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

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 and whey ingredients.

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 2019
These highlights reflect our commitment to the environment, the community and our employees

- Record number of students participated in our educational programs, more than 17,000
- 100% of our reclaimed water is recycled and reused, most for crop irrigation
- 20th annual holiday canned food drive awards the Dalhart Milk Receiving team as the Hunger Heroes
- 115 employees completed leadership certifications
- Awarded 42 students college scholarships

The information presented reflects data collected for 2019.
A LETTER FROM OUR CEO

David Ahlem

WELCOME TO OUR 10TH ANNUAL REPORT
2019 was the start of a three-year effort under our company’s Strategic Plan 2021. The year had all the hallmarks of new beginnings. It came with challenges, change and achievement. I’m most encouraged by the important understanding about “us” that’s emerged from the hard work done during the year. We are more aware of what we can be the best in the world at, what drives our economic engine, and what our people are deeply passionate about.

We exist to improve lives. It’s our Purpose, it’s what gets us out of bed in the morning and gives us pride in what we do each day. How do we improve lives? It’s the basis of our Plan:

- **Build the “A” Team:** attract, develop and retain top talent
- **Set the Standard in Operational Excellence:** relentless focus on equipping people, streamlining processes and leveraging technology throughout the company
- **Deliver Products and Solutions that WOW our customers:** drive for innovative products and markets

By stepping up to the opportunities of 2019, we’re already delivering benefits. More than 327 employees have gone through our Hilmar Way Leadership Development Program. We are working safer, with employee safety numbers among the best in company history. We have established Quality Amplified, a comprehensive program to ensure our products are the most wholesome possible. And every day, we pull harder and more directly to our Purpose of improving lives.

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. 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

Opened California Visitor Center

Opened Texas manufacturing site

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

Launched Hilmar Ingredients to market whey products


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**

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.

Complied construction on a permeate facility in Dalhart, Texas.

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

DALHART, TX, FACILITY
<table>
<thead>
<tr>
<th>CATEGORY</th>
<th>FOCUS</th>
<th>GOALS</th>
<th>2019 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 from 2018 as we made higher value products requiring additional processes. We increased our biogas use as a fuel source by 10% over 2018. We continue to evaluate other renewable energy opportunities for improving energy efficiency and continue to evaluate potentially applicable renewable energy options.</td>
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<tr>
<td></td>
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<td>Minimize the amount of well water used for production</td>
<td>The amount of well water used per thousand pounds of product decreased slightly from 2016. We optimized washes and increased our ability to clean the water. We continue to identify and assess projects to reduce the use of well water.</td>
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<td>Decrease the amount of greenhouse (GHG) direct emissions per thousand pounds of product</td>
<td>Indirect Greenhouse Gas (GHG) decreased slightly from 2018. We continue to evaluate options and alternatives that will have a direct impact on reducing overall GHG emissions.</td>
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<tr>
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<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 increased recycled water per thousand pounds of production by 13% over 2018. We will continue to improve technology in the water reclamation facility to further expand our water reuse program.</td>
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<tr>
<td></td>
<td></td>
<td>Improve water quality</td>
<td>We have a program and monitoring system that ensures routine compliance with water permit parameters.</td>
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<tr>
<td></td>
<td></td>
<td>Reduce and recycle to optimize recovery</td>
<td>We diverted almost 99% of solid waste from the landfill.</td>
</tr>
<tr>
<td></td>
<td></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 to achieve sustainability goals.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Develop and maintain relationships with milk suppliers who have similar sustainability goals</td>
<td>100% of direct-ship dairies participate in our Leadership in Environmental And Dairy Stewardship (LEADS) program. We reviewed the LEADS program regarding environmental sustainability. A sample of dairy farms have participated in the Farmers Assuring Responsible Management (FARM) Environmental Stewardship module throughout 2020.</td>
</tr>
<tr>
<td></td>
<td></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**

**Focus:** Safety

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

**2019 Report:** The company-wide Days Away, Restricted or Transferred (DART) rate decreased from 2018 to 3.5. We will continue to monitor monthly safety key performance indicators, emphasize safety teams and focus to improve safety.

**Training**

**Focus:** Improve training programs and opportunities

**2019 Report:** We implemented the Leadership Development Certification Program. 58 employees received Level 1 certification, 31 employees attained Level 2 certification. 26 employees completed Level 2 Advanced certification. We will continue to grow training and leadership programs and participation.

**Tuition**

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

**2019 Report:** We reimbursed employees more than $100,130 in higher education fees.

**Economics**

**Jobs and Local Support**

**Focus:** Stimulate the local economy

**2019 Report:** We utilized multiple outside consulting services and vendors.

**Engagement**

**Community Philanthropy**

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

**2019 Report:** We supported the American Red Cross for disaster relief and contributed to many youth, education, food security, health care, arts and agriculture programs.

**Consumer Education**

**Focus:** Increase consumer outreach

**2019 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.
PROGRESS AT OUR SITES

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

Water, energy and greenhouse gases compare 2019 to 2016. 2016 data reflects two sites. 2019 compares our two facilities without the Turlock site, which was sold in April. Resource recovery compares 2019 to 2018 as this data was not compiled in previous years. In this report, the 2016 total water use and total water recycled use an updated calculation so the number is different than our 2016 published report.

The California facility implemented a new monitoring system to provide real-time data to employees to improve operations. The total direct energy and greenhouse gas increased slightly due to specialty products that require additional processing. We installed supplemental equipment to enable us to recycle a greater percentage of water.

LEGEND

<table>
<thead>
<tr>
<th>Water (all water sources)</th>
<th>Total Usage</th>
<th>Total Recycled</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gallons/10^3 lbs. of production</td>
<td>1,571</td>
<td>645</td>
</tr>
<tr>
<td>Gallons/10^3 lbs. of production</td>
<td>1,462</td>
<td>657</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Energy</th>
<th>Total Direct</th>
<th>Total Indirect</th>
</tr>
</thead>
<tbody>
<tr>
<td>MMBTUs/10^3 lbs. of production</td>
<td>1.52</td>
<td>203</td>
</tr>
<tr>
<td>Kilowatts/10^3 lbs. of production</td>
<td>1.59</td>
<td>186</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 two manufacturing facilities has a water polisher. The water polisher allows us to capture almost 100% of the water that was originally part of the milk. Cheese and ingredients production use most of the solids in the milk. The water polisher cleans and recycles water 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 high-quality health and well-being 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
- Instructor-led and web-based leadership development training

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 meals in our cafe and items sold in our Visitor Center
- Family activities, including BBQs and swim nights at community pools

EMPLOYEE SAFETY

Safety is everyone’s responsibility. Our safety program measures training, safety teams, inspections and employee actions and also rewards safe behaviors. Both sites exceeded our key performance leading indicator expectation of 90%.

2019 exceeded 2018 as the safest year in our history! Thank you to our team for working together safely.

Our company-wide Days Away, Restricted or Transferred (DART) rate was reduced from last year. Both locations now have a medical professional as our Occupational Health Services Administrator. This provides immediate medical expertise and employee support. We will continue to build on this success in 2020.

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 2019, Hilmar Cheese Company reimbursed more than $100,130 in educational fees to help employees grow their horizons.

LEADERSHIP DEVELOPMENT

Our Leadership Development Program continues to grow. A new Learning Management system expanded our ability to offer web-based courses in addition to our in-person classes. Each level requires a different set of courses that relate to our Culture. This year 58 employees completed Level 1, 31 employees completed Level 2; and 26 employees finished Level 2 Advanced.

ACADEMY AWARDS

In 2019 we launched our Academy Awards as an opportunity to come together as a company, celebrate employees and learn more about the business. Coworkers nominated their peers for the Hilmar High Five Culture Award. 15 employees were recognized for exhibiting our culture of teamwork, excellence, relationship, integrity and improvement.

The Teamwork Award recognized cross-functional teams who embraced change and completed a significant project for the company. From sales to operations to safety, teams were acknowledged for their contributions to our success.
Hilmar Cheese Company’s success relies on quality, and quality depends on the dedication of each employee. To help create personal accountability in our daily behaviors, we’ve established the Quality Amplified program.

Quality Amplified is our own program, unique to Hilmar Cheese Company, but it is based on industry best practices, continuous improvement and recognized standards. It is the umbrella under which all of our food safety, quality and personal accountability efforts reside. It helps us focus on achieving our Safe Quality Foods Policy – our pledge to customers that they can depend on us. Other than our personal safety and the safety of our coworkers, ensuring that our products are safe is the most important thing we do. The Quality Amplified program is a way to express that importance to all levels of our business and help us proactively improve food safety.

A critical component of the program is continuous learning. Regular training and instructions keep the program relevant and active in our daily routine. One of the tools we use as a “touch point” is thinking with PRIORITIES. Priorities are important to a business as they drive decision making, resource allocation and improvement activities.

These are our business priorities:
1. Employee and Team Safety
2. Food Safety
3. Quality
4. Product Volume

As we plan and execute our roles, our priorities must align to ensure we are working toward the same vision. These priorities are incorporated into standard work plans through Quality Amplified.

These priorities aren’t just for “manufacturing” or “operations.” All of us consider them in the decisions we make. For example, everyone is responsible for keeping safe and we are all diligent in observing the hygienic zones and simple sanitary practices like washing hands. We think creatively about how to use these priorities and our Quality Amplified approach to achieve our company Purpose of improving lives.
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.

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 in 2020 and adopting the sampling protocol in 2021.

CREAM OF THE CROP

Congratulations to the winners of this year’s Cream of the Crop award for the highest quality milk. Bar-Vee Dairy in California has been selling milk to Hilmar Cheese Company since 1994. In Texas, Skyward Dairy received the recognition and has been selling milk to Hilmar Cheese Company since 2007. Both dairies have been among the top 10 winners of our Producer Awards many times.

TECHNOLOGY ON THE FARM

Dairy farm families continually work to improve the environment and use new technologies. Many dairies have added solar.
COMMUNITY ENGAGEMENT

Hilmar Cheese Company’s Purpose is to improve lives. We want to improve lives for our employees, their families, the community and those we touch through our business.

We support many organizations that make our communities a great place to live. Employees vote via their donation to the American Cancer Society to select a company leader to kiss the cow. Employees volunteer their time to serve cheese and help in the community. We support students through our annual scholarship program. From youth clubs to organizations that help those in need, we want to make a difference.

Teaching about agriculture is also important. In 2019, Texas employees participated in many career and education days. The California Visitor Center hosted more than 17,000 students on school tours to learn about cheesemaking and dairy farms. Many guests took on the challenge of our dairy-themed escape room, AgXscape, to learn what it is like to be a dairy farmer.

Community Resources

- 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