Welcome to Hilmar Cheese Company

Making cheese and whey products that contribute nutrition, enjoyment and value to people’s lives.

Owned by 11 local Jersey cow dairy farming families, Hilmar Cheese Company, Inc. produces cheese and whey products that nourish more than 20 million people worldwide each day. From the shredded cheese in tacos to the whey protein and lactose in infant formula, Hilmar Cheese Company and our division, Hilmar Ingredients, deliver the promise of dairy to consumers around the world.

About Our Cover

Reflecting our commitment to the environment, the community and our employees

100% of the Dairy Farm Families who ship their milk directly to Hilmar Cheese Company are certified participants in the Farmers Assuring Responsible Management™ animal care program

More than 360 Pairs of Glasses have been collected on-site for the Lions Clubs’ Recycle for Sight Program

100% of Our Reclaimed Water is recycled and reused on our facilities and for irrigation

$40,000 raised in American Cancer Society’s Relay for Life

31 Students received college scholarships from Hilmar Cheese Company

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This report follows the Stewardship and Sustainability Guide for U.S. Dairy (www.usdairy.com). It also follows the methodology outlined by the Global Reporting Initiative (GRI), a nonprofit organization that develops and publishes guidelines for reporting on sustainability performance. More information on the GRI can be found at www.globalreporting.org.

The information presented reflects data collected for 2013
Hilmar Cheese Company, Inc. has long maintained a commitment to environmental responsibility and stewardship. This, our fourth corporate sustainability report, presents the ongoing actions that demonstrate our commitment.

The highlight of 2013 was construction of a new corporate Headquarters to better meet the needs of our employees and our growing global business. This new facility is located adjacent to our Hilmar, California, manufacturing site. Core to the new Headquarters is an Innovation Center with the latest pilot plant and applications equipment. The Innovation Center is focused on delivering greater service and knowledge to domestic and international customers, helping them find success with healthy foods and beverages.

Consistent with our commitment to sustainability, the building achieved LEED Platinum® certification. LEED Platinum has the most demanding building parameters. LEED® (Leadership in Energy and Environmental Design) is the nationally accepted benchmark for the design, construction and operation of high-performance green buildings.

Key building accomplishments include:

• Water conservation efforts achieve a total water usage level 50% below California-allowed baseline
• Solar panel field offsets 25% of building’s energy demand
• Building design maximizes use of natural day lighting and occupant sensors for energy efficiency
• Driving alternatives encouraged through electric car charging station, fuel efficient and vanpool parking, and bicycle security racks
• Interior finishes and furnishings are ergonomically designed, and use environmentally responsible, recycled and Forest Stewardship Council certified material

Our Headquarters and Innovation Center enables us to support our customers, our community and our environment. It exemplifies our philosophy of doing good things together over the long term. I invite you to look through this 2013 report and learn about other ways we are working for the future.

John Jeter

The “LEED Certification Mark” is a registered trademark owned by the U.S. Green Building Council and is used by permission.
Our History

In 1984, 12 Central California dairy farm families, seeking to maximize the value of their Jersey cows’ premium milk, created Hilmar Cheese Company, Inc. They invested heavily in research, the latest technology and employee excellence – a practice that continues to guide the privately held company today and remains a core part of The Hilmar Way.

Committed to continuous improvement and innovation, the company has grown to be a leading producer of natural cheese varieties and whey products. We enjoy an international reputation for superior quality and consistency of our products and unparalleled, personalized service. Today, that reputation continues as the second and third generations of family owners (one example pictured at right) share responsibility. For Hilmar Cheese Company, success means fostering long-term, mutually beneficial relationships between company owners, employees, milk producers, customers and the local community.
Sustainability, Part of Our Legacy

Our Mission

Commitment to sustainability is a core element of the mission statement that Hilmar Cheese Company follows:

Through leadership-driven, high-performance teamwork, Hilmar Cheese Company and Hilmar Ingredients develop and convert in a sustainable manner our premium milk supply into innovative, top-quality dairy products for customers worldwide who further add value in their markets.

Scope of this Report

This report for calendar year 2013 is our fourth annual report. It reflects total company efforts from our Dalhart, Texas, manufacturing site; Hilmar, California, manufacturing site; and our Hilmar, California, Headquarters and Innovation Center completed in August 2013.

This report follows the industry-adopted Stewardship and Sustainability Guide for U.S. Dairy, a voluntary framework for tracking and communicating progress. The report also incorporates methodology from the Global Reporting Initiative (GRI), a nonprofit organization that develops and publishes guidelines for reporting sustainability performance. A third component supports the principles important to our customers.

More about our sustainable practices can be found at hilmarcheese.com.
<table>
<thead>
<tr>
<th>Category</th>
<th>Focus</th>
<th>Goals</th>
<th>2013 Progress</th>
<th>Future Plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Stewardship</td>
<td>Recycled Water for Irrigation</td>
<td>100% of reclaimed water is recycled for facility landscaping and crop irrigation</td>
<td>2% increase in total volume of reclaimed water available from 2012, with 100% of the water recycled for facility landscaping and crop irrigation</td>
<td>Increase the total amount of reclaimed water recycled for irrigation</td>
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<tr>
<td>Well Water Use Reduction</td>
<td></td>
<td>Minimize the amount of well water used for production</td>
<td>5% increase in the amount of well water used per thousand pounds of production from 2012. Increase due to a variety of factors including added product variety and sanitation cycles.</td>
<td>A number of internal projects are being evaluated for implementation to reduce the amount of well water used for production</td>
</tr>
<tr>
<td>Renewable Energy</td>
<td></td>
<td>100% of the internally available biogas (methane) used as a fuel source</td>
<td>35% internally generated biogas (methane) was used as a fuel source in boilers. Increase in the amount of biogas produced by 10% over 2012.</td>
<td>Increase amount of internally generated biogas (methane) for use as a fuel source. Continue to evaluate other renewable energy opportunities.</td>
</tr>
<tr>
<td>Energy Efficiency</td>
<td></td>
<td>Continually reduce energy use</td>
<td>6% decrease from 2012 in the total amount of natural gas used for production and other internal uses</td>
<td>Identify areas to implement improvements</td>
</tr>
<tr>
<td>Air Emissions</td>
<td></td>
<td>Decrease the amount of greenhouse (GHG) direct emissions per thousand pounds of product</td>
<td>12% decrease from 2012 in the total amount of greenhouse (GHG) direct emissions per thousand pounds of product</td>
<td>Evaluate renewable options to reduce GHG emissions</td>
</tr>
<tr>
<td>Solid Waste Minimization</td>
<td></td>
<td>Recycle and reuse to create zero waste from the material stream</td>
<td>Expanded office and breakroom recycling program</td>
<td>Continuous improvement in recycling</td>
</tr>
<tr>
<td>Package Minimization</td>
<td></td>
<td>Minimize product packaging while maintaining quality and material integrity</td>
<td>Reviewed alternative packaging</td>
<td>Work with suppliers to continually improve packaging efficiency</td>
</tr>
<tr>
<td>Supplier Responsibility</td>
<td></td>
<td>Develop and maintain relationships with suppliers who have similar sustainability goals</td>
<td>Reviewed sustainability programs of key production material suppliers</td>
<td>Improve supplier auditing system</td>
</tr>
<tr>
<td>Transportation</td>
<td></td>
<td>Reduce shipping miles</td>
<td>12.5% more domestic loads were shipped by rail versus truck compared to 2010, reducing overall fuel consumption and improving air quality</td>
<td>Fully utilize options to reduce impact of shipping</td>
</tr>
<tr>
<td>Supplying Dairy Responsibility</td>
<td></td>
<td>Develop and maintain relationships with the supplying dairy farms who responsibly provide the highest quality milk</td>
<td>Completed dairy farm reviews and provided annual recognition for quality</td>
<td>Purchase milk from dairy farms who make sustainability, animal care and quality milk a priority</td>
</tr>
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## Goals and Progress

<table>
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</thead>
<tbody>
<tr>
<td>Employees</td>
<td>Safety</td>
<td>Decrease incidents of workplace injuries</td>
<td>17% decrease in severity of workplace injuries; 14% decrease in overall total workplace injuries</td>
<td>Continue to implement proactive safety programs and continue emphasis on safe work practices</td>
</tr>
<tr>
<td>Training</td>
<td></td>
<td>Implement The Hilmar Way training</td>
<td>Established new training team and updated program</td>
<td>Adopt modules from continuous improvement programs</td>
</tr>
<tr>
<td>Tuition</td>
<td></td>
<td>Prepare employees for new roles and advancement</td>
<td>Reimbursed more than $63,000 in educational fees</td>
<td>Expand program to further develop talent</td>
</tr>
<tr>
<td>Economic</td>
<td>Jobs and Local Support</td>
<td>Stimulate local economy</td>
<td>Building our Headquarters and Innovation Center provided more than 200 local construction jobs</td>
<td>Continue business success to contribute to local economies</td>
</tr>
<tr>
<td>Engagement</td>
<td>Community Philanthropy</td>
<td>Identify and contribute to projects with significant impact</td>
<td>Partnered with Univ. of CA, Merced School of Engineering for Senior Capstone Projects</td>
<td>Continue to support youth and education, food security, health care and the arts</td>
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</table>
Water Use and Quality

We recover almost 100% of the water originally from incoming milk. This recovered water accounts for more than 60% of the water used at both of our facilities. After the water goes through our water reclamation processes, it is used in a variety of ways:

- Recycled water to wash facilities and equipment
- Recycled water for facility landscaping
- Recycled water for non-food uses
- Recycled water to irrigate crops, many used to feed the cows

Hilmar Cheese Company maintained 100% compliance with applicable water quality regulations in 2013 in Texas. In California, unanticipated events resulted in less than 100% compliance for three months. Compliance with applicable water quality regulations for the remaining months was 100%.

Both facilities have complex multi-stage water reclamation systems consisting of several steps including equalization, anaerobic and aerobic digestion, and storage.

Recycling More

Throughout 2013, we continued our efforts to minimize resource use and increase recycling.

- Recycling desk-side containers and recycling bins were placed in the California Headquarters and Innovation Center
- Centralized document controllers were established to reduce printing
- Technology purchases now include end-of-life plans to champion e-waste recycling

We now measure and track additional indicators:

- Cardboard and office paper: 2012 – 181 tons; 2013 – 211 tons
- Recycled e-waste for 2013: 3,885 lbs.
Environmental Stewardship

Progress at Our Sites

The charts above show our progress in water conservation and recycling, energy conservation and greenhouse gas reduction. Figures represent a combined effort for our Headquarters and California and Texas manufacturing sites.

Highlights:
- New fixtures in all facilities use LED energy conservation lights
- Ongoing project to optimize water use during clean-in-place (CIP) wash cycles
- Water orifices were installed to restrict water flow

1 Total water use is increased due to a variety of factors including added product variety and sanitation cycles
2 While total reclaimed water increased by 2%, total production increased by greater than 2%, giving a lower use per pounds of production
3 Indirect energy is provided by outside sources such as electricity
4 Indirect GHG is produced as a result of using electricity from outside sources

100% of our reclaimed water is recycled and reused on our facilities and for irrigation of local crops. Farmers use the water to grow crops to feed cows. The corn in this photo is used to make silage, a fermented feed that provides a valuable source of nutrition for animals.
Employee Engagement

The health and well-being of our employees and their families is most important to us. Beyond comprehensive medical, dental, vision and retirement benefits, we offer more:

- Chaplain services
- Cheese and Visitor Center discounts
- Dairy farm tours to educate about practices and agriculture
- Education reimbursement
- Family activities including BBQs and swim nights at community pools
- Full-service retirement planning through our provider
- Gym membership discounts
- Health and Wellness Fair
- Nutrition counseling
- Weight Watchers® programs

These services are available to full-time employees along with competitive wages, a professional work atmosphere and the opportunity to advance and grow.

Employee Tenure

Valuing employees is the key to success. Employees are treated fairly, respected and have the opportunity to maximize their talents. In 2013, 51% of our employees have been with the company for 5 or more years.

Each year we welcome summer college interns. These college students are pursuing degrees in areas such as food science, engineering, production and agriculture business. Students work alongside our expert staff on specific projects to gain real-world experience. Students are often hired into a full-time position upon graduation. Visit our website’s Careers section to learn more about internship opportunities.
Employee Training

Educational opportunities are offered throughout the year. As a company that values continuous improvement and learning, our employees are encouraged to participate in training beyond the minimum requirements for each job.

In 2013, more than 63,000 hours were dedicated to training and mentoring. A new leadership training organizational structure was identified. This has 2 key components:

1. Vision for Leadership: Promote and maintain leaders within the company who are accountable, trustworthy, professional and experts within their respective fields, and who are aligned with established Hilmar Cheese Company core values.

2. Mission for Leadership: Recruit, promote, train and retain the most technical and professionally talented leaders by providing integrated training components that are aligned with leadership traits and The Hilmar Way Management Model.

Employee Safety

Hilmar Cheese Company’s commitment to a safe working environment extends beyond our core value, “People, Our Most Valuable Resource,” into daily activities. In 2013, the number of workplace injuries decreased by 14% companywide. The following programs implemented in 2013 will continue in 2014:

- Supervisor safety training seminars for all management employees
- Monthly safety topic with scripts for supervisors to create a one voice/one message throughout all facilities
- Safety Key Performance Indicators (KPIs) reported monthly to indicate department performance in safety compliance
- Regular Emergency Response Team meetings and other special team trainings coordinated with outside services such as the local fire departments
Economic Value

Food for the World

We are very aware of dairy nutrition’s importance in the world’s diet and our role in supplying high-quality, innovative dairy products. In 2013, we received a patent for preparing bioactive protein-enriched whey products.

Bioactive proteins are on the leading edge of aiding human health through diet. Some proteins, like lactoferrin and lactoperoxidase, have anti-microbial activity, can help enhance the body’s immune system and can stimulate tissue production.

Our patent supported the launch of Hilmar™ 1000 Lactoferrin. A new product for us, Hilmar™ 1000 Lactoferrin is key to creating a better infant formula. Adding Hilmar™ 1000 allows the formula to have a level of lactoferrin that is more similar to mother’s milk. While mother’s milk is the best choice for baby, there are times when breast feeding isn’t possible. To ensure babies get the optimum start, having a nutritionally equal formula is critical. Formula enriched with lactoferrin helps contribute to healthier babies.

Worldwide Ingredient Exports 2012

Job Creation

We are a significant provider of local jobs and a contributor to regional tax bases. One way we measure our economic value is by job creation. During 2013 we constructed our Headquarters and Innovation Center, resulting in jobs for more than 200 local contractors and vendors.

Additional employment was provided by our use of consultants. In 2013, we utilized the services of more than 79 specialists, primarily in information technology, as we implemented a business enterprise system. Other consultants were used in regulatory, human resources, research and development, engineering, environmental and communications.
**Dairy Farms – The Core of the Community**

In the USA, 97% of dairy farms are family-owned and most have been in families for generations. Dairy farm families live on their land, conserving and protecting resources for future generations. These families are central to their communities and are known for generosity, values and volunteer support.

Hilmar Cheese Company purchases high-quality milk from more than 230 independent family-owned dairy farms located near our processing facilities. Dairy farm management decisions are made at the dairy farm level by individual farmers.

**Cow Care**

All of the farms that ship milk directly to Hilmar Cheese Company demonstrate their dedication to the highest quality animal care through participation in the national dairy farm program: Farmers Assuring Responsible Management™ (FARM, www.nationaldairyfarm.com). Established in 2009, FARM is a nationwide, verified program addressing dairy animal well-being.

**Cow Care**

The FARM Animal Care reference manual details the guidelines and best practices to:

- Meet nutritional requirements of dairy animals at all life stages
- Satisfy environmental needs such as shelter, cooling, warmth and space
- Handle and properly move calves and cows to minimize stress
- Practice herd health with the oversight of a veterinarian-client-patient relationship
- Train for day-to-day tasks using standard operating procedures
- Compare animals against industry standards

**The Daily Life of a Dairy Cow**

Dairy farmers work hard to take great care of their cows. Cow comfort and access to fresh water and feed is important. Most dairies feed their cows multiple times throughout the day to ensure ample nutrition. Cows are ruminant animals with four compartments to their digestive system. Cows ruminate or chew cud for about 8 hours each day. Chewing cud is a sign that the cow is calm and relaxed. Dairy farmers make sure their cows are comfortable with plenty of time to eat, rest and chew cud.

Cows like routine. For most dairies, cows are milked two times daily at approximately the same time every day. Dairy farmers minimize the time a cow is away from her pen for milking so she can return to relax as soon as possible. Milking barns come in a variety of styles. Some have cows stand side by side while others are like a carousel (as pictured here). In preparation for milking, a dairy employee disinfects and wipes each of the cow’s teats, and hand-milks a few streams of milk from each teat. Confirming the cow is now ready, the employee attaches the milking unit. Modern milking equipment senses the cow’s milk production and automatically detaches once her milk flow drops below a certain level. Milking is comfortable for the cow, and many cows show their relaxation by chewing cud during the process.
Community Engagement

Hilmar Cheese Company owners and employees strive to make a difference. We don’t just work in Dalhart and Hilmar, we live in the towns and volunteer service and resources to help local organizations. We contribute cheese, gift baskets, funds and time.

Our goal is to make our communities better.

- The Turlock Gospel Mission, Turlock, CA, helps homeless and hurting people find hope and restoration in Christ. The organization offers an evening meal ministry, shelter for women and children during the cold months and a homeless assistance center offering support and encouragement during the day. Hilmar Cheese Company is proud to be a strong supporter in the construction of a much-needed shelter and guidance facility.

Dedication to the Arts

- Gallo Center for the Arts – supports nationally acclaimed theatrical works
- Modesto Symphony – 5th year as exclusive sponsor of “Picnic at the Pops” concert

- Turlock Community Theater – funds local productions
- Carnegie Arts Center – exhibit sponsor
- Dallam-Hartley Counties Museum – supports operations

Improving Community Resources

- Annual holiday canned food drives at both Texas and California facilities have a company match of $3 for every can of food given, with more than 2,000 food items donated in 2013
- 6,500 pounds of cheese and financial assistance for local food programs:
  - High Plains Food Bank
  - Hilmar Helping Hands
  - Lincoln Street Baptist Food Bank
  - Merced County Food Bank
  - Merced County Rescue Mission
  - Turlock Gospel Mission
  - Turlock Salvation Army
Community Engagement

Healthier Lives

Hilmar Cheese Company also contributed to these organizations to help advance human health:

- American Red Cross emergency relief funds for tornado in Moore County, Oklahoma
- Dallam-Hartley Counties Healthcare Foundation
- Emanuel Medical Center Legacy Circle Donor
- International Red Cross annual holiday donation on behalf of our customers

This year, our Relay for Life teams went creative and painted a herd of wooden cows purple. With this herd and an inflatable herd, we started a “Herd You Would Help” campaign. Employees donated to Relay for Life and, as part of the donation, could send the cow herd to visit a fellow employee’s office. Everyone wanted to moo-ve the herds and our teams in California and Texas raised more than $40,000 to support the American Cancer Society.

Inspiring Young Minds

More than 15,000 students visited our dairy exhibits in the Dalhart XIT Museum and Hilmar Visitor Center. The Visitor Center also hosted more than 300 groups from around the world.

Hilmar Cheese Company provides an annual scholarship program to assist with college or trade school tuition for children of our employees, the dairy farm families who ship milk to us and local students pursuing agricultural degrees.

We also support the work of these groups:

- 4-H and FFA
- Boy Scouts and Girl Scouts
- Dallam-Hartley Library
- Friends of Hilmar Library
- California State University, Stanislaus
- University of CA, Merced
- Merced Junior College
- Modesto Community College
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