



2012 Our Commitment to Sustainability



We deliver the promise of dairy.SM



Welcome to Hilmar Cheese Company

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

Owned by 11 local Jersey cow 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.

About Our Cover

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



100% of Our Reclaimed Water

is recycled and reused on our facilities and for irrigation



\$10,000 Donated to Snack Pak 4 Kids

to help them provide weekend meals for hungry students
www.snackpak4kids.org



40 Employees

were promoted from within the company



31 Students

received college scholarships from Hilmar Cheese Company



100% of the Dairy Farm Families

who ship their milk directly to Hilmar Cheese Company participate in the Farmers Assuring Responsible Management™ animal care program

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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.

The information presented reflects data collected for 2012

A Letter from Our CEO

We appreciate you – a customer, business partner, employee, community member or consumer – taking an interest in learning a bit more about Hilmar Cheese Company, Inc.

This is our third annual corporate sustainability report. In it, we reflect on our accomplishments and the areas in which we continue to improve.

We know that we must earn the right to do business with our customers and within the communities where we operate.

Our 2012 accomplishments included groundbreaking in California for a major construction project – a LEEDS-certified corporate headquarters and food innovation center. Our California facility also saw the installation of an additional biogas (methane) digester to reduce our carbon footprint. Milk receiving and process improvements were completed at the Texas facility.

2012 also had its challenges, especially for many of the 230 independent dairy farm businesses from whom we purchase milk. Feed prices were at all time highs, squeezing the margins for dairies. Yet, the dairy farm families who directly ship milk to us demonstrated their continuing efforts to improve animal well-being by participating in the National Dairy FARM Program. Farmers Assuring Responsible Management™, or FARM, includes best practices for dairy cow nutrition, health, housing and more developed by animal scientists and veterinarians.

Hilmar Cheese Company is privately owned by dairy farmers who understand the challenges of the dairy farm business. The company was founded on the principle of paying for high-value milk and the philosophy that long-term industry success will come from innovation



in the marketplace. Our dedicated staff works hard to convert high-quality milk into products demanded by global consumers. We know that as consumer desires change, conversion equipment improves and formulas evolve, our success depends on continuing to provide the cheese and whey products our customers need.

People are our most valuable resource and we must take good care of our employees and their families. In 2012, the severity of workplace injuries decreased. We have improved ergonomics, implemented new technology to assist with specific jobs and developed processes that reduce risk. Our “near miss” program strives to reduce risk before it becomes an issue. With these actions in place we continue looking for more we can do to make Hilmar Cheese Company a safer and more rewarding place to work.

We are focused on protecting our natural resources, our employees and our future generations. It is our obligation, and it is the right thing to do.

A handwritten signature in black ink that reads "John Jeter". The signature is fluid and cursive, with a large initial "J".

John Jeter

Our Family-Owned Company



Breaking ground on new headquarters, Hilmar, CA

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*.



Company owners

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 at right with founding owners) share responsibility. For Hilmar Cheese Company, success means fostering long-term, mutually beneficial relationships between company owners, employees, milk producers, customers and the local community.

Sustainability, Part of Our Legacy



Dalhart, TX, facility



Innovation Center
& Headquarters

Hilmar, CA, facility with new building site

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 report for calendar year 2012 is our third annual report. It reflects total company efforts

from our Dalhart, Texas, manufacturing facility, and from our headquarters and manufacturing facility in Hilmar, California.

We have incorporated recommendations from the newly created Stewardship and Sustainability Guide for U.S. Dairy, a voluntary framework for tracking and communicating progress. The report also incorporates methodology from the Global Reporting Initiative (GRI), a nonprofit organization that develops and publishes guidelines for reporting sustainability performance. And lastly, the report acknowledges principles important to our customers and our industry.

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

Goals and Progress



Category	Focus	Goals	2012 Progress	Future Plans
Environmental Stewardship	Recycled Water for Irrigation	100% of reclaimed water is recycled for facility landscaping and crop irrigation	8% increase in total volume of reclaimed water available, with 100% of the water recycled for facility landscaping and crop irrigation	Increase the total amount of reclaimed water recycled for irrigation
	Well Water Use Reduction	Minimize the amount of well water used for production	3% decrease from 2011 in the amount of well water used per thousand pounds of production	Implement additional strategies to reduce well water use for production
	Renewable Energy	100% of the internally available biogas (methane) used as a fuel source	45% of internally generated biogas (methane) was used as a fuel source in boilers at both facilities in 2012	Increase amount of internally generated biogas (methane) for use as a fuel source. Continue to evaluate other renewable energy opportunities.
	Energy Efficiency	Continually reduce energy use	2% decrease from 2011 in the total amount of natural gas used for production and other internal uses	Identify areas to implement improvements
	Air Emissions	Decrease the amount of greenhouse (GHG) direct emissions per thousand pounds of product	6% decrease from 2011 in the total amount of greenhouse (GHG) direct emissions per thousand pounds of product	Evaluate renewable options to reduce GHG emissions
	Solid Waste Minimization	Recycle and reuse to create zero waste from the material stream	Implemented office and break room recycling program	Continuous improvement in recycling
	Package Minimization	Minimize product packaging while maintaining quality and material integrity	Installed additional cardboard compactor	Work with suppliers to continually improve packaging efficiency
	Supplier Responsibility	Develop and maintain relationships with suppliers who have similar sustainability goals	Reviewed sustainability programs of key production material suppliers	Improve supplier auditing system
	Transportation	Reduce shipping miles	Coordinate shipping to reduce overall number of loads	Fully utilize options to reduce shipping miles
	Supplying Dairy Responsibility	Develop and maintain relationships with the supplying dairy farms who responsibly provide the highest quality milk	Completed dairy farm reviews	Work with dairy farms who make sustainability, animal care and quality milk a priority

Goals and Progress



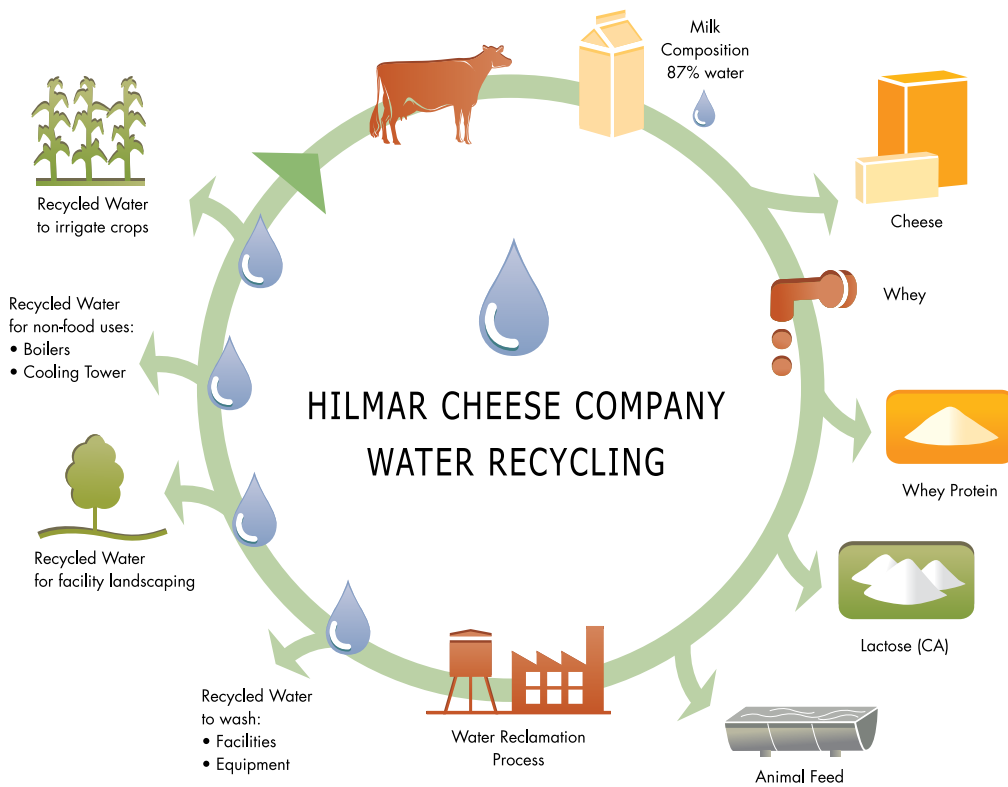
Category	Focus	Goals	2012 Progress	Future Plans
Employees	Safety	Decrease incidents of workplace injuries	Severity of workplace injuries continued to decrease; overall total of OSHA workplace injuries increased 34%	Performance is not acceptable. New and additional proactive safety programs under development for implementation.
	Training	Implement <i>The Hilmar Way</i> training	Incorporated <i>The Hilmar Way</i> into all new staff training	Adopt modules from continuous improvement programs
	Tuition	Prepare employees for new roles and advancement	Reimbursed more than \$47,000 in education fees	Expand program to further develop talent



Category	Focus	Goals	2012 Progress	Future Plans
Economic	Jobs and Local Support	Stimulate local economy	Total workforce increased to 1,292	Continue business success to increase workforce

Category	Focus	Goals	2012 Progress	Future Plans
Engagement	Community Philanthropy	Identify and contribute to projects with significant impact	Donor to Babcock Hall renovations at Wisconsin Center for Dairy Research, Univ. of Wisconsin, Madison	Support youth and education; food security; health care; the arts

Environmental Stewardship



Water Use and Quality

We recover almost 100% of the water originally in milk. This recovered water accounts for more than 60% of the water used at both of our facilities. After our 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

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

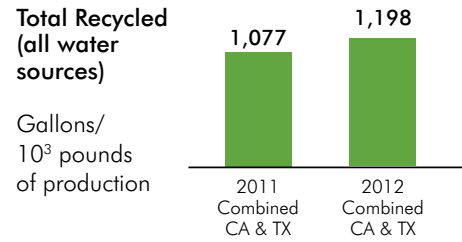
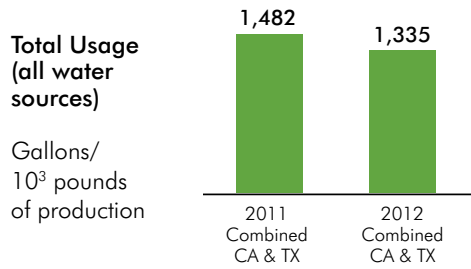
Hilmar Cheese Company, Inc. maintained 100% compliance with all state and federal water quality rules and regulations in 2012. In California, we have decreased our dependence upon well water. At both sites, we established methods to capture rain water and process it for reuse through our water reclamation facilities.

Recycling More

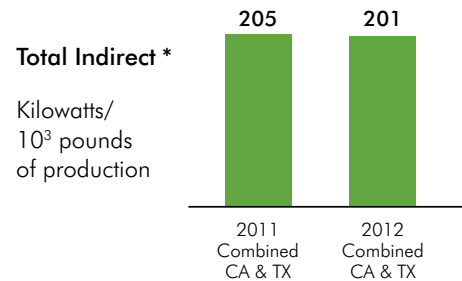
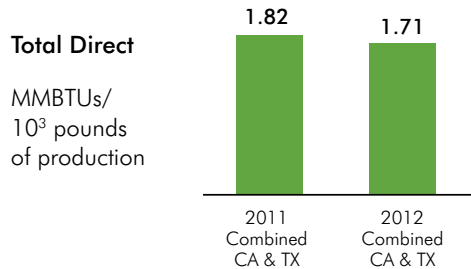
In 2012, an employee-based recycling program was implemented. Blue desk-side containers and recycling bins were placed throughout the offices, break rooms and our California Visitor Center park. These helped employees and guests divert 179 tons of cardboard and 2 tons of office paper, aluminum and plastic. Late in the year, an additional cardboard compactor and a new stretch film baler were installed to increase recycling capabilities.

Environmental Stewardship

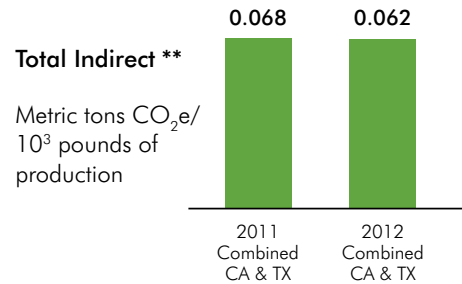
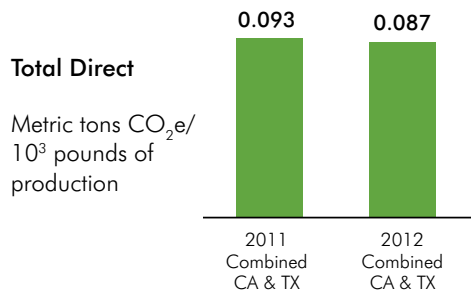
Water



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

Progress at Processing Facilities

The charts above show our progress in water conservation, recycling, energy conservation and greenhouse gas reduction. Figures represent a combined effort for both California and Texas facilities.

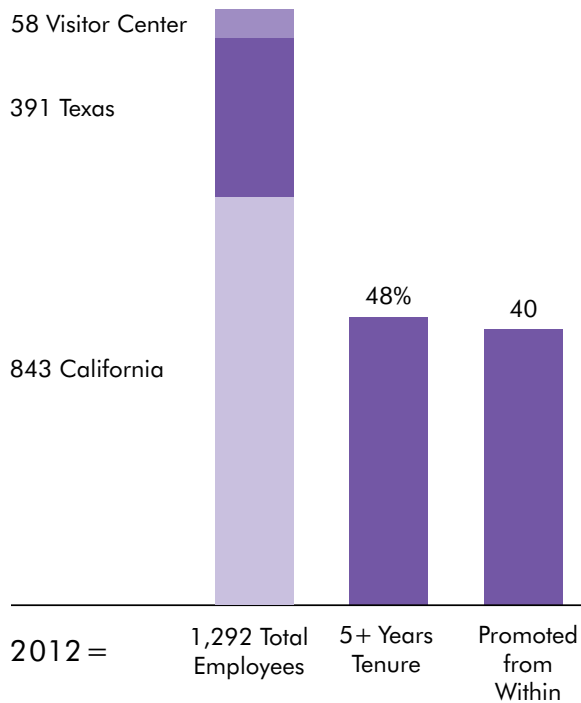
Highlights:

- Increased biogas (methane) use in boilers
 - California and Texas
- Additional biogas digester commissioned
 - California
- Whey process regeneration to transfer heat energy between existing systems and minimize use of steam and refrigeration
 - Texas



The Texas facility's water reclamation system uses a series of ponds and biogas (methane) digesters to process clean irrigation water used by local farmers. The successful biogas system used in Texas is the model for a component planned to be added to the California system in 2013. "This new component fully treats the organic material and will generate an increased amount of biogas. The biogas will be used as a fuel source in our boiler system, reducing our greenhouse gas emissions and total reliance on natural gas for fueling boilers," explained Burt Fleischer, Environmental Director.

Our Employees



Training session, Dalhart, TX

Employee Engagement

The health and well-being of our employees and their families is most important to us. Beyond comprehensive medical, dental, vision and retirement benefits, we offer more:

- Chaplain services
- Cheese and Visitor Center discounts
- Dairy farm tours to educate on practices and agriculture
- Education reimbursement
- Family activities including BBQs and swim nights at community pools
- Full-service retirement planning through our provider
- Gym membership discounts
- Health and Wellness Fair
- Nutrition counseling
- Weight Watchers® programs

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. In 2012, 48% of our employees have five or more years with the company.



This year, one of our employee and family activities in California and Texas was a visit to an owner's local dairy farm. "Many of our employees and families had not been on a dairy before," explained Jean Haskell, Director of Human Resources. "We thought it was important for them to understand first-hand the stewardship, care and effort our supplying dairy farms put into providing us with the highest quality milk."

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

Training opportunities are offered throughout the year and programs vary depending on the status and job requirements of our employees. The chart above is a general outline of the training hours based on employee status.

In 2012, more than 500 employees took advantage of the training offered by our continuous improvement team.

Courses included:

- 5S Workplace Organizational Skills
- Seven Elements of Waste
- Root Cause Analysis
- Practical Problem Solving

80 Texas and 188 California employees were certified in first aid and CPR.

Employee Safety

Hilmar Cheese Company is committed to providing a safe work environment. In 2012, the severity of our workplace injuries decreased. There was an increase in the overall number of Occupational Health and Safety recordable incidences. This increase is not acceptable.

We have taken immediate action including:

- Implemented supervisor safety tool-kit training, providing each supervisor with a business-wide perspective of safety
- Used shift meetings to educate employees on pre-planned safety topics
- Expanded awareness of successful behavior-based safety programs

Economic Value



Food for the World

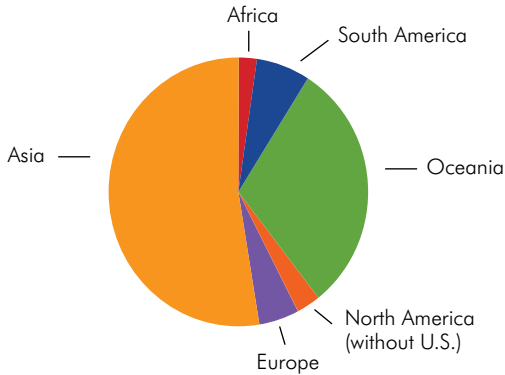
Hilmar Cheese Company is the fifth largest privately held dairy business in the United States. By developing and serving markets around the world, we are able to bring economic value home to our communities in California and Texas.

From a strong domestic market base, we continue to expand our export cheese business by providing products functionally tailored to the growing international demand for American cheeses. Of particular appeal are specialty cheddars for process cheese manufacture (including cheddar varieties with low moisture, reduced salt or reduced fat), and Monterey Jack and Mozzarella for pizza toppings.

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.

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

Worldwide Ingredient Exports 2012



Job Creation

We are a significant provider of local jobs and contributor to each region's tax bases. One way we measure our economic value is by new job creation. In 2012 we added 147 completely new positions.

Additional employment was provided by our use of consultants. In 2012 we hired 41 specialists in information technology, regulatory, human resources, research and development, engineering and communications.



Hilmar Cheese Company purchases high-quality milk from more than 230 independent dairy farms located near our processing facilities. These dairy farms are family-owned and provide significant contributions to their local area.

Environmental Sustainability

Innovations in efficiency, resource conservations, and new technologies have led to an increase in milk production in the U.S., while greenhouse gas emissions have been reduced. As a result, the carbon footprint of milk and dairy production has shrunk by more than 63% since 1994.

Dairy is meeting the nutritional needs of a growing population, with fewer cows. This success is due to selective breeding, improved cow nutrition, improved calf and cow health care, and cow comfort.

The dairy farmers who ship milk to us participate in environmental quality programs. Many live on the farm and the land has been in their family for generations. Land preservation, water conservation and recycling are part of their daily activities.

Cow Care

Dairy farm families operate with the greatest respect and care for their herd's needs. Dairy farm management decisions are made at the dairy farm level by individual producers.

We are proud to have all of the farms that ship milk directly to Hilmar Cheese Company demonstrate their dedication to the highest quality animal care through participation 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. In 2012, Hilmar Cheese Company provided financial appreciation to milk shippers in recognition of the extra effort required to participate in FARM.

Economic Contribution

According to the California Milk Advisory Board, four cows create one job. Many dairy farms employ both family members and others. Community involvement and local support are part of the core values of American farmers.

Community Engagement



Hilmar Cheese Company's XIT parade float

The owners and employees of Hilmar Cheese Company volunteer time and donate to local organizations. Their contributions of cheese, gift baskets and funds help our communities thrive and assist those in need.

From simply putting a collection box in our foyer for eye glasses for the local Lion's Club to working with community members on major projects, our goal is to make our communities better.

- XIT Rodeo & Reunion in Texas is supported with funds and volunteers to help continue one of the world's most exciting western celebrations
- Hilmar Dairy Festival & Fireworks is supported with funds and volunteers to help celebrate the dairy industry's contributions in the local community

Dedication to the Arts

- Gallo Center for the Arts – support nationally acclaimed theatrical works
- Modesto Symphony – 4th year as exclusive sponsor of "Picnic at the Pops" concert
- Turlock Community Theater – fund local productions and events

Improving Community Resources

- Annual holiday canned food drives at both Texas and California facilities have a company match of \$3 for every can of food given, with more than 1,000 food items donated in 2012
- 8,700 pounds of cheese and financial assistance for local food programs:
 - Feed My Starving Children
 - High Plains Food Bank
 - Hilmar Helping Hands
 - Lincoln Street Baptist Food Bank
 - Merced County Food Bank
 - Merced County Rescue Mission
 - Turlock Gospel Mission
 - Turlock Salvation Army
- Snack Pak 4 Kids support helps to reduce hunger for kids living in the Texas Panhandle by providing backpacks filled with healthy snacks over the weekend when kids are unable to access school meals

Community Engagement



Healthier Lives

Hilmar Cheese Company also contributed to these organizations to help advance human health:

- American Red Cross emergency relief funds for Hurricane Sandy and Hurricane Isaac
- Dalhart and Hilmar Community Pools and water safety programs
- Dallam-Hartley Counties Healthcare Foundation
- Emanuel Medical Center Legacy Circle Donor
- International Red Cross annual holiday donation on behalf of customers

Congratulations to the community of Hilmar for receiving the “Baby Relay for Life” award from the American Cancer Society for raising more than \$187,000 at their first year relay. Employee teams in California and Texas worked for matching company funds to raise \$26,000 in 2012.

Inspiring Young Minds

More than 15,000 students visited our dairy exhibits in the Dalhart XIT Museum and Hilmar Visitor Center. The Visitor Center also hosted more than 300 groups from around the world.

Hilmar Cheese Company provides an annual scholarship program to assist with college or trade school tuition for children of our employees, the dairy farm families who ship milk to us, and local students pursuing agricultural degrees.

Along with our exhibits, educational efforts and scholarships, we support the work of these groups:

- 4-H and FFA
- Boy Scouts and Girl Scouts
- Community athletic teams
- Dairy Research Center, University of Wisconsin
- Dallam-Hartley Library
- Friends of Hilmar Library



We deliver the promise of dairy.SM

Innovation Center & Headquarters

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Texas Manufacturing Facility

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Visitor Center at Hilmar Cheese Company

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