

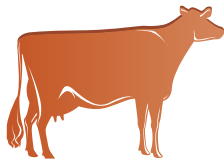


2011 Our Commitment to Sustainability



About Our Cover

*Reflecting our commitment to
the environment, the community
and our employees*



100%

of the dairy farm families who ship their milk directly to Hilmar Cheese Company have completed the Farmers Assuring Responsible Management™ animal care program



8,500 lbs of cheese

and thousands of cans
of food donated to
local food banks
and hunger-relief
organizations



18 Students

received college
scholarships from
Hilmar Cheese Company



56 Employees

were promoted from
within the company



100%

of the water used to irrigate our
California site's park and waterfall comes
from our water reclamation facility

The information presented reflects data collected for 2011

Welcome to Hilmar Cheese Company

Making cheese and whey products that contribute nutrition, enjoyment and value to people's lives.

Owned by eleven local Jersey dairy farming families, Hilmar Cheese Company, Inc. produces cheese and whey products that nourish more than 20 million people worldwide each day. From the shredded cheese in tacos to the whey protein and lactose in infant formula, Hilmar Cheese Company and our division, Hilmar Ingredients, deliver the promise of dairy to consumers around the world.





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This report is based on the methodology outlined by the Global Reporting Initiative (GRI), a nonprofit organization that develops and publishes guidelines for reporting on sustainability performance. More information on the GRI can be found at www.globalreporting.org.

A Letter from Our CEO



2011 was a productive year for us and we appreciate the chance to share its highlights with you in this second corporate sustainability report.

While the year was full of activity, much of it seemed to swirl around a common theme – the next generation. This theme presented itself in three key ways at Hilmar Cheese Company: contributing, feeding and caring.

Contributions from the next generation add to our company's vibrancy and strength and we are welcoming new generations into our management groups. Our leadership shows this clearly with greater participation by the second and even third generation of our original dairy farming family owners. For example, David Ahlem, son of founding owner Charles Ahlem, moved from managing our Dalhart, Texas, facility to become the new vice president of milk procurement and policy and take a seat on our executive steering team (team pictured above). Hilmar Cheese Company is now the fifth largest privately held dairy company in North America.

Feeding the next generation increasingly defines our business focus. As the world's population grows, so does the need for nourishing foods – like cheese and products fortified with whey protein and lactose. Our interest in helping to fulfill that need drove the decision to build a second facility in Dalhart, Texas. In 2011 we expanded the facility far ahead of our original timeframe. A truly modern manufacturing site, Dalhart was the source of over 75% of all

incremental growth in United States' natural cheese production from 2009-2011. The Dalhart facility is included in our sustainability reporting beginning with this edition.

Finally, caring for the next generation keeps us dedicated to sustainable practices. While committed to a thriving and growing company, it is important that we manage our business in a manner that balances economic, social and environmental sustainability. At Hilmar Cheese Company, sustainability is a daily commitment to caring for our land, air and water resources – while never forgetting the importance of putting affordable, nutritious dairy foods on the tables of millions of consumers and sharing the benefits of dairy.

This report is designed to share openly with those we engage with – our customers, our business partners, policy makers, consumers and our community – about our sustainability efforts. From our consumer education exhibits to our water reclamation, we take seriously our responsibility to the community and environment in which we live and raise our families. We work at all times to protect our natural resources, our employees and our future generations. It is our obligation, and it is the right thing to do.

We value your confidence in our company and know it is our responsibility to maintain that trust.

Handwritten signature of John Jeter

John Jeter

Our Family-owned Company



Our History

In 1984, 12 Central California dairy 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 and remains a core part of *The Hilmar Way*.

Committed to continuous improvement and innovation, the company has grown to be a leading producer of American-style cheese and whey products. We enjoy an international reputation for superior quality and consistency of our products and unparalleled, personalized service. Today that reputation continues as the second and third generations of family owners (pictured above with founding owners) share responsibility. Success, for Hilmar Cheese Company, means fostering long-term, mutually beneficial relationships between company owners, employees, milk producers, customers and the local community.



Hilmar, CA, facility 1984

Sustainability, Part of Our Legacy



Dalhart, TX, facility 2011

Our Mission

Commitment to sustainability is a core element of the mission statement that Hilmar Cheese Company follows:

Through leadership-driven, high-performance teamwork, Hilmar Cheese Company and Hilmar Ingredients develop and convert in a sustainable manner our premium milk supply into innovative, top-quality dairy products for customers worldwide who further add value in their markets.

Scope of this Report

This year's report includes our Dalhart, Texas, manufacturing facility. The scope includes calendar year 2011 and reflects the efforts both at our California headquarters and manufacturing facility and Texas manufacturing facility.

The report incorporates guidelines from the Global Reporting Initiative (GRI) along with principles important to our customers and our industry.



Hilmar, CA, facility 2011

More about our sustainable practices can be found at www.hilmarcheese.com.

Goals and Progress



Category	Focus	Goals	2011 Progress	Future Plans
Environmental Stewardship	Recycled Water for Irrigation	100% of reclaimed water is recycled for irrigation	100% of reclaimed water was recycled for facility landscaping and crop irrigation	Increase the total volume of reclaimed water available for irrigation
	Well Water Use Reduction	Minimize the amount of well water used for production	Decreased from 2010 by 1% amount of well water used for production in California	Implement strategies to reduce well water use for production
	Renewable Energy	Use 100% of the internally available biogas (methane) as a fuel source	Initiated use of biogas in boilers at both facilities. Approximately 9% of the biogas generated in 2011 was used as a fuel source.	Increase amount of internally generated biogas for use as a fuel source. Continue to evaluate other renewable energy opportunities.
	Energy Efficiency	Continually reduce energy use	Completed energy audit and implemented LEDs and other lighting efficiencies in offices and facilities	Identify areas to implement improvements
	Air Emissions	Decrease the amount of greenhouse gas (GHG) direct emissions per thousand pounds of product	Kept stable amount of GHG emissions per thousand pounds of product from 2008 (<1% change)	Evaluate renewable options to reduce GHG
	Solid Waste Recycling	Recycle and reuse to create zero waste from the material stream	Improved programs to recycle cardboard, shipping containers, plastics, foam, oil and more	Develop employee program for office and breakroom recycling
	Package Minimization	Minimize product packaging while maintaining quality and material integrity	Disassembled, sterilized, shipped flat and reused wooden and plastic crates from the 640 lb. cheese block packaging	Work with suppliers to continually improve packaging efficiency
	Supplier Responsibility	Develop and maintain relationships with suppliers who have similar sustainability goals	Adopted policy under Transparency in Supply Chain Act to outline our management of ethical behavior	Improve supplier auditing system
	Transportation	Reduce shipping miles	Constructed new rail spur at Texas facility	Fully utilize options for reducing shipping miles

Goals and Progress



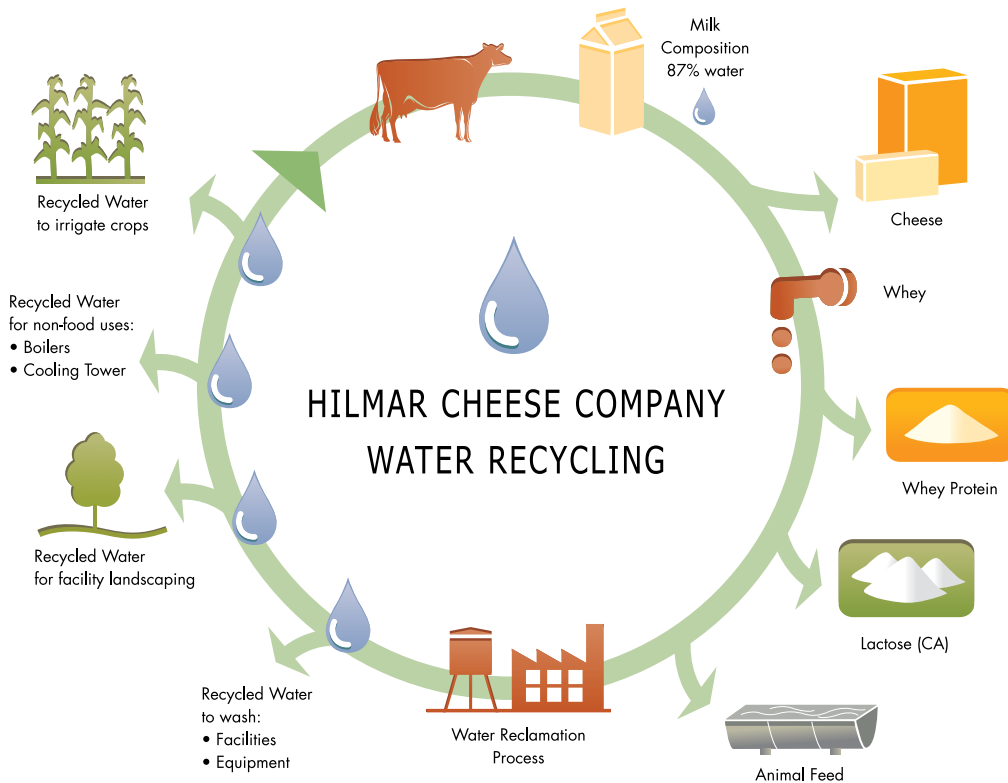
Category	Focus	Goals	2011 Progress	Future Plans
Employees	Safety	Decrease incidents of workplace injuries	Severity of workplace injuries decreased, while overall total injuries increased 25%	Unequal performance is not acceptable. Re-energizing of behavior-based safety and other actions to address root causes of injuries.
	Training	Implement <i>The Hilmar Way</i> training	Incorporated into all new staff training	Conduct culture and attitudes survey to measure change



Category	Focus	Goals	2011 Progress	Future Plans
Economic	Jobs and Local Support	Stimulate local economy	Increased workforce to more than 1,000	Continue business success to increase workforce

Category	Focus	Goals	2011 Progress	Future Plans
Engagement	Community Philanthropy	Identify and contribute to projects with significant impact	Partnered with the University of South Dakota to improve their milk processing lab	Continue to support youth and education, food security, health care and the arts

Environmental Stewardship



Environmental Stewardship

Our water recycling starts with milk from the cow. Milk is made up of 13% nutrients, which are used to make our cheese, whey proteins and lactose; and 87% water that is used in our recycling programs.

We recover almost 100% of the water found originally in the milk. This recovered water accounts for more than 60% of the water used at both of our facilities. 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 of which are used to feed the cows

Both facilities have complex multistage water reclamation systems consisting of several filtration steps, anaerobic digestion, and storage.

Dairy Farm Stewardship

Hilmar Cheese Company partners with more than 240 dairy farms. Located near our processing facilities, these farms directly ship us the highest quality milk.

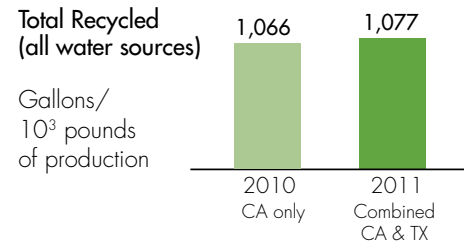
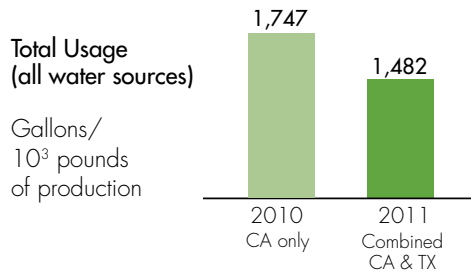
Our supplying dairy farm families operate with respect and care for their herds' needs and are on the forefront of cow health and nutrition management. Excellent herd health enables the fresh, wholesome milk required for our products.

100% of these dairy farms participate in the National Dairy Farm Program: Farmers Assuring Responsible Management™ (FARM) (www.nationaldairyfarm.com). Established in 2009, FARM is a nationwide, verified program addressing dairy animal well-being. It is significant that all of the farms directly shipping milk to Hilmar Cheese Company have demonstrated their dedication to the highest quality animal care through this program.

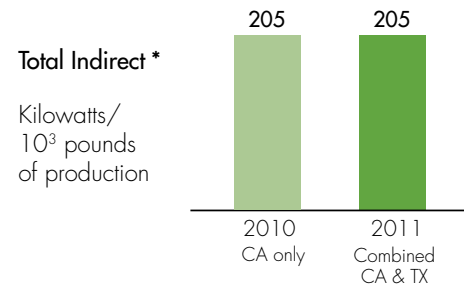
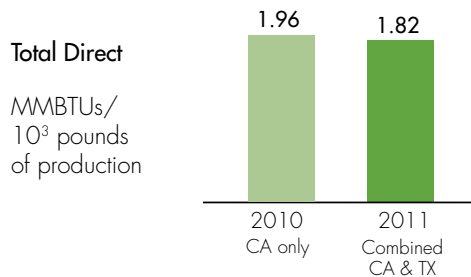


Environmental Stewardship

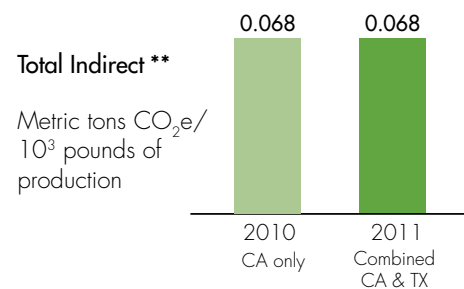
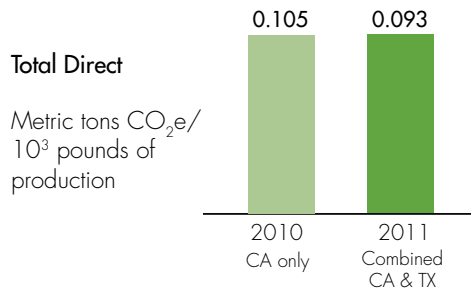
Water



Energy



Greenhouse Gases



* Indirect energy is provided by outside sources such as electricity

** Indirect GHG is produced as a result of using electricity from outside sources

Stewardship at Our Processing Plant

The charts above show our use of resources – water and energy – per thousand pounds of production. The 2010 reference is for our Hilmar, California, location only. The 2011 reference is a combined figure for both California and Texas sites.

Highlights:

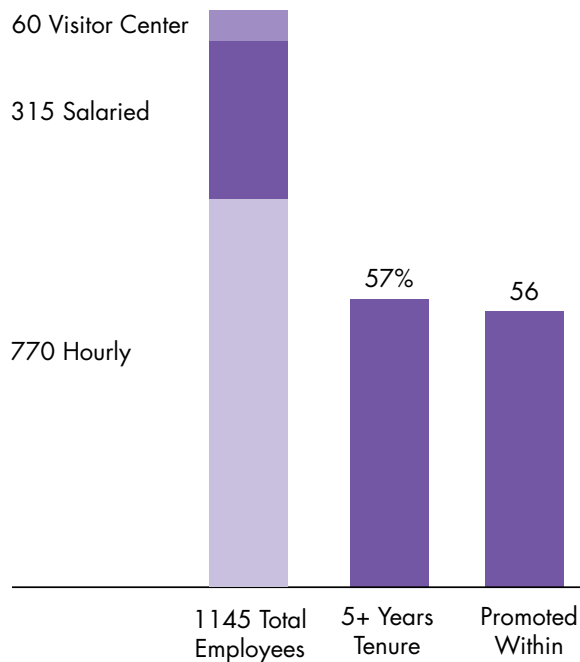
1. Need for natural gas reduced through use of internally generated biogas in boilers
2. Facility landscaping at both sites now irrigated by our own recycled water
3. Overall water reclamation operations and efficiency improved through new investments



Natalino and Charlene Silveira Dairy

“Our family dairy farm started selling milk to Hilmar Cheese Company in 1998. We feel our partnership with Hilmar Cheese is so strong because together we value high standards for milk quality, environmental stewardship and animal care. This past year we were one of the first dairies in the country to complete the Farmers Assuring Responsible Management program. This program assures us that we are providing the best for our cows and calves through nutrition, a comfortable environment and health care.”

Our Employees



Employee Health & Wellness Fair, Dalhart, TX

Employee Engagement

The health and well-being of our employees and their families is most important to us. Beyond the typical medical, dental, vision and retirement benefits, we offer expanded employee support:

- Health and Wellness Fair
- Family activities including BBQs and swim nights at community pools
- Nutrition counseling
- Weight Watchers® programs
- Chaplin services
- Full-service retirement planning through our provider

These services, along with competitive wages, a professional work atmosphere and the opportunity to grow, give us an advantage in attracting and retaining top talent.

Employee Tenure

Valuing employees is the key to our success. Employees are treated fairly, with respect, and have the opportunity to maximize their talents. The overall turnover rate is 8.92% (both voluntary and involuntary) within the company.



Aaron Meneses
Milk Operations Manager,
Dalhart Facility

"I started with Hilmar Cheese Company as a part-time employee in the winter of 1999 working in our California Visitor Center while finishing high school. Since that time, I have constantly been challenged and given the opportunity for professional growth. My current role is the milk operations manager of the Texas facility. Hilmar Cheese Company is an employer that truly lives out its essential core value: "People are our most valuable resource." Our team is a close-knit family that works very hard each day to ensure we safely produce the highest quality products for our customers."

Our Employees

	New Hire	Established Employee	New Supervisor Trainee	Operations Staff (primarily supervisors)
Food Safety Training	✓	✓	✓	✓
New Hire Orientation	✓		✓	
Cheese/Ingredient Manufacturing (equipment – skills development)	✓		✓	
Standard Operating Procedures Update/New Equipment	✓	✓	✓	✓
License Renewal	✓	✓	✓	✓
Grade II Operator (higher skill development, troubleshooting, technical)		✓		
New Supervisor Training Program			✓	
Leadership (business review meetings, leadership series)			✓	✓
Total Hours of Training	200-365 Hours	60-100 Hours	375-600 Hours	50-110 Hours
Future Plan	Increase independent learning opportunities via computer-based training and online courses	Increase participation by rolling out skills development program and continuous improvement training for all operators	Focus training on building strengths to organizational needs and gaps	Implement the option for supervisors to complete skills development program

Employee Training

Our company continues to grow. We welcomed 279 new employees to the team in 2011. Training varies depending on the status and job requirements of new employees. The chart above is a general outline of the training hours based on employee status.

Current employees participate in training throughout the year. We introduced the leadership series to our salaried staff, focusing on areas of opportunity that were identified in the “360 feedback” surveys we undertook in 2010. This training continues to evolve as we identify industry trends and management skill development needs.

2011
Total worker hours dedicated to training = more than 63,000 hours

Employee Safety

Hilmar Cheese Company is committed to providing a safe working environment. The severity of injuries decreased in 2011, however, the overall number of occupational health and safety reportable incidences increased. This is not acceptable and we are taking action to make our workplace safer. These steps include:

- Report and investigate “near misses” to correct issues before they cause an injury
- Safety topic-of-the-day discussed at the team meetings held prior to the start of each shift
- In-house safety videos to enhance training with our specific equipment and procedures

Economic Value



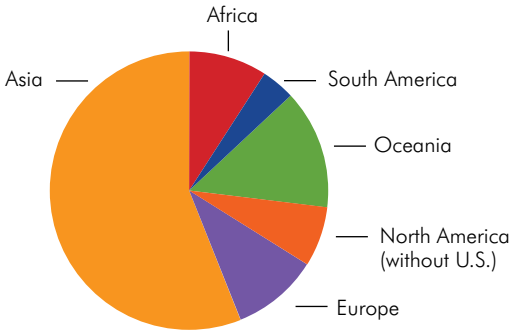
Food for the World

Hilmar Cheese Company is the fifth largest privately held dairy business in the United States. By developing and serving markets around the world, we are able to bring economic value home to our communities in California and Texas.

Whey proteins and lactose from our Hilmar Ingredients division have been sold internationally since they were first produced and are now found in more than 40 countries. While less than 5% of our cheese is exported, that number is growing thanks to the market experience gained through our whey product sales and our efforts to provide international customers with the cheeses they want most.

The major regions for our ingredients business are shown on the right.

Worldwide Ingredient Exports 2011



Job Creation

We are a significant provider of local jobs and contributor to the regions' tax base. In 2011, we added 94 new positions to the company.

- California hourly = 31
- California salary = 2
- Texas hourly = 61

Each new job helps stimulate the local economy and benefits everyone from schools to stores.



Applying sanitizer foam

Safe and Wholesome Foods

We make foods that nourish people all over the world, and take very seriously our responsibility to produce safe and wholesome products.

In 2011, we completed a new program designed to expand food safety protections in our facilities. Called “Hygienic Zoning,” this program reduces cross-contamination during manufacture, handling and storage. It has demanding procedures that fall under three categories: physical barriers to prevent cross-contamination of sensitive areas, protective clothing to identify job areas and guarantee zone-specific requirements for attire are met, and employee behavior to ensure a knowledgeable and always-aware work force. This program required substantial investment in equipment, construction and education. It was a proactive investment for us – showing that we walk our talk to remain steps ahead in food safety.

ZONE COLORS

- MINIMAL RISK**
Blue Zones – areas peripheral to manufacturing facilities and warehouse
- MODERATE RISK**
Brown Zones – areas where packaged product exists
- HIGH RISK**
Yellow Zones – areas where product requires further processing and packaging
- VERY HIGH RISK**
Red Zones – areas of critical production, access limited, additional sanitization required
- RESTRICTED**
Orange Zones – areas with raw product, access restricted

Community Engagement



Civic Involvement

Hilmar Cheese Company, Inc. was awarded the 2011 Outstanding Corporate Donor in Philanthropy by the Yosemite Chapter of the Association of Fundraising Professionals in cooperation with the Modesto Rotary Club at their meeting on National Philanthropy Day.

Our owners and employee team were recognized for their significant personal time as volunteers outside their roles at Hilmar Cheese Company. The company was recognized for its generosity to Emanuel Medical Center, which helped the Center build, renovate, purchase equipment and provide hospice care. The ceremony also acknowledged the company’s contributions to arts, food security and education.

The prosperity of our local communities is important to us. Each year we donate funds, cheese and gift baskets to support local schools, charitable causes and the agricultural industry.

The following are some highlights from our 2011 partnerships with community and support organizations.

Dedication to the Arts

Hilmar Cheese Company believes in supporting activities that contribute enjoyment and a sense of community.

- Carnegie Arts Center – (pictured above) opened in 2011 as one of the area’s premier art centers; our donation was instrumental in renovations to the 100-year-old Carnegie building
- Modesto Symphony Orchestra – for the third year, we are the exclusive sponsor of the Pops Concert series featuring international guest artists
- Turlock Community Theater – long-time donor to this local theater, we encourage our employees and community to attend the productions that often star local talent

Community Engagement



Improving Community Food Resources

Helping others in our community is part of our responsibility. We are members of the local chamber of commerce organizations and participate in many activities such as the Dairy Festival in Hilmar, California, and the annual XIT Rodeo and Reunion in Dalhart, Texas. We also support community organizations that serve others in need including:

- Annual holiday canned food drive at each of our processing sites. Hilmar Cheese Company provides a matching \$3 for every can donated. More than 1,100 non-perishable food items donated in 2011.
- 8,500 pounds of cheese and financial assistance for local food banks:
 - High Plains Food Bank Amarillo
 - Lincoln Street Baptist Food Bank
 - Hilmar Helping Hands
 - Merced County Food Bank
 - Turlock Salvation Army

Healthier Lives for Generations to Come

We commit a percentage of our profits to support other contributors to good health.

- Emanuel Medical Center Legacy Circle Donor – funds have helped build the Cardiac Cath & Interventional Lab and renovate the cardiac operating room, allowing for open heart surgery
- Dallam-Hartley Counties Healthcare Foundation – funding assistance for new x-ray equipment and technology
- American Cancer Society’s Relay for Life – 64 employees participated on teams in California and Texas, and used matching dollars from the company to raise more than \$27,000
- Delta Blood Bank – sponsor the “pint of blood for a pound of cheese” reward program for blood bank donors throughout the year
- Community Pools – support both the Dalhart Community Pool and Hilmar Community Pool. These pools provide recreation and water safety lessons.

Community Engagement



Consumer Education Exhibits

Hilmar Cheese Company is dedicated to connecting people, especially children, with agriculture and the source of their food. Each year, thousands of families and school children visit our National Dairy Farm Image exhibits to learn about the dairy industry and importance of agricultural sustainability.

- Dalhart XIT Museum – thanks to a partnership with the XIT Museum, Dairy MAX™ and the Southwest Dairy Museum, we were granted space to install hands-on exhibits and activities for children and families visiting Dalhart, Texas
- Hilmar Visitor Center – last year more than 15,000 school children and about 300 bus loads of guests from around the world spent time learning about cheesemaking and the dairy industry
- 4-H Youth Development Organization – contribute funds to a variety of 4-H educational activities, and our employees and owners volunteer as 4-H leaders
- California FFA (Future Farmers of America) – long-time supporter of this high school program for agricultural education



Greg Duggan
City Manager, Dalhart, TX

“When Hilmar Cheese Company was being recruited to locate in Dalhart, our Economic Development Corporation committed funds to assist. Hilmar returned these funds many times over to our community through donations for a new, permanent dairy exhibit at the local museum, annual support to the public library, support of youth sports, and funds to extend our hiking-bike trails that circle our lake, just to name a few. Their support helps make Dalhart a wonderful place to live, not only for their employees, but the entire community.”

Community Engagement



Gail Holmes, Librarian and David Field, Dallam County Judge

Inspiring Minds to Learn and Grow

Future industry leaders are inspired and trained through education and involvement in the world around them. We seek ways to support their development.

- Dallam-Hartley County Library – support to expand the building and install additional computers for public use
- South Dakota State University’s Davis Dairy Plant – renovated facility now includes teaching, research and processing equipment to develop the next generation of dairy foods
- Friends of the Hilmar Library – support to keep the library open additional hours
- Sports and Athletic Boosters – support for a variety of youth sports such as softball, volleyball, basketball, football, track, soccer, swimming, golf and more

- Boy Scouts and Girl Scouts – support to help these youth programs focused on building character, participating in citizenship and developing personal fitness
- Annual Scholarship Program – college or trade school tuition scholarships for children of our employees, the dairy farm families who supply us milk and local students pursuing agricultural degrees



Natalie Dykzuel

Scholarship recipient, attending California State University, Stanislaus, majoring in biology



We deliver the promise of dairy.SM

Corporate Headquarters

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Texas Manufacturing Facility

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www.visithilmarcheese.com