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 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.

HIGHLIGHTS OF 2018
These highlights reflect our commitment to the environment, the community and our employees

We completed the largest hand-painted dairy mural in the U.S. at the Visitor Center

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

1st place float in the Annual XIT Parade

We completed our second employee survey, showing increased employee engagement

Awarded 35 students college scholarships

The information presented reflects data collected for 2018.

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SCOPE OF THIS REPORT

This report for calendar year 2018 is our ninth 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 U.S. Dairy Stewardship Commitment (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.

This report supports the principles important to our customers. While same 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 products from Hilmar Cheese Company or Hilmar Ingredients.

More information about our sustainable practices can be found at hilmarcheese.com.
This has been a year focused on today and tomorrow. We improved day-to-day operations while also preparing for a bold future. Employee safety was a highlight of 2018 with a record low incident rate. We also commercialized several new products including Artisan Cookables, a whole milk grilling cheese, and Hilmar™ 7500, a whey protein with special nutrition for infants.

Along with other forward-thinking dairy industry peers, we adopted the U.S. Dairy Stewardship Commitment. The Stewardship Commitment is a voluntary, stakeholder-aligned initiative to advance sustainability and leadership across the dairy community. It aligns and quantifies industry action in important areas like environment and animal care to affirm and illustrate dairy’s long-standing values of responsible production, nourished communities and continuous improvement.

To guide Hilmar Cheese Company into the future, we began an extensive strategic planning process. Out of that process came a renewed conviction that improving lives is the central purpose of what we do.

As our strategic plan takes shape, it will rely on equipping people, streamlining processes and leveraging technology across our organization. We aim for sustainable growth – growth that is repeatable, ethical and responsible to current and future communities.

Welcome to this review of 2018 and our emphasis on safety, innovation and stewardship.
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. 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 became the largest single-site cheese processor in the world

1984

1990

1992

1994

1996

1998

2000

2004

2007

Built new milk receiving area to improve efficiency and accommodate additional milk trucks

Launched Hilmar Ingredients to market whey products

Opened Texas manufacturing site

Opened California Visitor Center

Added additional cheese processing

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

**OUR CULTURE**

**Relationship**

**Integrity**

**TEAMWORK**

**Improvement**

**EXCELLENCE**

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

*Farmers Assuring Responsible Management

Hilmar Ingredients was named Dairy Exporter of the Year

Began production of lactoferrin, a bioactive whey protein

Headquarters & Innovation Center opened and was designated LEED Platinum™

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

Performed ribbon cutting ceremony at milk powder facility, Turlock, CA

Completed construction on a permeate facility in Dalhart, Texas

Dalhart site celebrated 10 years

Unveiled largest hand-painted dairy mural in the U.S. at our Visitor Center

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**2009**

**2011**

**2013**

**2014**

**2015**

**2017**

**2018**

**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.
<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>FOCUS</th>
<th>GOALS</th>
<th>2018 REPORT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Stewardship</td>
<td>Energy Intensity</td>
<td>Reduce energy use per 1,000 pounds of product</td>
<td>The total amount of natural gas and electricity used per 1,000 pounds of product decreased slightly from 2017. Biogas use as a fuel source was limited due to challenges with the biogas boilers. We will continue to evaluate other renewable energy opportunities for improving energy efficiency. We will also continue to evaluate potentially applicable renewable energy options.</td>
</tr>
<tr>
<td></td>
<td>Greenhouse Gas Intensity</td>
<td>Decrease the amount of greenhouse gas (GHG) direct emissions per 1,000 pounds of product</td>
<td>Both Direct and Indirect Greenhouse Gas (GHG) decreased slightly from 2017. We will continue to evaluate options and alternatives that have an impact on reducing overall GHG emissions.</td>
</tr>
<tr>
<td></td>
<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 1,000 pounds of product decreased 14% from 2017. We optimized washes and increased our ability to clean the water. We will continue to identify and assess projects to reduce the use of well water.</td>
</tr>
<tr>
<td></td>
<td>Water Recycling and Reuse</td>
<td>Recycle 100% of reclaimed water for reuse</td>
<td>100% of reclaimed water was recycled for facility landscaping, crop irrigation and internal reuse. We used less total water in 2018 so we recycled less water. We will continue to evaluate ways to increase opportunities to use reclaimed water.</td>
</tr>
<tr>
<td></td>
<td>Water Quality</td>
<td>Improve water quality</td>
<td>We have a program and monitoring system that ensures routine compliance with water permit parameters.</td>
</tr>
<tr>
<td></td>
<td>Resource Recovery</td>
<td>Reduce and recycle to optimize recovery</td>
<td>We diverted almost 99% of solid waste from a landfill. We donated guest safety glasses to high school programs and temporary worker boots to shelters. We will continue to find creative ways to reuse products.</td>
</tr>
<tr>
<td></td>
<td>Supplier Responsibility</td>
<td>Develop and maintain relationships with suppliers who have similar sustainability goals</td>
<td>We will continue to audit and work with our suppliers.</td>
</tr>
<tr>
<td></td>
<td>Supplier Dairy Responsibility</td>
<td>Develop and maintain relationships with suppliers who have similar sustainability goals</td>
<td>100% of direct-ship dairies participated in our Leadership in Environmental And Dairy Stewardship (LEADS) program. We reviewed the LEADS program regarding environmental sustainability. A sample of dairy farms will test the Farmers Assuring Responsible Management (FARM®) Environmental Stewardship program in 2019-2020.</td>
</tr>
<tr>
<td></td>
<td>Product Safety and Quality</td>
<td>Implement and improve best practices</td>
<td>We have validated, verifiable food safety programs and management systems. We will continue to regularly review and update programs to reflect new food safety tools/practices for continuous improvement. We will also continue to use the U.S. Dairy Traceability Guidelines.</td>
</tr>
</tbody>
</table>
## Employee Investment

**Safety**

**GOALS**: Decrease incidents and severity of workplace injuries

**2018 REPORT**: The company-wide Days Away, Restricted or Transferred (DART) rate decreased to 3.6 below the standard used in our industry. We will continue to monitor monthly safety key performance indicators, emphasize safety teams and focus to improve safety.

## Training

**GOALS**: Improve training programs and opportunities

**2018 REPORT**: We implemented the Leadership Development Certification Program. 155 employees received Level 1 certification, 50 employees attained Level 2 certification and 7 employees completed Level 2 Advanced certification. We will continue to grow training and leadership.

## Tuition

**GOALS**: Prepare employees for new roles and advancement

**2018 REPORT**: Reimbursed employees more than $160,461 in higher education fees. We plan to continue this program.

## Economic

**Jobs and Local Support**

**GOALS**: Stimulate the local economy

**2018 REPORT**: We added 11 new positions.

## Engagement

**Community Philanthropy**

**GOALS**: Identify and contribute to projects with significant impact

**2018 REPORT**: We supported the American Red Cross for disaster relief and contributed to many youth, education, food security, health care, art and agriculture programs. Both sites had Relay for Life teams to benefit the American Cancer Society.

**Consumer Education**

**GOALS**: Increase consumer outreach

**2018 REPORT**: More than 17,000 students participated in our Visitor Center educational program. Another 1,000 were reached through agriculture days and career days at local schools. More than 100 teams participated in our new AgXscape room, a fun and engaging experience to learn about dairy.
Environmental Stewardship

Progress at Our Sites

Information and charts presented in this section represent a combined effort for all three manufacturing sites and our Hilmar Headquarters & Innovation Center.

Total water use per 1,000 pounds of production decreased as we optimized washes. This resulted in less total water to recycle. Energy use per 1,000 pounds of production decreased slightly.

Our California facility pilot-tested a new reuse program. We donated guest safety glasses to high school programs. We provided slightly used temporary worker boots to shelters. We will continue to find creative ways to repurpose products.

Water (all water sources)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Usage</th>
<th>Total Recycled</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>1,553</td>
<td>1,163</td>
</tr>
<tr>
<td>2018</td>
<td>1,330</td>
<td>893</td>
</tr>
</tbody>
</table>

Energy

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Direct</th>
<th>Total Indirect</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>1.66</td>
<td>205</td>
</tr>
<tr>
<td>2018</td>
<td>1.60</td>
<td>206</td>
</tr>
</tbody>
</table>

1 We used less water, so we recycled less water
2 Indirect energy is provided by outside sources, such as electricity
WATER USE AND QUALITY

Each of the three manufacturing facilities has a water polisher. Cheese and ingredients production use most of 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 multistage 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 nonfood 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) consumes organic material in the water and transforms it into methane. The methane is processed and used to fuel on-site 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 programs. Our comprehensive health plan includes medical, dental, vision, prescription and hospitalization coverage with low out-of-pocket expense. In addition, 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. However, 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 with treats and logo wear.

In 2018 we had the safest year in our history! We appreciate the extra effort of our employees to work together safely. Our company-wide Days Away, Restricted or Transferred (DART) rate was below the standard used by our industry. Plans for 2019 include activities to strengthen our emergency preparedness.

EMPLOYEE RETENTION

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

Employees are provided company training along with the opportunity to continue their education at colleges and universities. In 2018, Hilmar Cheese Company reimbursed more than $160,461 in educational fees to help employees grow their horizons.

EMPLOYEE ENGAGEMENT

We appreciate our employees and value their ideas and feedback. In 2018, we conducted our second Employee Engagement Survey. The results showed that the Vice Presidents’ Round Tables and Management Walkabouts helped employees learn more about the company. Our overall score increased, and we identified new areas to improve the workplace.

LEADERSHIP DEVELOPMENT

Our Survey also highlighted employees’ interest in advancement and new opportunities. The pursuit of development is an important step along this path. Within our Hilmar Way, we’ve established a training model for improvement and continuous learning. It defines and describes the behaviors and practices expected at the three levels of leadership as they relate to our Culture. These expectations are used to build consistency throughout the company and maintain the character of our business as we grow. Employees are offered a wide variety of classes and teaching events to support them as they pursue personal development.

Our Leadership Development Program continues to grow.

• 155 employees completed Level 1
• 50 employees completed Level 2
• 7 employees completed Level 2 Advanced

Leading Business – The core attributes required in addition to those of Levels 1 & 2 to lead in a business or functional area

Leading Others – The additional behaviors and skills necessary beyond those of Level 1 to serve at a supervisory level

Leading Self – The foundational behaviors necessary for self-leadership for employees to thrive in any role within the company

Gifts to appreciate our employees

Hands-on training improves safety

Employee events for food and fun
ARTISAN COOKABLES CHEESE

What do you call cheese that doesn’t melt? Artisan Cookables! We launched this delicious whole milk cheese for people that want a new twist on “grilled cheese.” You can fry it, sear it or grill it like Halloumi. However, Cookables are Monterey Jack cheese made with cow’s milk. Cookables make a great center-of-the-plate protein and can be added to salads, sandwiches or stews. They even make real cheese fries – no breading needed. With the increasing popularity of protein diets like Keto, Paleo and others, we expect Cookables will be hot.

SPECIAL WHEY PROTEIN

Better options for feeding babies are also an important part of our business. We launched Hilmar™ 7500, a special whey protein with a complex set of lipids (Milk Fat Globule Membrane) beneficial to a baby’s development. Some formulas that derive their lipids from vegetable sources, which differ greatly in size and composition, may not deliver the same level of MFGM. Adding Hilmar™ 7500 to an infant formula boosts the valuable MFGM component, making the formula supportive of brain and cognitive development.

WHOLESOME PRODUCTS

Every product from Hilmar Cheese Company is manufactured in a food-safe environment governed by a robust quality management program. Designed to meet the most stringent standards, our program ensures consistency, traceability and responsiveness at every step. We also participate in the U.S. Dairy Traceability program. The industry guidelines focus on receiving, warehouse, processing, CIP (clean in place), final products and records. In total, our food safety program meets the demands of the Global Food Safety Initiative (GFSI) and we are SQF certified.
Leadership in Environmental And Dairy Stewardship (LEADS) is Hilmar Cheese Company’s program of continuous improvement in animal care and sustainable farming practices. All 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 Farmer’s Assuring Responsible Management (FARM™) Animal Care program is the foundation of the LEADS dairy animal care requirements. FARM Animal Care 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. We conduct dairy farm evaluations against the most current FARM Animal Care version 3.0.

DAIRY FARM ENVIRONMENTAL STEWARDSHIP

FARM now has an Environmental Stewardship program. This program uses an online assessment tool to help farmers evaluate their environmental progress relating to energy and greenhouse gas emissions.

In 2018, Hilmar Cheese Company signed the U.S. Dairy Stewardship Commitment. Part of this commitment is the use of stewardship metrics and accompanying measurement tools such as the national sampling protocol. We will be testing the FARM Environmental Stewardship module 2019-20 and adopting the sampling protocol in 2021.

CREAM OF THE CROP

The University of California at Davis Dairy Teaching and Research Facility has been selling its high-quality milk to Hilmar Cheese Company since 2002. Students operate the dairy as part of their education. UC Davis has been among the top 10 winners of our Producer Awards many times.

TECHNOLOGY ON THE FARM

Dairy farms are incorporating many new technologies. As cows eat, they can push the feed out of their reach. Just like the small robotic vacuums, the robotic feed pusher leaves its dock station to travel a designated path to push the feed up closer to the cows. This keeps the feed accessible to the cows and reduces feed waste.
COMMUNITY ENGAGEMENT

2018 marked the 20th anniversary of our California Visitor Center. We celebrated with the unveiling of the largest hand-painted dairy mural in the United States! Thank you to the Undeniably Dairy program for helping us.

Through tours and activities in the Visitor Center, the exhibits at the Dalhart XIT Museum and outreach programs to school career and farm days, hundreds of thousands of students have learned how dairy farmers take care of cows and how Hilmar Cheese Company conserves resources. We also opened the first dairy-themed escape room, AgXscape, in the Visitor Center.

Education and community are important to us. From scholarships to food security, we support many organizations that make our communities great places to live.

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
- Turlock Community Theatre
Inspiring Young Minds

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

Agricultural Outreach

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

Healthier Lives

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