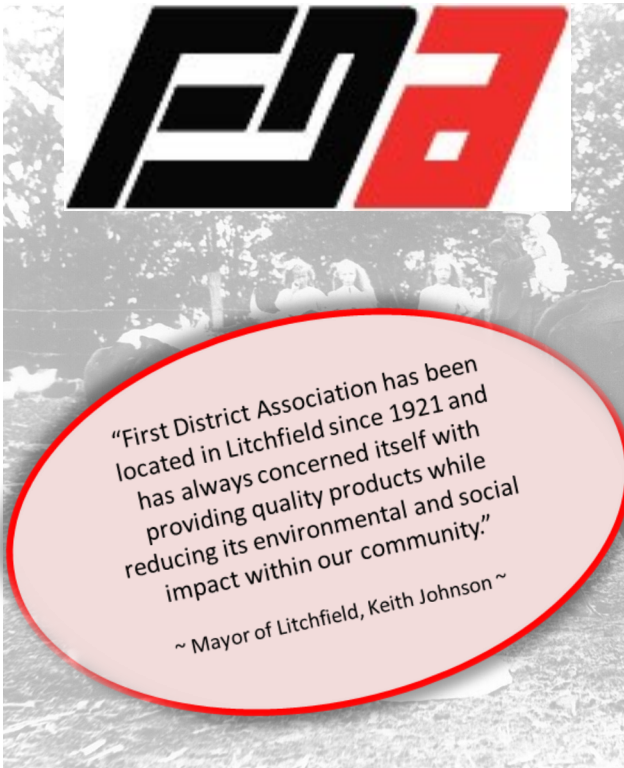


2016 Annual Progress Report *FDA's Commitment to Sustainability*

Welcome

WELCOME TO FIRST DISTRICT ASSOCIATION



CEO MESSAGE

Our mission at FDA is to create a sustainable market for dairy products and allow family farms to prosper in the time honored Midwest dairy traditions.

Since our inception in 1921, our grass roots cooperative has grown to approximately 1,000 member owners. Through significant growth, our commitment to the nutritious, wholesome dairy products we bring to your table has not wavered. We attribute our success to our devoted dairy farmers, loyal employees and our stakeholders who share our history, core values and social responsibility. We are excited to share our story with you.

Clint Fall
President/CEO

Report Contents:

- ~ **Welcome**
- ~ **Social Responsibility**
- ~ **History Timeline**
- ~ **Environmental Sustainability**
- ~ **"One Project At A Time"**
- ~ **Sustainable Farming Systems**
- ~ **"One Farm At A Time"**
- ~ **Employee Welfare**
- ~ **Sustainable Workforce**
- ~ **Community**

BOARD OF DIRECTORS STATEMENT

At FDA, we recognize that sustainability starts with our dairy farmers by practicing farming techniques that protect the environment, public health, local communities as well as animal welfare and valued livestock.

We are proud to share with you a few of the stories that our dairy farmers are currently doing to practice sustainable agriculture. We continue to support and urge our dairy producer members, as well as our manufacturing facility, to develop new and innovative ways to produce our dairy products in a sustainable fashion.

The heart of our business is to provide this world with safe, quality dairy products while preserving our environment and communities for the next 100 years.

The FDA Board of Directors

Social Responsibility

SHARING OUR JOURNEY!

First District Association demonstrates its corporate citizenship by adhering to all environmental regulations. We promote cooperation and coordination between industry, government and the public toward the shared goal of preventing pollution at its source. FDA has been a steward within the community involving community pride and clean-up. FDA proactively communicates and engages with its neighbors regarding future plans for growth and expansion of its facility. FDA is particularly sensitive to noise and light pollution in the areas surrounding its facility and uses up to date technology to keep them as low as possible.



Social Responsibility can encompass a wide variety of topics. Here are a few of the broad categories of social responsibility that FDA continues to focus on:

Environment: Businesses, such as FDA, have the potential for a large carbon footprint. Any steps we can take to reduce emissions are considered both good for the company and society as a whole.

Giving Back: FDA practices social responsibility through donations. Whether it involves giving money or time, we realize that our resources can benefit charities and local community programs.

Ethical Labor Practices: By treating employees fairly and ethically, FDA can also demonstrate social responsibility. We continue to strive to be a company where today's top talent chooses to work. The next generation of employees is seeking out employers that are focused on the triple bottom line: people, planet and revenue.

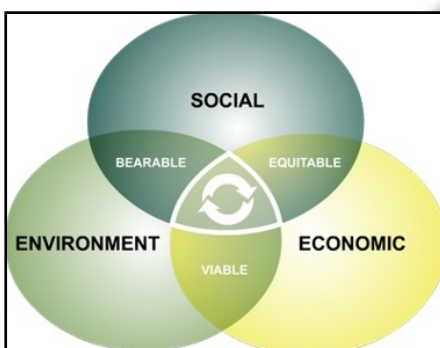
As you will see through this report, FDA does and will continue to improve upon practices that constitute *"Doing the Right Thing"* as well as making it a core culture within our operation. FDA will continue to be socially responsible. Through transparency and honesty, our intent is to continue to earn your trust, appeal to socially conscious consumers and employees, and continue making a real difference in the world.



Global dairy demand (excluding butter) projected to reach 2 trillion lbs. of fresh milk equivalents

Planet would need 83 million additional cows at current global productivity rate gains applying greater stress on planet's limited resources

A sustainable solution depends on innovation



"FDA is an innovative company, continuously adapting to the changing market and investing in expansions to remain competitive and meet consumers' demands. The environmental impact of its production facility is of critical importance and expansions are established around energy and water conservation."

~ Tetra Pak, Craig Linz ~

Dairy Sustainability Goals

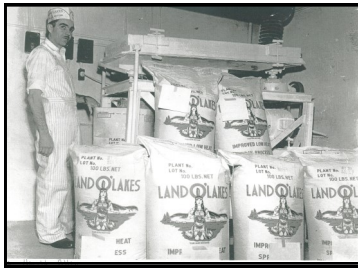
Providing consumers with the nutritious dairy products they want, in a way that makes the industry, people and the earth economically, environmentally and socially better — now and for future generations



History Timeline



Litchfield Creamery Cooperative established. The Coop Creamery Association, Unit #1, First District Association was established.



A unique two stage milk drying process, represented the largest operation of its kind in the world.

First Powder Drying Plant Constructed for Buttermilk

Second Powder Drying Plant Constructed for Skim Milk

Added Additional Warehousing

New Whey Plant Constructed

State-of-the-art For Powder Packaging Installed

1921

1926

1942

1943

1951

1956

1959

History Timeline



A new "Stork Evaporator" was installed making FDA the most modern and energy efficient plant in the world, attracting worldwide interest.



A new 42,000 sq ft cooler, milk processing plant, a central ammonia glycol plant and an expansion of the current cheese plant was constructed.

Make Whey for Cheese! The conversion from butter to cheese manufacturing

Vision of 3.8 million lbs. of milk a day

Lab and Research Center constructed

Capacity reached 5 million lbs. of milk a day with the vision of 7 million

1975 1984 1998 2005 2010 2012 2016

Environmental Sustainability

DAIRY INDUSTRY SUSTAINABILITY



Agriculture and the dairy industry are faced with significant challenges to produce more with less impact. Over the next 40 years, land, energy, water, and weather constraints will place unprecedented pressure on people's ability to access its most basic goods. We must produce more food in the next four decades than we have in the last 8,000 years of agriculture combined. And we must do so sustainably. Systems currently support 7 billion people worldwide. Projections are that the population will grow to more than 9 billion by 2050, requiring a 70% increase in food production.

We also realize that consumers are increasingly considering sustainability factors when making food choices for their families. They are interested in knowing that the foods they buy are produced and processed in an environmentally responsible manner. First District Association and its dairy farm families in Central Minnesota are strongly committed to utilizing sustainable practices now and in the future. Issues we will focus on include, but are not limited to the following:

- ⇒ **Water Supply & Usage**
- ⇒ **Energy Usage**
- ⇒ **Reduction of Greenhouse Gas Emissions**
- ⇒ **Solid Waste Reduction & Recycling**

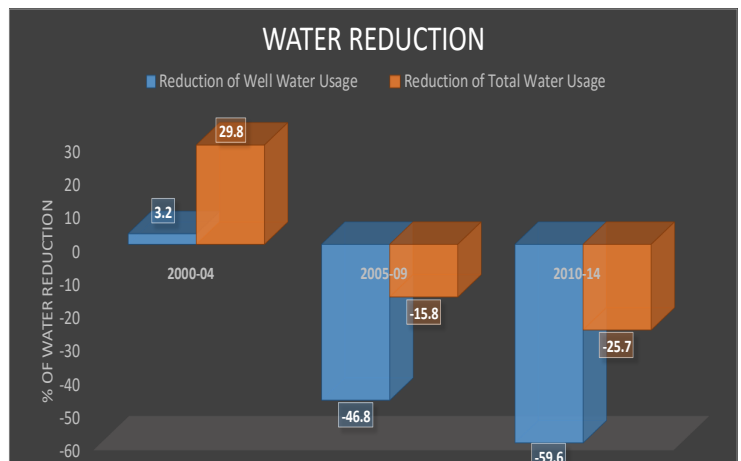


WATER SUPPLY & USAGE

First District Association has a unique and complex multi-stage water reclamation system that recovers almost 100% of the water contained in the incoming milk.

This process goes through various steps to be able to wash the facility and equipment and be reused in the production process.

As we continue to process more milk, the total well water usage continues to decrease and we continue to re-balance the water resources to use less well water resources and more and more reclaimed and recycled cow water.



In 2016 a project was completed to reduce our well water usage by approximately **6.3 million** gallons annually.

168
Million



Gallons of water recycled in our processing plants annually

"One Project At A Time"



ENERGY USAGE

Within the scope of any given year, there are various projects that impact plant sustainability in both small and large ways. Regardless of impact and size, the emphasis on reducing First District Associations' carbon footprint and environmental and social impact within our community remains a high priority in plant project planning.

"One Project at a Time" is a program implemented to highlight those projects that continue to provide contributions toward achieving stated goals

⇒ **Changing exterior lighting to high-efficient LED. Reasonable return on investment and an annual direct energy reduction of 2,483 KWh, which is equivalent to reducing our carbon footprint by 3,847 lbs/year.**



Equivalent to ½ ton of waste recycled annually instead of landfilled



Equivalent to 200 less gallons of gasoline consumed per year



12.6%

Reduction of kWh/CWT of milk processed in the last 10 years

"We applaud FDA's continued effort and stewardship of the environment and of the energy resources. In all our dealings with FDA, we never met the attitude of *leaving good enough alone*. Instead, there was a continuous search for the better solution..."

~ CALORIS CEO, Artur Zimmer ~

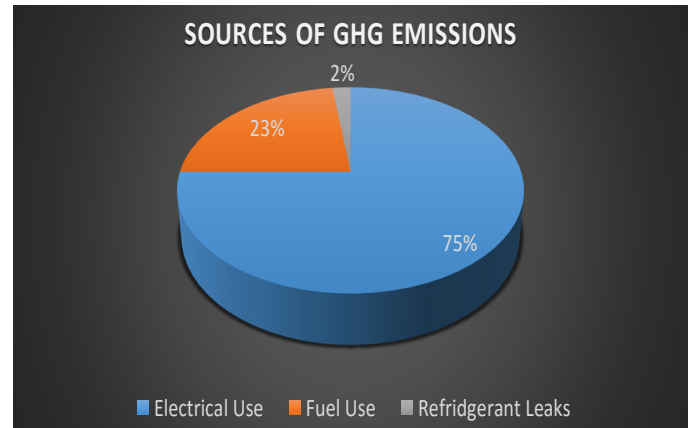


18.8%

Reduction of natural gas Mcf/CWT of milk processed in the last 10 years

GREENHOUSE GAS EMISSIONS

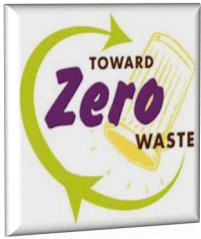
Energy used in FDA's milk processing process produces greenhouse gas emissions within the total life cycle of fluid milk. These emissions come from:



Energy efficiency best practices can help fluid milk plants reduce energy use, emissions and operating costs. FDA continues to improve their bottom line with ongoing concentration on:

- ⇒ Energy efficient lighting
- ⇒ Boiler upgrades
- ⇒ Refrigerant system upgrades
- ⇒ Reverse osmosis filter systems
- ⇒ Solar panels
- ⇒ Variable speed drives
- ⇒ Plant energy audits
- ⇒ Steam system assessments

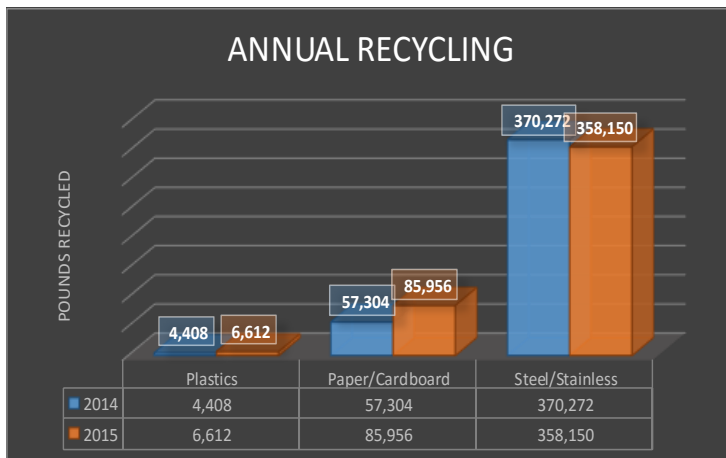
“One Project At A Time”



RECYCLING WASTE

There is a culture developing that in order to take care of our planet, it needs to start at the plant level with a concentrated effort of recycling with a “Zero to Landfill” mentality.

Each year we continue to grow our efforts and look for new options to be better at recycling. This includes getting more employees involved with the recycling process. These efforts have 2016 shaping up to be a year that has seen a re-focus and gathering of information to do a more consistent job in the years to come.



Relationships are being formed with the surrounding recycling centers in an effort to capture more items prior to landfill. These relationships are priceless and have already shown promising environmental benefits in our waste collection. From better collection statistics, more efficiencies and more collection bins at various sites on our campus.



Other items recycled annually:

- ⇒ **Average 850 gallons of used oil**
- ⇒ **Average 1100 fluorescent bulbs**
- ⇒ **Average 166 lbs of batteries**
- ⇒ **Average 132 lbs of electronic components**



FUTURE OF AG PLASTICS

First District Association remains dedicated to enhancing our Sustainability Program by growing recycling opportunities outside our plant gates. As part of that effort we have partnered with McLeod County Solid Waste Management and Meeker County Solid Waste & Recycling to develop a program that will help collect and recycle agricultural film plastic from dairy farms and other agricultural operations in Meeker County. The project is intended to provide an environmentally-responsible option for disposal of Ag Plastics which include silage bags, bunker covers and bale wraps that have been cut into manageable sizes.

The attempt is to educate that recycling these plastics is a more positive alternative to the typical practice of delivering it to the landfill or improperly disposing of it on the farm.

In addition to this, First District Association is looking into the option of providing “drop locations” for Ag plastic if you have small amounts for all counties within our entire member-patron cooperative in the state of Minnesota. Stay tuned as we dive in and determine the success of this pressing agricultural issue.



Sustainable Farming Systems

FARM CONTINUOUS IMPROVEMENTS



As a grass roots cooperative, FDA has around 1,000 member owners. We are confident in our best farm management practices and the vast array of educational and regulatory resources to assist them with all areas of sustainability and compliance.

Farms are monitored using various criteria of farm management tools by our Field Representatives, the Minnesota Department of Agriculture, as well as the Food & Drug Administration through federal surveys and inspections. Farm protocols and improvement plans are also initiated through the voluntary FARM (Farmers Assuring Responsible Management) Program.

⇒ **As of August 2016, FDA is proud to announce that 100% of our farms are FARM Certified! The focus of these programs are to emphasize and support the following areas:**

Agrochemicals and Fuels

Comply with all areas of nutrient management, agricultural fertilizers and pest management.

Soil Management

Encourage and assure best soil management and conservation practices.

Water Management

Comply with scheduled water testing as well as following proper Milkhouse Wastewater Treatment Conservation Practices.

Biodiversity

Responsible interactions among resources, the environment and the management systems and practices used by our farmers.

Waste Management

Invest in manure digestion systems and other forms of recycling and waste management to reduce waste to landfill quantities.

Energy Management

Pursue alternatives such as solar, wind, etc. and commit and participate in energy efficiency studies to minimize and reduce usage.



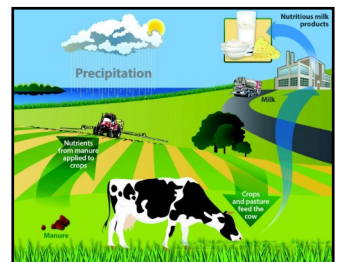
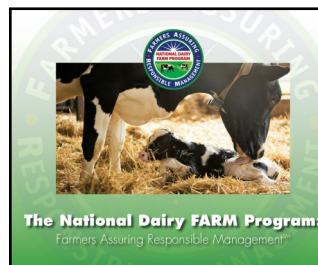
Social and Human Capital

Encourage strong, ethical working relationships and farm safety and awareness on its farms.

Dairy Cow Care/Animal Welfare

The FARM program is recognized as the dairy industry standard in animal care.

- ⇒ **Implemented the “See It, Stop It” campaign as a valuable resource to assist with employee on-farm protocols for animal welfare.**
- ⇒ **FDA has been an active participant for animal welfare programs within Minnesota.**



The evolution of the dairy farm has significantly evolved in the overall efficiency of the cow, land, crops, and equipment. It is exciting and evident that the footprint continues to shrink and dairy farmers are definitely doing more with less in an effort to conserve our resources.

“One Farm At A Time”

Sustainability At Work in Our Cooperative!

Marshik Dairy

Sustainability Steward – Pirez, MN

Robotic Milkers

Increased milking efficiency
Increased cow comfort

New Efficient Barn

Time-controlled fluorescent lighting
Natural ventilation and heat retention
Heat recovery and milk cooling
Savings of 110,000 kWh per year

Renewable Energy

Wind energy
(offsets 12% of the dairy's electrical use)
44-panel roof-mounted solar array
(saving 13,663 kWh per year)

Manure Management

Control runoff naturally
Reduce commercial fertilizer use by 8%.

Through renewable energy and automation, the dairy now is milking 60% more cows and has increased milk production by 48% — all while reducing their environmental impact.



2014 Innovation Center for U.S. Dairy: “Outstanding Achievement in Energy Efficiency”



Haubenschild Dairy

Anaerobic Digesters - Princeton, MN



Haubenschild Dairy produces some 60,000 pounds of milk each day – and 20,000 pounds of manure. This family dairy is dedicated to reduce odors and propane costs, which are used for heating hot water, the floor and pre-digestion.

The “Methane Man”, Dennis Haubenschild, pioneers manure-to-technology

Farm of the Future: the Haubenschild Farms Anaerobic Digester

Manure warms the dairy and powers 70 local households!

2010 Innovative Dairy Farmer of the Year: Haubenschild Dairy Farm, Inc.

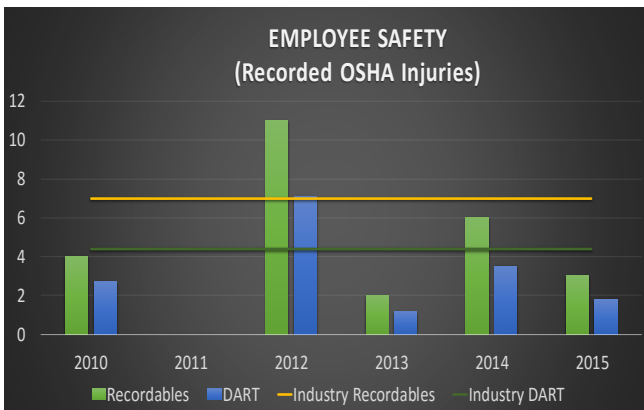
Employee Welfare

The health and well-being of our employees and their families is a very important and integrated part of FDA. We are committed to the safety and well-being of our employees and believe excellent safety performance not only prevents injuries, but reflects the total human condition at our cooperative and has a positive impact on the bottom line.

"FDA's decisions best represent and prioritize the virtues of: safety, environmentally and economically responsible and actively represents itself in the community. A simpler way to put it; FDA **just does things right!**"

~ Carlson & Stewart Refrigeration ~

EMPLOYMENT & EMPLOYEE SAFETY



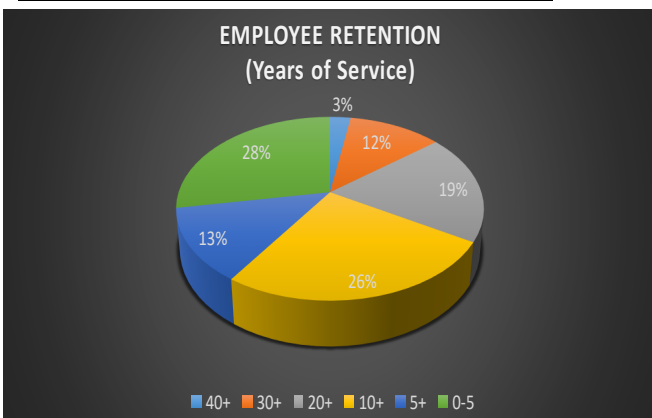
(DART) that is regularly below the Cheese Industry average, while striving to improve from previous years numbers.

A re-emphasis on a rejuvenated "Culture of Safety" through awareness and 60+ effective training classes per year. Our goal annually is an accident free workplace and to identify and eliminate safety hazards when possible. All of this in an attempt to have limited *Days Away From Work, No Restrictions or Transfers*



FDA adheres to all federal, state and local laws regarding employment and is fully committed to attracting, retaining, developing and promoting the most qualified employees. We also seek to provide a work environment free from discrimination and insist that all employees be treated with dignity, respect and courtesy.

SUCCESSION PLANNING & TENURE



Maintaining an effective and stable workforce is a big component of establishing our quality dairy products. Succession planning is tied to FDA's strategic business plan along with long term changes in direction, company growth, and staffing needs.



FDA recognizes an ongoing effort is required to prepare people to meet our organizational needs for talent over time. We will continue to evaluate critical roles within our aging workforce. Currently the workforce is made up of 155 employees with 72% of those employed 5 years +.

Of course, any effective work force requires a devotion to employee development where through internal and external means, employees continue to find purpose through stretching their limits through education and continued leaning.

Sustainable Workforce

HEALTH & SAFETY

- Effective safety programs that fosters safety culture
- DART for Cheese Industry is 7.1; FDA is 3.5 always with a goal of "0" lost time accidents

SUCCESSION PLANNING

- Evaluate critical roles in an aging workforce
- Successful promotions of 10 employees into critical roles

DEMOGRAPHICS

- Maintain an effective workforce with longevity
- 155 employees with 72% being at FDA 5+ years

SUSTAINABLE WORKFORCE

Balance the interests of FDA, employees, families and community by giving opportunities to continuously develop.



TRAINING & DEVELOPMENT

- Striving for better overall company communication
- 59 training classes in 2014 to rejuvenate effective and interactive communication

INTERNSHIPS

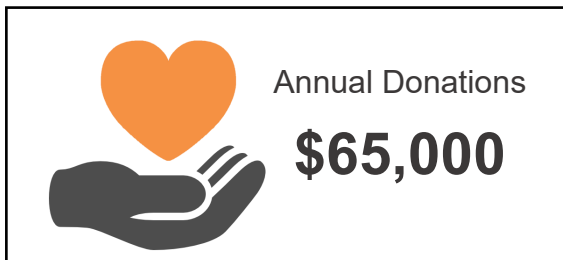
- Preparing those interested in a career in agriculture
- Consistent use of up to 3 interns from surrounding post-secondary agriculture programs





First District supports the communities in which our members, and employees are actively involved. As a farmer-owned

cooperative, local agriculture and dairy-related organizations are a top priority.



DONATIONS & COMMUNITY

FDA supports:

- ⇒ Agriculture and dairy organization meetings
- ⇒ Dairy farm breakfasts / June dairy month
- ⇒ Dairy promotions at local businesses
- ⇒ K-12 agriculture / dairy education programs
- ⇒ Farm management education
- ⇒ Local emergency health services
- ⇒ County fairs, cattle shows and dairy expos
- ⇒ 4-H and FFA
- ⇒ Ag-related government organizations
- ⇒ Local festivals

PROUD SUPPORTERS OF:



Supporting agricultural education, our local schools and area mentorship programs

EDUCATIONAL SUPPORT

- ⇒ Every year, First District Association awards up to 14 scholarships totaling \$7,500 to member-owners or the children of member-owners who are pursuing a career in the agricultural field.

Scholarships Totaling
\$7,500



- ⇒ FDA provides three internship opportunities annually for those pursuing a career in dairy processing programs or related fields.



- ⇒ Numerous educational tours to youth organizations, FFA, 4-H, and milk, dairy and agricultural related clubs and organizations.
- ⇒ Future plans include more focus on community engagement through employee volunteerism and providing employee resources for community related projects.
- ⇒ FDA realizes the Impact of farming on the local economy and its ability to provide good jobs for Minnesotans. We just don't work in Litchfield, MN, we live here too, and want to help make it a great community.