Our Commitment to Sustainability

We deliver the promise of dairy.™
Scope of this Report

This report for calendar year 2014 is our fifth annual report. It reflects total company efforts from our Dalhart, Texas, manufacturing site; and Hilmar, California, manufacturing site and Headquarters & Innovation Center.

This report follows the industry-adopted Stewardship and Sustainability Guide for U.S. Dairy (www.usdairy.com), a voluntary framework for tracking and communicating progress. It also incorporates the methodology outlined by the Global Reporting Initiative (GRI), a nonprofit organization that develops and publishes guidelines for reporting on sustainability performance. A third component supports the principles important to our customers. While some information in this report may have been audited, the complete report has not been audited and is not guaranteed. This report is not intended to be a solicitation or advertisement for the sale of Hilmar Cheese Company or Hilmar Ingredients products.

More about our sustainable practices can be found at hilmarcheese.com.
A LETTER FROM OUR CEO

We’re celebrating an anniversary. Thirty years ago, 12 dairy farm families pooled their resources to start Hilmar Cheese Company, Inc. These farmers had strong family values – honesty, hard work, integrity, treating others fairly and always striving to improve.

From these families’ dream and their values, the company has grown into a strong, modern business that uses new technologies to develop nutritious dairy products designed to add value for global customers.

This is our fifth corporate sustainability report. Through this process, we recognize our accomplishments and make plans for improvement. Highlights this year include:

• LEED Platinum® dedication of our corporate Headquarters & Innovation Center. LEED® (Leadership in Energy and Environmental Design) is the nationally accepted benchmark for the design, construction and operation of high-performance green buildings. LEED Platinum® has the most demanding building parameters.

• Construction began on our milk powder plant in Turlock, California

• Reduction in total water use at our facilities

The years have brought great transformation to our company, yet we have much more to do. Helping to move us into the future is a planned leadership transition. After serving for thirty years, Richard Clauss, chairman of our board, has passed this role to the experienced hands of Jim Ahlem, another founding board member. I also have plans to retire in 2015 and transition my role to David Ahlem, currently our COO. I am confident the company will continue to thrive and grow under David’s dedicated and experienced leadership and Jim’s thoughtful guidance.

I invite you to look through this 2014 report and learn about other ways we are working for the future.

John Jeter
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.

A true “American Dream” business story, Hilmar Cheese Company was founded by 12 dairy farm families

Hilmar Cheese Company becomes the largest single-site cheese processor in the world

Added additional cheese processing

Constructed facilities to further process whey proteins (1992) and lactose (1994)

New Visitor Center opened

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.
## GOALS AND PROGRESS

<table>
<thead>
<tr>
<th>Category</th>
<th>Focus</th>
<th>Goals</th>
<th>2014 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>100% of reclaimed water recycled for facility landscaping, crop irrigation and internal reuse</td>
<td>Increase total amount of reclaimed water recycled for irrigation</td>
</tr>
<tr>
<td>Well Water Use Reduction</td>
<td>Minimize the amount of well water used for production</td>
<td>26% decrease in amount of well water used per thousand pounds of production from 2013</td>
<td>Continue with projects to further reduce amount of well water used for production</td>
<td></td>
</tr>
<tr>
<td>Renewable Energy</td>
<td>100% of the internally available biogas (methane) used as a fuel source</td>
<td>59% internally generated biogas (methane) was used as a fuel source in boilers; increase of 96% in the amount of biogas produced over 2013</td>
<td>Increase amount of internally generated biogas (methane) for use as a fuel source; continue to evaluate renewable energy opportunities</td>
<td></td>
</tr>
<tr>
<td>Energy Efficiency</td>
<td>Continually reduce energy use</td>
<td>5% decrease from 2013 in total amount of natural gas used per thousand pounds of product; 4% decrease from 2013 in total amount of electricity per thousand pounds of product</td>
<td>Identify areas to implement improvements</td>
<td></td>
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<tr>
<td>Air Emissions</td>
<td>Decrease the amount of greenhouse (GHG) direct emissions per thousand pounds of product</td>
<td>Total amount of greenhouse (GHG) direct emissions per thousand pounds of product remained virtually consistent with 2013</td>
<td>Evaluate renewable energy options to reduce GHG emissions</td>
<td></td>
</tr>
<tr>
<td>Solid Waste Minimization</td>
<td>Recycle and reuse to create zero waste from the material stream</td>
<td>Bailing equipment added to recycle plastic wrap</td>
<td>Continuous improvement in waste reduction</td>
<td></td>
</tr>
<tr>
<td>Package Minimization</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>
<td></td>
</tr>
<tr>
<td>Supplier Responsibility</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>Implement updated supplier audit system</td>
<td></td>
</tr>
<tr>
<td>Transportation</td>
<td>Reduce miles</td>
<td>Changed to 12-hour shifts reducing employee transportation</td>
<td>Fully utilize options to reduce impact of transportation</td>
<td></td>
</tr>
<tr>
<td>Supplier Dairy Responsibility</td>
<td>Develop and maintain relationships with supplying dairy farms who responsibly provide the highest quality milk</td>
<td>Created Dairy Animal Care Team, provided workshops for dairy farmers, completed dairy FARM reviews and provided annual recognition for quality</td>
<td>Purchase milk from dairy farms who make a priority of sustainability, animal care and quality milk</td>
<td></td>
</tr>
<tr>
<td>Category</td>
<td>Focus</td>
<td>Goals</td>
<td>2014 Progress</td>
<td>Future Plans</td>
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<td>----------------</td>
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<td>------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Employees</td>
<td>Safety</td>
<td>Decrease incidents of workplace injuries</td>
<td>3% 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>Utilize best training programs and methods</td>
<td>Established new training team and updated program</td>
<td>Update training program</td>
</tr>
<tr>
<td>Tuition</td>
<td></td>
<td>Prepare employees for new roles and advancement</td>
<td>Reimbursed more than $97,000 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>Added 70 positions and started construction on a new milk powder facility</td>
<td>Continue business success for contribution to local economies</td>
</tr>
<tr>
<td>Engagement</td>
<td>Community Philanthropy</td>
<td>Identify and contribute to projects with significant impact</td>
<td>University of Wisconsin – River Falls dairy plant renovation project</td>
<td>Continue to support youth and education, food security, health care and the arts</td>
</tr>
<tr>
<td></td>
<td>Consumer Education</td>
<td>Increase outreach</td>
<td>Added after-school tour program for K–6th Grade</td>
<td>Increase the number of guests who learn about dairy</td>
</tr>
</tbody>
</table>
Environential Stewardship

Water Use and Quality

We recover almost 100% of the water originally contained in the incoming milk. All water not captured in our finished products (cheese, whey protein and lactose) is recycled and recovered for further use.

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

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 2014.

BioGas Digester

Our water reclamation systems have biogas (methane) digesters. During anaerobic digestion, biomass (good bacteria) consume organic material in the water and transform it into methane. The methane is processed and used to fuel onsite boilers, reducing overall GHG emissions.

Solar Energy

More than 20% of the energy for the Headquarters & Innovation Center, comes from the sun. A solar field adjacent to the Hilmar, California property provides this energy.
**PROGRESS AT OUR SITES**

Information and charts presented in this section represent a combined effort for our California and Texas manufacturing facilities and our California Headquarters & Innovation Center.

**ENVELOPMENTAL STEWARDSHIP**

**Water**

<table>
<thead>
<tr>
<th>Total Usage (all water sources)</th>
<th>2013 Combined CA &amp; TX</th>
<th>2014 Combined CA &amp; TX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gallons/10^3 pounds of production</td>
<td>1,506</td>
<td>1,254</td>
</tr>
</tbody>
</table>

**Energy**

<table>
<thead>
<tr>
<th>Total Direct</th>
<th>2013 Combined CA &amp; TX</th>
<th>2014 Combined CA &amp; TX</th>
</tr>
</thead>
<tbody>
<tr>
<td>MMBTUs/10^3 pounds of production</td>
<td>1.51</td>
<td>1.44</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total Direct</th>
<th>2013 Combined CA &amp; TX</th>
<th>2014 Combined CA &amp; TX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metric tons CO₂e/10^3 pounds of production</td>
<td>0.076</td>
<td>0.076</td>
</tr>
</tbody>
</table>

**Greenhouse Gases**

<table>
<thead>
<tr>
<th>Total Direct</th>
<th>2013 Combined CA &amp; TX</th>
<th>2014 Combined CA &amp; TX</th>
</tr>
</thead>
<tbody>
<tr>
<td>Metric tons CO₂e/10^3 pounds of production</td>
<td>0.062</td>
<td>0.059</td>
</tr>
</tbody>
</table>

1 The decrease in Total Water Usage demonstrates improved operational efficiency. Less water used means less water available for recycling and, therefore, decreases Total Recycled Water.

2 Indirect energy is provided by outside sources such as electricity.

3 Indirect GHG is produced as a result of using electricity from outside sources.

**SOLID WASTE REDUCTION**

- Cardboard and office paper:
  - 2012 – 181 tons
  - 2013 – 211 tons
  - 2014 – 190 tons
  Improved cardboard packaging, and reduced the need to print through greater office document sharing

- 7.64 tons of plastic was diverted from landfill by adding bailing equipment – enabling the plastic to be recycled and used in other products

- Recycled e-waste:
  - 2013 – 3,885 lbs
  - 2014 – 9,767 lbs

We provide onsite e-waste collection days each year. This makes recycling convenient for office electronics and for employees’ personal electronics from home.
**Employee Engagement**

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

- 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 financial 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**

Five years ago, Hilmar Cheese Company had 960 positions and 66% of those employed then still work with us today. Ten years ago, we had 601 positions and of those employed at that time, 53% remain on our team. Twenty years ago, we had 173 positions and 40% of those employees continue to contribute to our success today. Reaching back almost to our start in 1989, the company had only 47 jobs and 23 of those first employees are still here today – a testament to our ability to offer challenging work and make people feel valued and appreciated.

A new corporate video features employees telling our story. Team members took time from their regular job to share their experiences and comments of why they enjoy working for Hilmar Cheese Company. The video, available in seven languages, can be found on our website under About Us.
### Employee Training

<table>
<thead>
<tr>
<th>Employee Training</th>
<th>New Hire</th>
<th>Established Employee</th>
<th>Production Supervisor Trainee</th>
<th>Operations Staff (primarily supervisors)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food Safety Training</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>New Hire Orientation</td>
<td>✓</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Cheese/Ingredient Manufacturing (equipment – skills development)</td>
<td>✓</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Standard Operating Procedures (update – new equipment)</td>
<td>✓</td>
<td></td>
<td></td>
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<tr>
<td>License Renewal</td>
<td>✓</td>
<td></td>
<td></td>
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<tr>
<td>Grade II Operator (higher skill development, troubleshooting, technical)</td>
<td>✓</td>
<td></td>
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<tr>
<td>Production Supervisor Training Program</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Leadership (business review meetings, leadership series)</td>
<td></td>
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</table>

**Total Hours of Training**
- **200-365 Hours**
  - Training and skills development are offered throughout the year; programs vary depending on employee status and job requirements
- **60-100 Hours**
  - Training and skills development are offered throughout the year; programs vary depending on employee status and job requirements
- **375-600 Hours**
  - Focus training on building strengths that address organizational needs and gaps
- **50-110 Hours**
  - Implement the option for supervisors to complete skills development program

**Future Plan**

**EMPLOYEE TRAINING**

Employees are provided company training along with the opportunity to continue their education at colleges and universities. In 2014, Hilmar Cheese Company reimbursed more than $97,000 in educational fees to help employees grow their horizons.

**EMPLOYEE SAFETY**

“People, Our Most Valuable Resource” is one of our core values. This core value extends through safety programs at every level of the company. All employees are involved in implementing health and safety initiatives.

In 2014, each department established a safety team with defined roles and responsibilities to develop and manage department safety.

Meetings are held twice each month. These teams evaluate preventative actions, department inspections, follow-up and act on department safety suggestions to eliminate hazards and review injury data.

The number of workplace injuries decreased by 3% company-wide in 2014. The number of days from employee injuries resulting in job transfer or restriction decreased from 2013 by 13%.
ECONOMIC VALUE

FOOD SAFETY RULES
Nothing is more critical than food safety. At Hilmar Cheese Company, we continuously seek the most protective and comprehensive food safety programs.

The Global Food Safety Initiative (GFSI) is a worldwide industry standard and is the system under which we operate. Early in 2014, we identified a new certification program to better challenge our methods – Safe Quality Foods (SQF). Also part of GFSI, SQF is quickly becoming the benchmark of choice for food and ingredient manufacturers. Many companies have used SQF to confirm preparedness for the USA’s Food Safety and Modernization Act (FSMA).

SQF offers key advantages:
• Outlines standards specifically for our type of dairy business
• Contains tools to perform rigorous gap analysis that we audit against monthly
• Requires each of our locations to have a “practitioner” trained and actively involved in the management of SQF
• Integrates both food safety and quality, capturing critical aspects of cheese and ingredient manufacture

Our systems must guarantee consistency, traceability and safety at every step, and signify our commitment to deliver our best each and every time.

TOTAL EXPORTS 2014
On a total volume basis, 21% of our products – cheese, whey protein and lactose, are exported.

JOB CREATION
Hilmar Cheese Company is 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 2014, we added 70 new positions. We also helped young adults prepare for their future by offering 10 paid intern positions. Additional employment was provided by our use of consultants. In 2014, we utilized the services of more than 87 outside specialists.
DAIRY ANIMAL CARE

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

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 their generosity, values and volunteer support.

Since 2011, 100% of the dairy farm families who have a supply agreement with Hilmar Cheese Company have demonstrated their dedication to the highest quality animal care through participation in the national dairy farm program called Farmers Assuring Responsible Management™ (FARM, www.nationaldairyfarm.com). Established in 2009, FARM is a nationwide, verified program that addresses dairy animal well-being.

The FARM Animal Care Reference Manual details the guidelines and best practices to:

• Practice herd health with the oversight of a veterinarian-client-patient relationship
• Train for day-to-day tasks using written standard operating procedures
• Utilize an effective record keeping system and permanent animal ID
• Meet nutritional requirements of dairy animals at all life stages
• Document that animal caretakers have signed a cow care agreement
• Handle and properly move cows and calves
• Compare animals against industry standards for body condition and movement

BEYOND FARM

In 2014, Hilmar Cheese Company formed a Dairy Animal Care Team. This team identified specific mandatory FARM animal care components and adopted a policy that required annual FARM evaluations for dairy farms that directly ship milk to Hilmar Cheese Company.

The committee also developed workshops for our supplying dairy farm families to learn how to better document their dairy animal care. Dairy farmers work hard to take great care of their cows; now, documentation will help them tell their story.
Hilmar Cheese Company gift baskets, cheese and funds benefit our local communities. Company owners and employees dedicate hundreds of volunteer hours and resources. We don’t just work in Dalhart or Hilmar, we live in these places, too, and want to help make them great communities.

**IMPROVING COMMUNITY RESOURCES**

We donate cheese, milk and financial assistance for local food programs:

- Hilmar Helping Hands
- Merced County Rescue Mission
- Turlock Gospel Mission
- Salvation Army
- Snack Pak 4 Kids
- Dalhart Good Samaritan
- St. Anthony’s Ministry

**DEDICATION TO THE ARTS**

Music, plays, productions and events enrich people’s lives. Our support of the arts helps bring nationally acclaimed and locally produced arts to our communities:

- Gallo Center for the Arts
- Modesto Symphony
- Turlock Community Theater
- Carnegie Arts Center
- Dallam-Hartley Counties Museum
HEALTHIER LIVES

Relay for Life is the American Cancer Society’s event to raise awareness and funds for cancer. Both Hilmar and Dalhart sites have teams that collected donations, organized booths and events, and walked during the 2014 Relay for Life to raise $42,000.

Gift baskets and cheese were donated to many events to benefit local Hospice and other care programs.

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

- American Red Cross
- Dallam-Hartley Counties Healthcare Foundation
- Emanuel Medical Center
- International Red Cross
- Walk to Defeat ALS (Amyotrophic Lateral Sclerosis, or Lou Gehrig’s Disease)

INSPIRING YOUNG MINDS

Educational exhibits in the Dalhart XIT Museum and our California Visitor Center help people better understand dairying. With less than 1% of the US population having any direct connection with a farm, it is critical for a continuing food supply that people have an appreciation of agriculture.

Additional support for education comes from the Hilmar Cheese Company annual scholarship program. This program assists 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, FFA and Scouts
- Youth activities and sports
- Libraries in our communities
- Local colleges and junior colleges
- Universities with dairy processing programs
Headquarters & Innovation Center
8901 North Lander Avenue, P.O. Box 910, Hilmar, CA 95324 USA
T: 209.667.6076
hilmarcheese.com and hilmaringredients.com

Hilmar Manufacturing Site
9001 North Lander Avenue, P.O. Box 910, Hilmar, CA 95324 USA
T: 209.667.6076

Turlock Manufacturing Site (Opening Winter 2015)
3600 West Canal Drive, Turlock, CA 95380 USA
Mail: P.O. Box 910, Hilmar, CA 95324 USA
T: 209.667.6076

Dalhart Manufacturing Site
12400 US Highway 385, P.O. Box 1300, Dalhart, TX 79022 USA
T: 806.244.8800

Visitor Center at Hilmar Cheese Company
9001 North Lander Avenue, P.O. Box 910, Hilmar, CA 95324 USA
T: 209.656.1196 or 800.577.5772
visithilmarcheese.com