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.
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.
Popular wisdom says a dog’s year equals seven human years. This also applies to my first year as CEO – we’ve accomplished so much, it feels like seven years have passed, not just one. If I had to select highlights from 2016, they would include our continued work to efficiently use water and energy, and a company-wide employee survey along with its follow-up action plan. Both of these touch at the core of what makes us a successful, sustainable business.

Water conservation is the right thing to do, especially for those in California and other water-stressed states. Our incoming milk offers a source of water, 87% of milk is water, and we make an effort to capture and reuse this water so that we require less from outside sources.

We recover almost 100% of the water in the incoming milk. Over the last six years, we have implemented new technology to reclaim water and use it more efficiently for facility washing and for irrigation at local farms.

We do something similar for energy with a new cogeneration plant at our Turlock, CA, facility. Cogeneration is the production and use of energy and heat. Our plant helps offset our need for energy from the grid and contributes to the steam required for our milk powder production.

Company sustainability also comes from hiring and retaining the best employees. In 2016, we undertook a survey of all employees to better understand what working at Hilmar Cheese Company means to them and where we can make positive impacts on our work environment. As we take action from the feedback, I expect 2017 and the years beyond will be every bit as full of accomplishments as 2016.

David Ahlem
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.
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

Hilmar Ingredients is named Dairy Exporter of the Year

Headquarters & Innovation Center opens and is designated LEED Platinum*

Production of lactoferrin, a bioactive whey protein

Ribbon cutting ceremony at milk powder facility, Turlock, CA

*Farmers Assuring Responsible Management


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

DALHART, TX, FACILITY

TURLOCK, CA, FACILITY
<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>FOCUS</th>
<th>GOALS</th>
<th>2016 REPORT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Stewardship</td>
<td>Energy Intensity</td>
<td>Reduce energy use per thousand pounds of product</td>
<td>The total amount of natural gas and electricity used per thousand pounds of product increased slightly over 2015. Production of biogas (methane) increased 9% from 2015. We continue to evaluate other renewable energy opportunities for improving energy efficiency, where possible, and to evaluate potentially applicable renewable energy options such as cogeneration.</td>
</tr>
<tr>
<td>Greenhouse Gas Intensity</td>
<td>Decrease the amount of greenhouse (GHG) direct emissions per thousand pounds of product</td>
<td>Greenhouse gas (GHG) emissions remained virtually constant from 2015 in GHG direct emissions per thousand pounds of product. Product mix impacts GHG and is part of our evaluation. Explore additional options and alternatives that have a direct impact on reducing overall GHG emissions.</td>
<td></td>
</tr>
<tr>
<td>Water Use and Efficiency</td>
<td>Minimize the amount of well water used for production</td>
<td>The amount of well water used per thousand pounds of product increased over 2015. Additional emphasis will be placed on the identification and assessment of projects to reduce the use of well water.</td>
<td></td>
</tr>
<tr>
<td>Water Recycling &amp; Reuse</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 of water for this increased by 13%. We continue to evaluate increased opportunities to use reclaimed water.</td>
<td></td>
</tr>
<tr>
<td>Resource Recovery</td>
<td>Reduce and recycle to optimize recovery</td>
<td>Resources are now purchased through a centralized enterprise management system. We are establishing a centralized database to report on resource recovery in 2017.</td>
<td></td>
</tr>
<tr>
<td>Supplier Responsibility</td>
<td>Develop and maintain relationships with suppliers who have similar sustainability goals</td>
<td>We continue to audit and work with our suppliers</td>
<td></td>
</tr>
<tr>
<td>Supplier Dairy Responsibility</td>
<td>Develop and maintain relationships with supplying dairy farms who have similar sustainability goals</td>
<td>100% of direct ship dairies participate in our Leadership in Environmental And Dairy Stewardship (LEADS) program. We continue to review and update the LEADS program, and assist dairies to meet new requirements of FARM Animal Care Version 3.0.</td>
<td></td>
</tr>
<tr>
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<td>FOCUS</td>
<td>GOALS</td>
<td>2016 REPORT</td>
</tr>
<tr>
<td>-------------------</td>
<td>----------------------------</td>
<td>----------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Employee Investment</td>
<td>Safety</td>
<td>Decrease incidents and severity of workplace injuries</td>
<td>A 4% decrease in lost work day injuries from 2015; however an increase in severity and total workplace injuries. We continue to monitor monthly safety key performance indicators, emphasize safety teams and focus on improving safety.</td>
</tr>
<tr>
<td>Training</td>
<td>Improve training programs and opportunities</td>
<td>Implemented Academy Days with plans to increase and vary employees’ opportunities for learning. Implement Hilmar Way 2.0 training for all employees in 2017.</td>
<td></td>
</tr>
<tr>
<td>Tuition</td>
<td>Prepare employees for new roles and advancement</td>
<td>Reimbursed employees more than $109,000 in higher education fees with plans to continue this program in 2017</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CATEGORY</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Economic</td>
<td>Jobs and Local Support</td>
<td>Stimulate the local economy</td>
<td>Added 45 positions and started construction on a permeate plant in Texas with plans to hire additional staff in 2017</td>
</tr>
<tr>
<td>Engagement</td>
<td>Community Philanthropy</td>
<td>Identify and contribute to projects with significant impact</td>
<td>Supported Valley Children’s Hospital Modesto Specialty Care. We continue to support youth and education, food security, health care, arts and agriculture.</td>
</tr>
<tr>
<td>Consumer Education</td>
<td>Increase consumer outreach</td>
<td></td>
<td>More than 15,000 students participated in our educational program. 98% of adult guests surveyed indicated the tour helped them learn about Hilmar Cheese Company’s water conservation and recycling efforts. We are focused on increasing the number of guests and improving messages about beneficial use of technology in agriculture.</td>
</tr>
</tbody>
</table>
WATER USE AND QUALITY

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 greenhouse gas emissions.
Information and charts presented in this section represent a combined effort for our Hilmar and Dalhart manufacturing facilities and our Hilmar Headquarters & Innovation Center.

1 Total water usage correlates to total recycled water. More water used, more available to recycle.
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

A key step in optimizing resources is finding ways to use less of them to begin with. Our electronic waste in 2016 is a good example. With careful planning and maintenance, we were able to use fewer electronic components over the year. Therefore, while all of our electronic waste is recycled, in 2016 we needed to recycle less.

Our report follows the guidelines established by the Innovation Center (IC) for U.S. Dairy. In 2016, the IC Sustainability Framework introduced a new metric for resource recovery. The new indicators include waste diversion, throughput efficiency and resource utilization. Our next report covering 2017 will include these calculations.
TAKING CARE OF OUR EMPLOYEES AND THEIR FAMILIES

Hilmar Cheese Company offers its employees a competitive wage and benefit-rich health and welfare program. In addition to our comprehensive health plan that includes medical, dental, vision, prescription and hospitalization coverage, with low out-of-pocket expense, we offer the following benefits:

- A 401(k) Retirement Savings Program with Financial Advisory Services
- Nutrition and Weight Management Counseling, Including Weight Watchers™
- Reduced Rate Memberships at Local Gyms
- Annual Benefit Fairs and Flu Shot Clinics
- Telephonic Medical Consultations
- Employee Assistance Program
- Chaplaincy Support and Professional Coaching
- Life and Disability Benefits
- Supplemental Life Insurance Offerings
- Flexible Spending Account Programs
- Educational Assistance Benefits

These programs are available to benefit-eligible employees and some are made available to all employees, regardless of full-time status.

Hilmar Cheese Company employees also enjoy:

- Discounts on cheese and items sold in our Visitor Center
- Dairy farm tours to educate about milk practices, animal health and agriculture
- Family activities, including BBQs and swim nights at community pools

EMPLOYEE SAFETY

Our employees are actively involved in safety programs at all levels. Department safety teams meet monthly and hazards are reported. The company-wide total of lost work day injuries decreased by 4% from 2015. However, there was an increase of 26% in the severity of workplace injuries and an increase of 7% in total workplace injuries compared to last year. New safety measures have been implemented including safety training videos. Actions set for 2017 include plans to decrease overtime hours and to have succinct, repeatable safety training on new equipment.

EMPLOYEE RETENTION

We strive to make our employees feel valued, appreciated and part of our team. As our company matures, we transition with retirements of many long-term employees.

With Us For

<table>
<thead>
<tr>
<th>Tenured Employees</th>
<th>5 years</th>
<th>10 years</th>
<th>15 years</th>
<th>20+ years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Positions available</td>
<td>1145</td>
<td>683</td>
<td>448</td>
<td>243</td>
</tr>
<tr>
<td>2011</td>
<td>60%</td>
<td>52%</td>
<td>45%</td>
<td>37%</td>
</tr>
<tr>
<td>2006</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2001</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>1996</td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

49% Total Employee Population with 5+ Years Tenure

57 Employees Promoted from Within
EMPLOYEE EDUCATION

Employees are provided company training along with the opportunity to continue their education at colleges and universities. In 2016, Hilmar Cheese Company reimbursed more than $109,000 in educational fees to help employees grow their horizons.

EMPLOYEE OPPORTUNITIES

Dedicated, competent and hardworking employees make us successful. To keep our employees engaged, we strive to provide them with opportunities for growth and success. In addition to the required personal safety, food safety, equipment operation and job certifications, Hilmar Cheese Company offers much more for personal development.

The Hilmar Way outlines our Development Model and explains how our Purpose and Culture integrate into our day-to-day work.

Hilmar Cheese Company Academy offers more than 600 hours of available training classes, certifications and advanced programs, including:

• Hilmar Way 2.0
• Crucial Conversations® from VitalSmarts®
• Holding Others Accountable
• Diversity in the Work Place
• Talent Acquisition Training
• Time & Priority Management for Production Supervisors
• Performance Review Process Training

Employee events provide opportunities to gather for great food and fun. Cross-functional teams train together to create a stronger safety environment. Annual holiday gifts show company appreciation for employees.
Hilmar Cheese Company staff participated with other dairy industry peers in development and adoption of the Innovation Center for U.S. Dairy’s U.S. Dairy Traceability program.

Traceability is the ability to track a product through supplier, production, processing and distribution. The new industry guidelines focus on receiving, warehouse, processing, CIP (Clean in Place), final products and records. The goal is to help companies create and maintain a traceability program that will satisfy future traceability requirements that may be demanded by customers or derived from recommendations made by the Food and Drug Administration to Congress under the Food Safety Modernization Act (FSMA). It also will help companies align their traceability records to assure robust product hold and release programs.

Participating in the U.S. Dairy Traceability program reinforces Hilmar Cheese Company’s already strong quality management system. Our program is based on continuous improvement and is designed to meet stringent domestic and international requirements with consistency, traceability and responsiveness at every step. Along with participation in the U.S. Dairy Traceability program, our system includes:

- HACCP
- Safe Quality Foods (SQF) Level 3 certified, Global Food Safety Initiative (GFSI) compliant
- Third-party audited
- USDA & FDA approved plants
- EU certified
- Kosher
- Halal
Leadership in Environmental And Dairy Stewardship (LEADS) is Hilmar Cheese Company’s program of continuous improvement in animal care and sustainable farming practices. 100% of the dairy farm families who have supply agreements with Hilmar Cheese Company participate in LEADS. They share our belief that 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.

DAIRY ANIMAL CARE

The national Farmers Assuring Responsible Management (FARM™) program is the foundation of our LEADS dairy animal care requirements. FARM is a nationwide, verifiable dairy animal well-being program developed in partnership with veterinarians, dairy farmers and university researchers. Through education, on-farm evaluations and objective, third-party verification, dairy farmers continually improve all areas of dairy animal care.

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. With five years of FARM experience and the additional requirements found in our LEADS program, our supplying dairies are well prepared for the new FARM Animal Care Version 3.0 evaluations to take place in 2017.

Clauss Dairy Farm and Avi-Lanche Jerseys opened their dairy farms for Hilmar Cheese Company employees and their families to experience dairy farming.

Congratualtions to Cheese Champ Ivy Star Dairy, LLC and the Cheese Yield Increase winner L&L Pires Dairy. Both dairies emphasize cow comfort and have a focus on resource management for improved efficiency.
Hilmar Cheese Company invests significantly in consumer outreach. Our exhibits in the Dalhart XIT Museum and our California Visitor Center teach thousands about dairy farming and cheese and whey processing. Our education team attends many school career days and agriculture learning days.

We also give back to our local communities with donations of cheese, funds and hundreds of volunteer hours. Listed here are some of the community focus areas we support.

COMMUNITY ENGAGEMENT

Community Resources

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

The Arts

- Carnegie Arts Center
- Dallam-Hartley Counties Museum
- Gallo Center for the Arts
- Modesto Symphony
- Turlock Community Theatre
Healthier Lives

- American Red Cross
- Dallam-Hartley Counties Healthcare Foundation
- Emanuel Medical Center Foundation
- Mercy Medical Foundation
- Relay for Life for American Cancer Society
- Valley Children’s Hospital

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