVESTMENTS

The company's subsidiary undertakings are as follows:

Name of company	Country of registration and of operation	Principal activity	Holding	%
Mark Lawrence (Grain) Limited	England & Wales	Trading under agency	Ordinary	100%
Scotgrain Agriculture Limited	England & Wales	Trading under agency	Ordinary	100%
Bairds Malt (Pension Trustees) Ltd	England & Wales	Non-trading	Ordinary	100%
Moray Firth Maltings Limited	England & Wales	Non-trading	Ordinary	100%
Brewers Select Limited	England & Wales	Trading under agency	Ordinary	100%
Norton Organic Grain Limited	England & Wales	Non-trading	Ordinary	100%

Certain of the subsidiaries, as detailed above, are trading as agents under an agency agreement with Bairds Malt Limited. The registered address of these subsidiaries is; Station Maltings, Witham, Essex, CM8 2DU.

13. LEASES

The company enters into non-cancellable leases on properties and other plant and machinery.

The following tables show the movement of the right of use assets and liabilities during the year:

	Property Leases £'000	Equipment Leases £'000	Total £'000
Opening balance arising from the adoption of IFRS 16	1,397	97	1,494
Depreciation	(204)	(37)	(241)
Right of use assets as at 30 September 2020	1,193	60	1,253
Additions	2,284	-	2,284
Depreciation	(181)	(30)	(211)
Right of use assets as at 30 September 2021	3,296	30	3,326
Lease liabilities:			
Opening balance arising from the adoption of IFRS 16	1,397	97	1,494
Interest expense	35	4	39
Repayments	(195)	(32)	(227)
Balance as at 30 September 2020	1,237	69	1,306
Additions	2,284	-	2,284
Interest expense	48	4	52
Repayments	(388)	(30)	(418)
Lease liabilities as at 30 September 2021	3,181	43	3,224
Lease liabilities due within one year	160	21	181
Lease liabilities due after more than one year	3,021	22	3,043

On 26 February 2021 the company extended the lease on the premises at Longman Road, Inverness for a further 87 years from the end of 2033 such that the lease expiry date is 25 February 2120. The lease continues under the same conditions with the exception of (a) rent reviews taking place every 5 years rather than every 15 years and (b) a premium of £350,000. The addition in the current year is all related to this lease extension.

BAIRDS MALT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 30 September 2021

14. INVENTORIES

	2021 £'000	2020 £'000
Barley	51,896	44,496
Consumables	1,956	1,936
Work in progress	1,338	762
Finished goods	10,375	12,227
	<u>65,565</u>	<u>59,421</u>

The replacement cost of inventories is not considered to be materially different to the value shown in the financial statements. Barley inventory to the value of £49,048,000 (2020: £39,108,000) is security against short term financing facility. As noted in note 3b the barley stocks above contain a provision for stock loss of £2,779,000.

15. TRADE AND OTHER RECEIVABLES

	2021 £'000	2020 £'000
Trade receivables	19,120	17,522
Amounts owed by group undertakings	10,574	13,296
VAT receivable	1,146	733
Corporation tax	68	31
Prepayments and accrued income	1,147	2,482
Derivative financial instruments (note 23)	249	374
	<u>32,304</u>	<u>34,438</u>

Amounts owed by group undertakings are unsecured, interest free and repayable on demand.

16. TRADE AND OTHER PAYABLES: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2021 £'000	2020 £'000
Trade payables	28,572	21,105
Amounts owed to group undertakings	3,178	2,781
Group relief payable to group undertakings	1,127	1,146
Short term loan (note 14)	49,048	39,108
Lease liabilities (note 13)	181	194
Other taxation and social security	329	308
Accruals and deferred income	11,094	18,167
Derivative financial instruments (note 23)	48	46
	<u>93,577</u>	<u>82,855</u>

Amounts due to group undertakings are unsecured, interest free and repayable on demand. The short term loan (see note 14) is repayable on demand and bears the interest at commercial rates linked to LIBOR, its equivalent or its replacement.

BAIRDS MALT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 30 September 2021

17. TRADE AND OTHER PAYABLES: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2021 £'000	2020 £'000
Amounts owed to group undertakings	40,000	-
Other trade payables	156	150
	40,156	150

On 15 January 2021, the company received £40,000,000 long term loan from its immediate parent undertaking to fund the Scottish expansion plans. This loan bears interest at LIBOR, or its equivalent or replacement, plus a margin of 2%. Repayment is due 7 years after the commencement of the agreement. The other trade payables related to deferred capital expenditure payments of £234,000 of which £78,000 is within one year. The balance is due in annual instalments over 2022 and 2023.

Loans under term funding facilities are secured by a negative pledge and these facilities provide the related entities in the Group that are party to the pledge the flexibility in funding their respective liquidity requirements as required. The facilities imposes certain covenants on the Group and the pledge states that (subject to certain exceptions) the subject entity will not provide any other security over its assets, and will ensure that certain financial ratios and limits are maintained at all times, including: interest cover, gearing ratio and net tangible assets. All such borrowing covenant ratios and limits have been complied with during the financial year.

18. DEFERRED TAXATION

	£'000
At 1 October 2020 - Liability	3,777
Credit to the Statement of Comprehensive Income	894
At 30 September 2021 - Liability	4,671

As a result of the change in the UK main corporation tax rate being substantively enacted in the year, the relevant deferred tax balances have been calculated using a deferred tax rate of 25% as at 30 September 2021 (2020: 17%).

Deferred taxation

	2021 £'000	2020 £'000
Provision for deferred taxation consists of the following amounts:		
Deferred tax on pension surplus/(deficit)	1,058	(453)
Capital allowances in excess of depreciation	5,362	4,140
Other	95	90
Losses	(1,844)	-
Liability	4,671	3,777

19. CALLED UP SHARE CAPITAL

	2021 £'000	2020 £'000
Allotted and fully paid:		
8,939,802 (2020: 8,939,802) A Ordinary shares of £1 each	8,940	8,940
5,959,869 (2020: 5,959,869) B Ordinary shares of £1 each	5,960	5,960
60 (2020: 60) Deferred shares of £1 each	-	-
	14,900	14,900

BAIRDS MALT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 30 September 2021

19. CALLED UP SHARE CAPITAL (continued)

The A and B Ordinary shares rank pari passu in all respects.

The holders of the deferred shares have no right to attend, speak or vote at general meetings of the company. The holders are entitled to a non-cumulative deferred share dividend, calculated by applying LIBOR to the nominal value of the shares in issue during the year, which is paid annually subject to the availability of distributable profits. No dividend was paid in the year (2020: £nil).

In the event of a winding-up or other return of capital, the holders of the deferred shares are entitled to repayment of the nominal amounts paid up, only after the repayment of the paid up ordinary share capital and the payment to the ordinary shareholders of an additional £10,000,000 per ordinary share in issue.

20. PENSION SURPLUS / (DEFICIT)

Defined contribution scheme

The company operates defined contribution retirement benefit schemes for all its qualifying employees. The assets of the schemes are held separately from those of the company in funds under the control of trustees. Where there are employees who leave the schemes prior to vesting fully in the contributions, the contributions payable by the company are reduced by the amount of forfeited contributions.

The total cost charged to income of £784,000 (2020: £792,000) represents contributions payable to these schemes by the group at rates specified in the rules of the plans. As at 30 September 2021, contributions of £nil (2020: £nil) due in respect of the current reporting year had not been paid over to the schemes.

Defined benefit scheme

The company operates and contributes to the Bairds Malt Pension Scheme ("the Scheme"), a funded defined benefit pension scheme for certain employees. The scheme closed to future benefit accrual on 5 April 2010, resulting in a curtailment gain as members' benefits will no longer be linked to future salary increases.

The assets of the Scheme are held in trust administered funds which are separate from the finances of the group.

The Scheme is subject to triennial valuation by independent actuaries, the last valuation being carried out as at 5 April 2018 using the projected unit method in which the actuarial liability makes allowances for projected earnings.

This does not take into account any impact of the fall in general stock market values since that date. Any such impact will be reflected in the next triennial valuation as at 5 April 2021.

The full actuarial valuation at 1 April 2018 was updated to 30 September 2021 by a qualified actuary, using the following assumptions in relation to future experience:

	2021	2020	2019
Discount rate	2.0%	1.7%	1.8%
Rate of increase in deferred pensions	3.3%	2.8%	3.1%
Rate of increase in limited inflation-linked pensions in payment	3.2%	2.8%	3.0%
Inflation assumption	3.3%	2.8%	3.1%

Mortality assumptions:

Investigations have been carried out within the past three years into the mortality experience of the company's defined benefit schemes. These investigations concluded that the current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations on retirement at age 65 are:

BAIRDS MALT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 30 September 2021

20. PENSION SURPLUS / (DEFICIT) (continued)

	Valuation at	
	2021 (years)	2020 (years)
Retiring today:		
Males	22.1	23.1
Females	24.1	25.1
Retiring in 20 years:		
Males	23.8	24.9
Females	25.9	27.0

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption	Change in assumption	Impact on scheme liabilities
Discount rate	Increase by 0.25%	Decrease by £2.6m
Rate of inflation	Increase by 0.25%	Increase by £1.1m
Life expectancy	Increase by 1-year	Increase by £2.8m

Amounts recognised in the Statement of Comprehensive Income in respect of these defined benefit schemes are as follows:-

	Year ended 30 September 2021 £'000	Year ended 30 September 2020 £'000
Charged to finance costs:-		
Expected return on pension scheme assets	1,235	1,316
Interest on the scheme's liabilities	(1,257)	(1,407)
Net finance cost	(22)	(91)
	2021 £'000	2020 £'000
Recognised in the Statement of Comprehensive Income:-		
Actual return less expected return on pension scheme assets	(1,047)	1,398
Experience gain/loss arising on the scheme liabilities	5,596	316
Actuarial gain recognised in the Statement of other Comprehensive Income	4,549	1,714

BAIRDS MALT LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)****Year ended 30 September 2021****20. PENSION SURPLUS / (DEFICIT) (continued)**

The amount included in the balance sheet arising from the company's obligations in respect of its defined benefit retirement benefit schemes is as follows:

	2021 £'000	2020 £'000
Present value of defined benefit obligations	(67,709)	(75,925)
Fair value of scheme assets	71,941	73,541
Surplus/(Deficit) in the scheme	<u>4,232</u>	<u>(2,384)</u>

Movements in the present value of defined benefit obligations were as follows:

	2021 £'000	2020 £'000
Opening balance	75,925	81,472
Interest cost	1,257	1,407
Actuarial gain	(5,596)	(316)
Benefits paid	(3,940)	(6,638)
Past service cost	63	-
Closing balance	<u>67,709</u>	<u>75,925</u>

Movements in the fair value of scheme assets were as follows:

	2021 £000	2020 £000
Opening balance	73,541	75,375
Expected return on scheme assets	1,235	1,316
Actuarial (loss) / gain	(1,047)	1,398
Contributions from the company	2,152	2,090
Benefits paid	(3,940)	(6,638)
Closing balance	<u>71,941</u>	<u>73,541</u>

The estimated amount of contributions expected to be paid by the company to the scheme during 2022 is £2,217,000 (2021: £2,152,000).

The scheme has not invested in any securities issued by the United Malt Group or any assets used by the United Malt Group.

The cumulative amount of actuarial losses taken to the Statement of Comprehensive Income is £12,047,000 (2020: £16,596,000).

BAIRDS MALT LIMITED**NOTES TO THE FINANCIAL STATEMENTS (continued)**
Year ended 30 September 2021**20. PENSION SURPLUS / (DEFICIT) (continued)**

The analysis of the scheme assets and the expected rate of return at the balance sheet date was as follows:-

	2021	2020
	Fair value	Fair value
	£'000	£'000
Equities	9,278	10,939
Bonds	27,401	28,557
Gilts	28,553	27,142
Property	1,475	1,361
Liquid alternative strategies	2,737	2,542
Cash	2,497	3,000
Total market value of assets	<u>71,941</u>	<u>73,541</u>
Present value of scheme liabilities	<u>(67,709)</u>	<u>(75,925)</u>
Surplus/(Deficit) in scheme	<u>4,232</u>	<u>(2,384)</u>

21. OTHER COMMITMENTS

The company had commitments related to derivative financial instruments with regards to forward foreign currency and wheat futures, as detailed in the table below. Contracts are entered into to reduce the foreign currency risk on future contracted foreign sales and purchases and the exposure to changes in the future wheat market prices.

	30 September 2021		30 September 2020	
	Notional amounts	Fair value	Notional amounts	Fair value
	£'000	£'000	£'000	£'000
Foreign currency forwards	5,432	(48)	10,928	374
Grain futures contracts	46,345	235	57,931	(1,540)
		<u>187</u>		<u>(1,166)</u>

22. CAPITAL COMMITMENTS

	2021	2020
	£'000	£'000
Contracted but not provided for in the financial statements	<u>13,699</u>	<u>15,088</u>

BAIRDS MALT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued) Year ended 30 September 2021

23. FINANCIAL INSTRUMENTS

The company enters into grain futures contracts and forward exchange contracts. There are also embedded contracts where the currency of the contract is not the home currency of either of the contracting parties. In addition, the company performs a fair value exercise on its merchanting physical grain trading contract book. The movement in fair value from the previous balance sheet date is included in administrative expenses in the Statement of Comprehensive Income. The net amount included in the Statement of Comprehensive Income for the year was a loss of £126,000 (2020: Gain £49,000).

At 30 September the fair value of financial instruments were as follows:

	2021 £'000	2020 £'000
Derivative Assets:		
Grain futures contracts	249	-
Foreign currency forward currency contracts	-	374
Total derivative assets	249	374
Derivative Liabilities:		
Grain future contract	-	47
Foreign currency forward currency contracts	48	-
Total derivative liabilities	48	47
Net derivative asset	201	327

Grain futures contracts are valued at closing spot prices on the LIFFE (now called Intercontinental Exchange (ICE)) and MATIF markets. Physical contracts are valued at closing futures prices, or an estimation of market value (based on quoted prices from recognised traders in the related grains associated with the physical contracts or from grain publications which provide a price-based market surveys), where there is no forward market. Foreign currency forward contracts are valued using forward currency rates at the time of valuation as confirmed by the company's bank. Embedded contracts are valued using foreign currency exchange rates at the inception of the contract, and at the end of the financial year.

The contracted value of grain futures contracts and foreign currency forward contracts are disclosed in note 21.

Financial instruments which are measured subsequent to initial recognition at fair value are grouped, based on the degree to which the fair value is observable, into Level 1 - 3 as defined below.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. For the company these are the foreign currency forward contracts and the grain futures contracts;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). For the company these are the embedded foreign currency contracts and the physical grain contracts; and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

BAIRDS MALT LIMITED

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 30 September 2021

24. RELATED PARTY TRANSACTIONS

The Company is also exempt under the terms of Financial Reporting Standard 101 (FRS 101), from disclosing related party transactions with other group companies, on the grounds that 100% of the voting rights in the company are controlled within the group and the company is included in consolidated financial statements prepared by the Group.

25. POST BALANCE SHEET EVENTS

There are no significant post balance sheet events that require disclosure or adjustment. The impact of Covid-19 on the company is covered in the Strategic Report.

26. IMMEDIATE AND ULTIMATE PARENT UNDERTAKINGS

The immediate parent company is United Malt UK Limited, a company incorporated in England & Wales. The entire share capital of United Malt UK Limited is ultimately owned by United Malt Group Limited, which in the directors' opinion is the ultimate controlling parent undertaking.

Copies of the financial statements of United Malt UK Limited can be obtained from the Registrar of Companies, Crown Way, Cardiff.

The smallest and largest group in which the results of the company are consolidated for this financial year is that headed by United Malt Group Limited, a company listed on the Australian stock exchange. The consolidated financial statements of United Malt Group Limited can be obtained from Citigroup Centre, Level 18, Suite C, 2 Park Street, Sydney, Australia, 2000 or from www.unitedmalt.com.