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 cheeses, 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.

The information presented reflects data collected for 2017.

HIGHLIGHTS OF 2017
Reflecting our commitment to the environment, the community and our employees

- Completed construction on a permeate facility in Dalhart, Texas
- 100% of our reclaimed water is recycled and reused, most for crop irrigation
- 18th annual holiday canned food drive brings more than 3,000 cans for three local food banks
- More than $36,500 raised to fight cancer
- 40 students received college scholarships from Hilmar Cheese Company

CONTENTS
The Company
Letter from CEO 3
Our History 4
Our Purpose & Culture 5
Goals and Report 6
Environmental Stewardship 8
Our Employees 10
Economic Value 12
On the Farm 13
Community Engagement 14

SCOPE OF THIS REPORT
This report for calendar year 2017 is our eighth annual report. It reflects the total company efforts from our Dalhart, Texas, manufacturing site, Turlock, California, manufacturing site and Hilmar, California, manufacturing site and Headquarters & Innovation Center.

This report follows the industry-adopted Stewardship and Sustainability Framework for U.S. Dairy (www.usdairy.com), a voluntary guide 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.
As I look back over our business, I find each year seems to have a theme. For 2017, the idea of “connection” stands out.

Many of our efforts during the year centered on strengthening the connection of our employees to the company, our products to the needs of our market and our business to a sustainable planet.

Employee connection is essential to our culture and success. It’s an eternal goal and requires ongoing attention to match the evolving needs of our people. Over the past year, we’ve taken deliberate action based on employee survey feedback and focused on communication and leadership. We’ve encouraged more conversation between employees and management through Manager Walkabouts and Vice President Round Tables and enabled better leadership through a Leadership Training & Certification program constructed to support all employee levels.

Marketplace needs don’t remain static any more than employee needs do and we’ve been equally deliberate about evolving products that create connection to our customers. We are investing in new cheeses with distinctive flavors that deliver innovation to pizza toppings, deli slices, burgers and savory cheese trays. Our Ingredient scientists are exploring a dairy fat component that helps support cognitive development, a critical component for early infant nutrition.

Sustainability continues to reach further into all areas of our business. This year we added resource recovery reporting using the EPA’s waste management and food recovery hierarchy. A wide-ranging set of metrics, the hierarchy enables us to look for ways to reduce what we need in the first place and then recycle or reuse as much as we can.

Thank you for taking the time to learn about Hilmar Cheese Company and providing us with one more good connection.

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.

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

A true “American Dream” business story, the founders of Hilmar Cheese Company

Added additional cheese processing

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

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

Launched Hilmar Ingredients to market whey products

New California Visitor Center opened
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 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**

**Dalhart, TX, Facility**

**Turlock, CA, Facility**

- 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
  
  *Farmers Assuring Responsible Management
- Headquarters & Innovation Center opens and is designated LEED Platinum™
- Production of lactoferrin, a bioactive whey protein
- Hilmar Ingredients is named Dairy Exporter of the Year
- Received the 2015 Outstanding Dairy Processing & Manufacturing Sustainability award from Innovation Center for U.S. Dairy
- U.S. Dairy Sustainability Award Winner
- Completed construction on a permeate facility in Dalhart, Texas
- Dalhart site celebrates 10 years
- 2014 - 2017 construction on a permeate facility in Dalhart, Texas
<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>FOCUS</th>
<th>GOALS</th>
<th>2017 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 2016 due to a more complex product mix. Boilers in Hilmar and Dalhart continue to use biogas (methane) as a fuel source. Slight decrease of 3% from 2016 in the total amount of biogas generated. The CoGeneration plant in Turlock significantly reduced purchased electricity in 2017 vs. 2016. We continue to evaluate other renewable energy opportunities for improving energy efficiency, where possible, and continue to evaluate potentially applicable renewable energy options.</td>
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<tr>
<td>Greenhouse Gas Intensity</td>
<td>Decrease the amount of greenhouse gas (GHG) direct emissions per thousand pounds of product</td>
<td>Indirect greenhouse gas (GHG) emissions remained virtually constant from 2016. Direct greenhouse gas emissions increased slightly per thousand pounds of product due to new product mix. We continue to evaluate options and alternatives that have a direct impact on reducing overall GHG emissions.</td>
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<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 3% over 2016. Additional emphasis will be placed on the identification and assessment of projects to reduce the use of well water.</td>
<td></td>
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<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 increased by 12%, with the amount per 1,000 pounds of total production increasing by 6.5%. We will evaluate ways to increase opportunities to use reclaimed water.</td>
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<tr>
<td>Resource Recovery</td>
<td>Reduce and recycle to optimize recovery</td>
<td>This is our first report to track using recovery indicators. We divert almost 99% of solid waste from a landfill. We improved throughput efficiency with less waste per unit of production. We will evaluate options to improve resource recovery.</td>
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<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>
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<tr>
<td>Supplier Dairy Responsibility</td>
<td>Develop and maintain relationships with suppliers who have similar sustainability goals</td>
<td>100% of direct ship dairies participate in the Leadership in Environmental And Dairy Stewardship (LEADS) program. We will review and update the LEADS program regarding environmental sustainability.</td>
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### GOALS AND REPORT

<table>
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<tbody>
<tr>
<td>Employee Investment</td>
<td>Safety</td>
<td>Decrease incidents and severity of workplace injuries</td>
<td>The company-wide Days Away, Restricted or Transferred (DART) rate remained the same for 2016 and 2017. We continue to monitor monthly safety key performance indicators, emphasize safety teams and focus to improve safety.</td>
</tr>
<tr>
<td>Training</td>
<td>Improve training programs and opportunities</td>
<td>Implemented Leadership Development Certification Program. Continue to grow training and leadership.</td>
<td></td>
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<tr>
<td>Tuition</td>
<td>Prepare employees for new roles and advancement</td>
<td>Reimbursed employees more than $122,947 in higher education fees and plan to continue this program.</td>
<td></td>
</tr>
<tr>
<td>Economic</td>
<td>Jobs and Local Support</td>
<td>Stimulate the local economy</td>
<td>Added 82 positions and completed construction on a permeate plant.</td>
</tr>
<tr>
<td>Engagement</td>
<td>Community Philanthropy Identify and contribute to projects with significant impact</td>
<td>Supported the American Red Cross for disaster relief. Continue to support youth and education, food security, health care, arts and agriculture.</td>
<td></td>
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<td></td>
<td>Consumer Education Increase consumer outreach</td>
<td>More than 15,000 students participated in our Visitor Center educational program. Another 2,000 were reached through ag days and career days.</td>
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Information and charts presented in this section represent a combined effort for all three manufacturing sites and our Hilmar Headquarters & Innovation Center. In our 2016 report, the combined numbers did not include our Turlock manufacturing site, so the 2016 numbers on last year’s report are different than this year’s report.

In 2017, the Innovation Center for U.S. Dairy added new indicators for resource recovery to the Stewardship and Sustainability Framework for U.S. Dairy. It is based on the U.S. Environmental Protection Agency’s Waste Management and Food Recovery Hierarchies.

1 Improvements to the water polishing system increased recycled water
2 Indirect energy is provided by outside sources such as electricity
WATER USE AND QUALITY

Each of the three manufacturing facilities have a Water Polisher. Cheese and ingredients production mostly use the solids in the milk. We capture almost 100% of the water that was originally part of the milk. This recycled polished water is used to wash facilities and equipment.

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.
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
- Telephonic Medical Consultations
- Nutrition and Weight Management Counseling, including Weight Watchers®
- Reduced rate memberships at local gyms
- Annual Benefit Fairs and Flu Shot Clinics
- Employee Assistance Program
- Chaplaincy Support and Professional Coaching
- Life and Disability Benefits
- Supplemental Life Insurance offerings
- Flexible Spending Account Programs
- Educational Assistance benefits
- Paid time off including vacation and floating holidays

Most of these programs are available to benefit-eligible employees only, while some are 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
- Family activities, including BBQs and swim nights at community pools

EMPLOYEE SAFETY

Safety is everyone’s responsibility. All employees participate in monthly safety topics and each shift meeting opens with the daily safety talk. We require at least one employee per shift to be a member of the safety team. More than 10% of our employees are directly involved in developing, implementing and managing health and safety initiatives. Positive safety behavior is rewarded.

In 2017, we decreased overtime hours and implemented safety programs that kept the Days Away, Restricted or Transferred (DART) rate the same as 2016. Plans in 2018 include an On-Site Nurse, Occupational Health Services Administrator for the Dalhart, Texas, facility and to continue to strengthen our culture of safety.

EMPLOYEE RETENTION

We strive to make our employees feel valued, appreciated and part of our team. This chart reflects the employees who have been here more than the year mark as measured against the positions we had available that year.
EMPLYEE EDUCATION

Employees are provided company training along with the opportunity to continue their education at colleges and universities. In 2017, Hilmar Cheese Company reimbursed more than $122,947 in educational fees to help employees grow their horizons.

EMPLOYEE ENGAGEMENT

We value our employees and appreciate their ideas and feedback. In 2016, we implemented our first Employment Engagement Survey. The results helped us form employee teams to gather ideas on how to improve. Based on employee suggestions, we took action.

We added opportunities for employees to provide feedback and ask questions directly with Vice President Round Tables. We initiated Management Walkabouts at all levels. We launched a new Human Resource Management System (HRMS) with employee accessibility and mobile features.

Leadership Certification Courses:

- Strength Finders
- Accountability Training
- Communicating for Development and Discipline
- Leading Diverse Teams
- Change Leadership
- Time & Priority Management for Production Supervisors
- Developing High-Impact Teams
- Crucial Conversations® by Vital Smarts®

Gifts to appreciate our employees
Hands-on training improves safety
Employee events for food and fun
Hilmar Cheese Company participates in the U.S. Dairy Traceability program. Traceability is the ability to track a product through production, processing and distribution. The industry guidelines focus on receiving, warehouse, processing, CIP (Clean in Place) final products and records.

Hilmar Cheese Company’s quality management system is designed to meet the most stringent standards. It ensures consistency, traceability and responsiveness at every step and signifies our commitment to deliver our best each and every time.

- HACCP – U.S. Food and Drug Administration Program
- Safe Quality Foods (SQF) certified, Global Food Safety Initiative (GFSI) compliant
- Sedex® approved – a system to manage performance around labor rights, health and safety, the environment and business ethics
- Third-party audited
- USDA & FDA approved plants
- EU certified
- Kosher
- Halal

Achieving these certifications and approvals underpins our connection to the global demand for food safety. We have customers across the world who use our products in everything from mac n’ cheese to bubble tea. They recognize and value the tangible steps we take for a robust, comprehensive food safety program.
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. In 2017, FARM released the 3.0 updated version of its program. Dairy farm evaluations are now conducted against this new standard.

The Migliazzo & Sons Dairy family has been selling their high-quality milk to Hilmar Cheese Company since 1989. They have been in our top 10 for many years, and have won top quality, our “Cream of the Crop” award numerous times.

Founding co-owner Charles Ahlem was recognized for his dedication and industry leadership as the World Dairy Expo Dairy Farmer of the Year.

Honorees are selected for a variety of achievements including incorporating progressive management practices.
Community Engagement

Community is important to us. From scholarships to symphonies, we support many different activities and causes. We supported those in need after the hurricanes and fires.

We have outreach programs to visit school career and farm days, host thousands in our Visitor Center to learn about dairy and cheese and whey processing, and have exhibits in the Dalhart XIT Museum. Stop by soon and visit Hilmar Cheese Company.

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
• 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