At Hilmar Cheese Company we improve lives around the world by being a leading producer of wholesome dairy products that contribute to the success of all stakeholders.
WELCOME TO HILMAR CHEESE COMPANY

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

Hilmar Cheese Company, Inc. and its division, Hilmar Ingredients, serve customers in more than 50 countries. State-of-the-art production facilities in California and Texas convert high-quality milk received from local, independent dairy farms into a variety of nutritious cheese, whey ingredients and milk powders.

Committed to continuous improvement, innovation and sustainability, Hilmar Cheese Company strives to make products that benefit all involved from our customers and our suppliers to our employees and communities. Together, we deliver the promise of dairy.

HIGHLIGHTS OF 2015
Reflecting our commitment to the environment, the community and our employees

Received the 2015 Outstanding Dairy Processing & Manufacturing Sustainability award from Innovation Center for U.S. Dairy

Completed construction on third manufacturing site – milk powder facility, Turlock, California

100% of our reclaimed water is recycled and reused, most for crop irrigation

16th annual holiday canned food drive brought record number of donations

34 students received college scholarships from Hilmar Cheese Company

The information presented reflects data collected for 2015.

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SCOPE OF THIS REPORT
This report for calendar year 2015 is our sixth 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 NEW CEO

We transitioned to new executive and board leadership, implemented SAP – our new enterprise system, and completed construction of our new milk powder facility in Turlock, California. None of this would have been possible without great people. Our employees and their hard work were recognized by receiving the 2015 Outstanding Dairy Processing & Manufacturing Sustainability award. Please look through this, our sixth annual report, to learn more about our progress.

David Ahlem

2015 was a year of very big things at Hilmar Cheese Company and Hilmar Ingredients as our business grows in size and complexity.

Left to right: Tony Pallios, VP/GM Ingredients; Jeremy Travis, VP Quality & Operations; Tedd Stuckmeyer, VP Engineering; Kevin Vogt, CFO; Kyle Jensen, VP/GM Cheese; David Ahlem, President & CEO; and Frank Fierro, VP Human Resources
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, the founders of Hilmar Cheese Company

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

New California Visitor Center opened

A new milk receiving area was built to improve efficiency and accommodate additional milk trucks

Added additional cheese processing

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

At Hilmar Cheese Company we improve lives around the world by being a leading producer of wholesome dairy products that contribute to the success of all stakeholders.

OUR CULTURE

Relationship Integrity

TEAMWORK Improvement

EXCELLENCE

Grand opening of Texas manufacturing site

100% of dairy farm families who have a supply agreement with Hilmar Cheese Company are FARM™* certified for dairy animal care

Headquarters & Innovation Center opens and is designated LEED Platinum*

Launched Hilmar Ingredients to market whey products

Hilmar Ingredients is named Dairy Exporter of the Year

Production of lactoferrin, a bioactive whey protein

Ribbon cutting ceremony at milk powder facility, Turlock, CA

*Farmers Assuring Responsible Management
<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>FOCUS</th>
<th>GOALS</th>
<th>2015 PROGRESS</th>
<th>FUTURE PLANS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental</td>
<td>Recycled Water for Irrigation</td>
<td>100% of reclaimed water is recycled for irrigation</td>
<td>100% of reclaimed water was recycled for facility landscaping, crop irrigation and internal reuse. Total amount increased by 4%.</td>
<td>Increase the total volume of reclaimed water available for irrigation</td>
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<tr>
<td>Stewardship</td>
<td></td>
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</tr>
<tr>
<td>Well Water Use</td>
<td>Minimize the amount of well water</td>
<td>4% increase from 2014 in the amount of well water used per thousand</td>
<td>4% increase from 2014 in the amount of well water used per thousand pounds of production. Internal projects are being evaluated for implementation to reduce the amount of well water used for production.</td>
<td>Implement strategies to minimize well water use for production</td>
</tr>
<tr>
<td>Use Reduction</td>
<td>used for production</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Renewable Energy</td>
<td>100% of the internally available</td>
<td>22% increase from 2014 in the amount of biogas (methane) produced; 43%</td>
<td>Increase amount of internally generated biogas (methane) for use as a fuel source and continue to look for and evaluate other renewable energy opportunities</td>
<td>Increase amount of internally generated biogas (methane) for use as a fuel source and continue to look for and evaluate other renewable energy opportunities</td>
</tr>
<tr>
<td></td>
<td>biogas (methane) used as a fuel</td>
<td>used as a fuel source in boilers</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>source</td>
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<tr>
<td></td>
<td>Continually reduce energy use</td>
<td>9% increase from 2014 in the total amount of natural gas used per thousand pounds of product; 4% increase from 2014 in total amount of electricity per thousand pounds of product due to new product mix</td>
<td>Implement strategies to decrease energy use</td>
<td>Implement strategies to decrease energy use</td>
</tr>
<tr>
<td>Energy Efficiency</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Air Emissions</td>
<td>Decrease the amount of greenhouse</td>
<td>4% increase from 2014 in greenhouse (GHG) direct emissions per</td>
<td>4% increase from 2014 in greenhouse (GHG) direct emissions per thousand pounds of product due to new product mix</td>
<td>Evaluate new renewable energy options to reduce GHG emissions</td>
</tr>
<tr>
<td></td>
<td>(GHG) direct emissions per</td>
<td>thousand pounds of product</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>thousand pounds of product</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Solid Waste</td>
<td>Recycle and reuse to reduce waste</td>
<td>Installed additional plastic shrink-wrap bailer</td>
<td>Evaluate opportunities for further minimization</td>
<td>Evaluate opportunities for further minimization</td>
</tr>
<tr>
<td>Minimization</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supplier Responsibility</td>
<td>Develop and maintain relationships</td>
<td>Reviewed sustainability programs of key production material suppliers</td>
<td>Implement updated supplier audit system</td>
<td>Implement updated supplier audit system</td>
</tr>
<tr>
<td></td>
<td>with suppliers who have</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>similar sustainability goals</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transportation</td>
<td>Reduce miles</td>
<td>Worked to reduce employee vehicle miles with Commute Connection</td>
<td>Evaluate and implement options to reduce impact of transportation</td>
<td>Evaluate and implement options to reduce impact of transportation</td>
</tr>
<tr>
<td>Supplier Dairy</td>
<td>Develop and maintain relationships</td>
<td>Developed and implemented Leadership in Environmental And Dairy Stewardship (LEADS) program</td>
<td>Increase regular dairy farm evaluations</td>
<td>Increase regular dairy farm evaluations</td>
</tr>
<tr>
<td>Responsibility</td>
<td>with milk suppliers who have similar sustainability goals</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CATEGORY</td>
<td>FOCUS</td>
<td>GOALS AND TIMING</td>
<td>2015 PROGRESS</td>
<td>FUTURE PLANS</td>
</tr>
<tr>
<td>----------------</td>
<td>---------------------</td>
<td>----------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Employees</td>
<td>Safety</td>
<td>Decrease incidents and severity of workplace injuries</td>
<td>17.2% decrease from 2014 in severity of workplace injuries; 8.5% decrease from 2014 in overall total of 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 “Hilmar Way” training</td>
<td>Update materials to version 2.0</td>
<td>Implement Hilmar Way 2.0 Training for all employees</td>
</tr>
<tr>
<td>Tuition</td>
<td></td>
<td>Prepare employees for new roles and advancement</td>
<td>Reimbursed employees more than $125,000 in higher education fees</td>
<td>Grow program to further develop talent</td>
</tr>
<tr>
<td>Economic</td>
<td>Jobs and Local Support</td>
<td>Stимulate the local economy</td>
<td>Added 73 positions and completed construction on 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>Contributed to Merced County Fair Spring Heritage Foundation for educational facility</td>
<td>Continue to support youth and education, food security, health care, agriculture and the arts</td>
</tr>
<tr>
<td></td>
<td>Consumer Education</td>
<td>Increase consumer outreach</td>
<td>Visitor Center’s adult guest survey indicated 97% learned something new about dairy farming during the tour</td>
<td>Increase the number of guests and improve what they learn about dairy</td>
</tr>
</tbody>
</table>
Facilities in Hilmar and Dalhart 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

**BIOGAS DIGESTER**

Our Hilmar and Dalhart 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.
## Environmental Stewardship

### 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.

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.

### Water (all water sources)

<table>
<thead>
<tr>
<th>Total Usage</th>
<th>Gallons/10^3 pounds of production</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,506</td>
<td>1,232</td>
</tr>
</tbody>
</table>

Using less water overall so less water for recycling.

### Energy

<table>
<thead>
<tr>
<th>Total Direct</th>
<th>MMBTU/10^3 lbs. of production</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.44</td>
<td>1.50</td>
</tr>
</tbody>
</table>

Energy increased due to product diversification and more complex manufacturing.

### Greenhouse Gases

<table>
<thead>
<tr>
<th>Total Direct</th>
<th>Metric tons CO₂e/10^3 lbs. of production</th>
</tr>
</thead>
<tbody>
<tr>
<td>0.076</td>
<td>0.080</td>
</tr>
</tbody>
</table>

Energy use increased due to product diversification and more complex manufacturing.

### Resource Recovery and Solid Waste Reduction

<table>
<thead>
<tr>
<th>Cardboard &amp; Office Paper</th>
<th>(in tons)</th>
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<tbody>
<tr>
<td>190</td>
<td>242</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Plastic</th>
<th>(in tons)</th>
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<tbody>
<tr>
<td>7.64</td>
<td>8.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Recycled e-Waste</th>
<th>(in pounds)</th>
</tr>
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<tbody>
<tr>
<td>9,767</td>
<td>5,436</td>
</tr>
</tbody>
</table>

An additional shrink wrap bailer increased plastic recycling.
TAKING CARE OF OUR EMPLOYEES AND THEIR FAMILIES
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 EDUCATION
Employees are provided company training along with the opportunity to continue their education at colleges and universities. In 2015, Hilmar Cheese Company reimbursed more than $125,000 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.

The company-wide total of workplace injuries decreased by 8.5% and the severity of workplace injuries decreased by 17.2% compared to 2014.

EMPLOYEE RETENTION
As our company has grown, we have added positions. We calculate tenure based on the number employed in a particular year who still work with us today (shown by %) against the positions available that year. We strive to make people feel valued, appreciated and part of our team. 2015 marked our 31st year in business and saw the retirement of long-term employees, many of whom had been with us almost since the start.
EMPLEYEE TRAINING

One of the key reasons for our success is the dedication, hard work and competency of our employees. Therefore, a sound strategy for the future must include a solid, yet dynamic, infrastructure supporting the growth of our people. This is the function of The Hilmar Way. The Hilmar Way outlines our Development Model and explains how the Purpose and Culture integrates into our day-to-day work. Most importantly, it provides employees with a guide and tools to develop into strong and effective leaders of themselves and of others within the organization.

The Hilmar Way also contains a special component called the Hilmar Cheese Company Academy. This is a company-wide program to create more engaging and efficient training opportunities for all employees. With over 600 hours of available training classes, certifications and advancement programs, the Hilmar Cheese Company Academy gives our employees the know-how and skills to go further and get more from their job.
In the fall of 2015, we moved to a new business system called SAP. A highly respected and functional system, SAP is run by companies around the world, including many of our customers and suppliers. This transition is based on our philosophy of continued improvement. With SAP, we have greater flexibility and insight for our business processes, allowing us to improve our service and knowledge-sharing. We’ve also gained advances in food safety reporting. In particular, SAP allows us to have all information surrounding a product available in one channel. We’ve got a one-stop shop for traceability. Traceability is extremely important to safeguard the world’s food supply. The FDA has specifically called out strict traceability requirements in the Food Safety and Modernization Act (FSMA). Our program exceeds these requirements.

We can trace an individual ingredient – one scoop of salt, for example, and quickly follow it completely through the manufacturing process, shipping and pinpointing its final location in a product at a customer’s warehouse. We can do this not just for salt, but for 100% of our raw ingredients. And we can trace the other way, too, beginning with the product in a warehouse and following it back, through production, to find that one scoop of salt.
On the Farm

LEADS

We believe sustainability is a daily commitment to caring for people, our communities and our natural resources – while never forgetting the importance of providing affordable, nutritious dairy foods for consumers around the world. We share this belief with the dairy farm families who supply us and they understand it includes the responsibility of appropriate dairy animal care and farm land management. This belief spurred the formation of Hilmar Cheese Company LEADS – Leadership in Environmental And Dairy Stewardship. Our team of dairy farmers, employees and company owners worked together to create the LEADS program and its objective of continuous improvement in animal care and sustainable farming practices.

Dairy Animal Care

The cornerstone of LEADS is our dairy animal care requirements. These rest on the Farmers Assuring Responsible Management (FARM™️) program. In 2011, Hilmar Cheese Company became the first U.S. dairy processor to have 100% of the dairy farm families who have supply agreements with us participate in the FARM program. FARM is a nationwide, verifiable animal well-being program developed in partnership with veterinarians, dairy farmers and university researchers. Through education, on-farm evaluations and objective, third-party verification, the FARM Animal Care Manual identifies best practices for all areas of dairying. In 2015, an emphasis was placed on cow care agreements and standard operating procedures for common dairy practices.

Hilmar Jersey

The International Dairy Foods Association recognized Hilmar Jerseys, one of the dairy farms that supply us, as the Innovative Dairy Farm of the Year for providing employee Low Energy Animal Handling (L.E.A.H.) training and creating a culture of cow care.

Fanelli Dairy Farm

In partnership with Sustainable Conservation and the USDA Natural Resources Conservation Services, Fanelli Dairy is involved in a research project using worms to aid in manure management.

Photo courtesy of Paolo Vescia
COMMUNITY ENGAGEMENT

Hilmar Cheese Company gift baskets and donations of 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, Hilmar or Turlock, we live in these places, too, and want to help make them great communities. Listed here are some of the community focus areas we support.

Community Resources
- Dalhart Good Samaritan
- Hilmar Helping Hands
- Merced County Rescue Mission
- Salvation Army
- St. Anthony’s Food Ministry
- Turlock Gospel Mission
- Turlock United Samaritans Foundation

The Arts
- Carnegie Arts Center
- Dallam-Hartley Counties Museum
- Gallo Center for the Arts
- Modesto Symphony
- Turlock Community Theatre
Inspiring Young Minds

• 4-H, FFA and Scouts
• California Foundation for Agriculture in the Classroom
• Local colleges and junior colleges
• Hilmar Cheese Company Scholarship Program
• Universities with dairy processing programs
• Youth activities and sports

Agricultural Outreach

• California Jersey Association
• California Holstein Association
• California Women for Agriculture
• County and state fairs
• Farm bureaus
• Texas Jersey Cattle Club