



**balchem**<sup>®</sup>

Making the World a Healthier Place —  
Our 2018 Sustainability Report





# OUR MISSION

## *Making the World a Healthier Place*

Every day, Balchem is delivering trusted solutions that enhance health and well-being through science. The two objectives of our sustainability strategy directly support our mission of making the world a healthier place: providing innovative solutions for the health and nutritional needs of the world, and operating with excellence as strong stewards of our employees, customers, shareholders, and communities (our stakeholders). In developing our Sustainability Framework, we worked closely with our stakeholders to identify the Environmental, Social, and Governance (ESG) topics most relevant to our business.

One of our proud accomplishments is Balchem's impact on 1.3 billion people each year through human nutrition products, as well as people fed by animals supplemented with our vital nutrients.

Our report highlights our efforts within three pillars: People, Planet, and Profit. We welcome you to join our sustainability journey to make the world a healthier place.

## Our Sustainability Framework



## 1.3 Billion People Reached in 2018

The total number of people impacted is calculated by the daily recommended doses of minerals, essential nutrients, and vitamins and the annual consumption of protein.



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# MESSAGE FROM OUR CHAIRMAN AND CEO



# MESSAGE FROM OUR CHAIRMAN AND CEO



*Sustainability is at the heart of our company's mission to make the world a healthier place.*

## TO OUR EMPLOYEES, CUSTOMERS, SHAREHOLDERS, AND COMMUNITIES:

Balchem has a long, distinguished history of creativity and innovation, all supported by our mission to make the world a healthier place. At our core we are a health and nutrition company.

While this is our first formal sustainability report, we spent the past 50 years passionately engaged in developing and delivering innovative solutions for the nutritional needs of the world, while operating our facilities and businesses to the expectations of our employees, shareholders, and the communities within which we operate. We recognize that it is important for us to better communicate our sustainability ambitions, successes, and areas of priority, and, as a result, are providing this report and our vision.

Our strategy is inherently aligned with our business across segments - Human Nutrition and Health, Animal Nutrition and Health, Specialty Products, and Industrial Products. Among other products and solutions, our businesses supply minerals and essential nutrients to people and animals all around the world with approximately 1.3 billion people being positively impacted in some way by our products.

To confirm our commitment to Environmental, Social, and Governance (ESG) topics, we engaged our customers, shareholders, and employees for input on the key priori-

ties for Balchem's sustainability strategy. In establishing our framework we have stayed true to our two main objectives: providing innovative solutions for the health and nutritional needs of the world, and operating with excellence as strong stewards of our people, communities, and shareholders.

Our employees are connected with their communities and share their time and resources. Balchem supports efforts to find novel ways to help, give back, and build strong places to live.

The safety, health, and security of our employees, business partners, and communities are of primary concern in the operation of our facilities. We have global initiatives to reduce employee injuries with the goal of zero injuries and are proud of the progress we have made over the last several years. There is a lot more to do, however, and our journey is one of continuous improvement. Our ambition is to build a stronger and more vibrant company that meaningfully contributes to a healthier world for all of us. This report will share the foundation we have built and communicate our goals and commitment to these objectives.

I am proud of the contributions of all our employees, suppliers, and business partners who are dedicated to our vision and to advancing our progress on this journey.



## OUR FOUR BUSINESS SEGMENTS

### **Human Nutrition and Health:**

Provides food ingredients for the beverage, dairy, and bakery markets and human minerals, nutrients, and vitamins.

### **Animal Nutrition and Health:**

Supplies science-based animal feed nutritional ingredients and solutions for better animal productivity and wellness.

**Specialty Products:** Promotes human health by ensuring the safe and timely supply of critical sterilization technology to the medical and food industries.

**Industrial Products:** Supplies environmentally friendly products for the energy industry.

**Ted Harris**  
Chairman and Chief Executive Officer



# 2



## ABOUT OUR REPORT



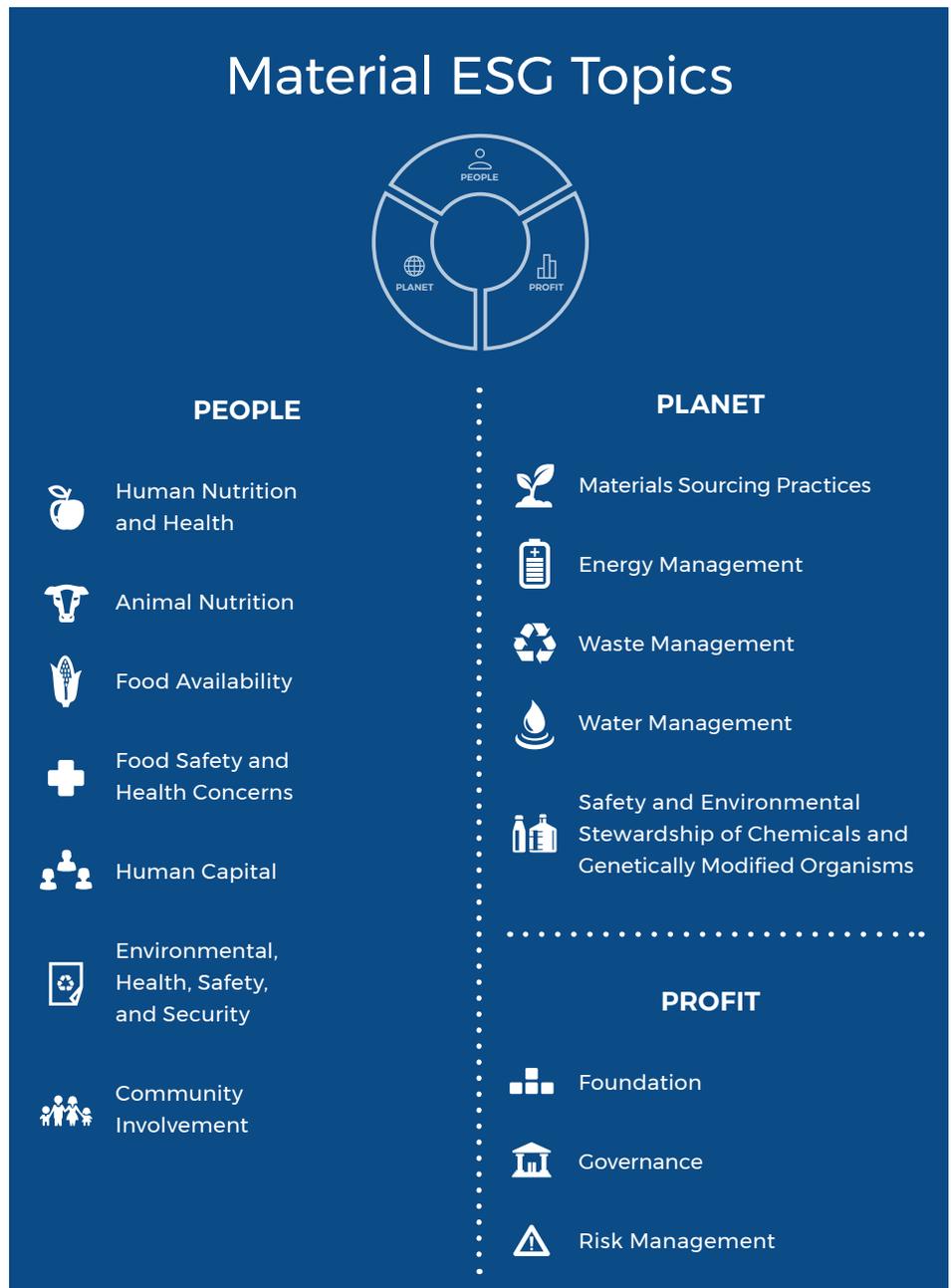
# ABOUT OUR REPORT

*We are committed to making the world a healthier place by providing solutions for the health and nutritional needs of the world and operating responsibly.*

Our first sustainability report is intended to formalize how we communicate our efforts to stakeholders and demonstrate our dedication to continuous improvement. The issues addressed in this report were identified and prioritized by engaging a wide range of internal and external stakeholders. Our process included:

- Convening a cross-functional executive steering committee with representatives from business units, finance, investor relations, human resources, R&D, internal audit, supply chain, and operations
- Interviews with a broad range of executives and functional leaders relevant to sustainability issues
- Discussions with some of our largest shareholders and customers
- Reviewing leading standards and frameworks such as the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), and the UN Sustainable Development Goals (SDGs)

This report has been prepared in accordance with the GRI Standards: Core option. Unless otherwise noted, the scope of the metrics and information presented in this report is equivalent to those considered in our annual financial report and includes the operations of all subsidiaries. These metrics reflect the results of 12 months of operations ending on December 31, 2018.





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## MEASURING OUR PROGRESS



# MEASURING OUR PROGRESS



PEOPLE	PLANET	PROFIT
<p><b>1.3 billion</b> – number of people reached per year</p>	<p><b>10.2 billion</b> – number of animals reached per year</p>	<p><b>27.6%</b> – revenue from products developed in the past five years</p>
<p><b>1.06</b> – total recordable injury rate (TRIR)</p>	<p><b>0.61 GJ</b> – energy intensity (GJ of energy per ton of product produced) <b>73,726</b> – scope 1 and scope 2 greenhouse gas emissions (CO<sub>2</sub>e metric tons)</p>	<p><b>\$643.7M</b> – total revenue</p>
<p><b>23%</b> – hourly employee turnover <b>10%</b> – salary employee turnover</p>	<p><b>11.5 CBM</b> – water intensity (cubic meters of water withdrawal per metric ton of product produced) <b>1.8%</b> – water withdrawal from regions with high or extremely high baseline water stress</p>	<p><b>\$159.9M</b> – adjusted EBITDA**</p>
<p><b>76% males, 24% females</b> – employee diversity</p>	<p><b>99%</b> – hazardous waste reused or recycled <b>70%</b> – hazardous material suppliers audited in the last 3 years*</p>	<p><b>\$78.6M</b> – GAAP net earnings <b>\$2.42</b> – GAAP earnings per share</p>
<p><b>75%</b> – R&amp;D focused on health and nutrition</p>	<p><b>100%</b> – of palm oil sourced certified through RSPO <b>43%</b> – raw materials from renewable resources</p>	<p><b>127%</b> – free cash flow conversion</p>
<p><b>100%</b> – manufacturing sites with local community engagement efforts</p>	<p><b>0</b> – product recalls</p>	<p><b>21.1%</b> – 5-year total shareholder return (TSR) vs Russell 2000 Index</p>

Note: Scorecard metrics represent priority focus areas, but additional metrics may be disclosed to satisfy analyst needs. The number of people reached is calculated by the daily recommended dose of vitamins and annual consumption of protein in 2018. \*Balchem defines hazardous materials as Ethylene Oxide, Trimethyl Amine, Hydrochloric Acid, Anhydrous Ammonia, Propylene Oxide, and Carbon Disulfide. \*\*Adjusted EBITDA is defined as earnings before interest, other expense/income, taxes, depreciation, amortization, stock-based compensation, acquisition-related expenses, indemnification settlements, legal settlements, and the fair valuation of acquired inventory.



# 4



**PEOPLE**



# PEOPLE

*“Our goal is to bring together marketing, research, quality, and production to reduce the development time to market of new and impactful human nutritional solutions.”*

– Jim Hyde, VP-GM of Human Nutrition and Pharma

## HUMAN NUTRITION AND HEALTH

Good nutrition is the foundation of good health, and Balchem’s Human Nutrition and Health (HNH) segment is dedicated to making nutrient-rich products with numerous wellness applications. Our HNH segment is the world leader in providing choline, a human nutrient, under the brand “VitaCholine®”, and a broad range of specialty organic chelated minerals for efficient human metabolic utilization under the Albion Minerals brand.

Recent studies demonstrate choline’s broad role in human health, and in May of 2016, the FDA established a Recommended Dietary Intake (RDI) of 550mg/day. With 90% of the US population failing to achieve adequate choline intake, the US Government has defined choline as a key “short-fall nutrient.”

To advance scientific understanding of choline and the important role it plays in human physiology, Balchem has established a Research Fellowship at the Nutrition Research Institute of the University of North Carolina, Chapel Hill (UNC). Balchem has also funded research to establish a reliable laboratory biomarker that would help identify those at risk for choline deficiency. In 2017, our study served as the basis upon which UNC received a \$2.6M grant from the US National Institute of Health to expand the choline biomarker work. In line with our commitment to research and development (R&D), 75% of our R&D expenditures are focused on health and nutrition, showcasing our continued

commitment to advancements in making the world a healthier place.

Choline plays a key role in neurological and cognitive development, gene regulation, membrane integrity, and lipid transport, which supports liver and muscle health. The importance of choline in infant development and the health of pregnant women has been well documented for many years. Choline is a staple of infant formula and, based on new and compelling research, is poised to become a key ingredient for prenatal supplements due to its enduring benefits for neurological development in infants, toddlers, and older children.

In addition to choline, our HNH segment’s minerals portfolio offers a broad range of specialty organic mineral solutions. The portfolio includes iron, magnesium, calcium, and zinc, as well as many other trace minerals, all produced by unique and specialized methods. These amino acid chelated compounds are designed to deliver human-grade minerals with improved bioavailability, better tolerability, and lower interaction characteristics.

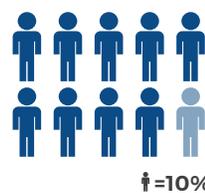
Our HNH segment’s food ingredient business has partnered with customers to develop powdered nutritional proteins and healthy fats for the beverage and sports nutrition markets. These product lines include vegan, non-GMO, and organic solutions to the rapidly developing nutritional food market. Our unique ability to formulate flexible processing technology broadens customer options and accelerates the development of healthy nutritional food solutions.

# 75%

**R&D funds focused on health and nutrition**



In 2016, we reformulated our food ingredient products to remove partially hydrogenated oils (PHOs). PHOs contain trans fats which raise LDL cholesterol. Elevated LDL levels are associated with increased risk of heart attack. To provide broader nutrition solutions, Balchem is developing reactive granulation platform technology, a process for multiple mineral chelating (CCMG, MLGG, DMCC - all nutritional ingredients for human health).



# 90%

**of the US population does not achieve adequate choline intake**



# PEOPLE

## ANIMAL NUTRITION AND FOOD AVAILABILITY

Balchem is focused on the nutritional needs of both production and companion animals around the globe, and we invest extensive resources in our internal R&D efforts, as well as with leading academic institutions, in the field of animal science and nutrition. The global expanding population and stress on resources will require new solutions. We are invested in meeting this challenge and ensuring the success of a sustainable global food system.

As a leader in animal feed technologies, we are driving the innovations that will change our future. We will help livestock producers accomplish more with less, discover unique products that will produce food more efficiently and move us toward a more secure, sustainable food chain. Our extensive line of specialty nutrients helps support the health and productivity of many animals – ruminants, poultry, swine, horses, aquaculture, and companion animals – with products optimized for the unique needs of each species. Again, choline plays a vital role. It’s an essential nutrient for poultry and swine livestock, as it positively affects their health, productivity, and longevity. For the average dairy cow, choline boosts milk production by an additional 1,400 pounds per cow, per year, and also helps to ensure the health, growth, and productivity of her newborn calf throughout its life.

Our Animal Nutrition and Health (ANH) business segment provides nutritional products formulated with natural and nutritional ingredients, including choline chloride, amino acids, minerals, and a variety of other important supplements. Balchem’s proprietary microencapsulation and chelation technologies ensure efficient delivery of essential nutrients to pets and livestock. Our animal products contribute to their overall health, growth, and performance, as well as the more responsible use of resources. ANH products allow for

higher protein production, which enables a growing global population to be fed more efficiently and reduces the net total animal environmental footprint.

With our NitroShure™ product line, we are able to provide precision release of nitrogen in ruminants’ diets. This allows better utilization of home-grown forages, which, in turn, reduces the amount of land required to support profitable milk production and the amount of nitrogen excreted into the environment by as much as 40%.

Our plant micro-nutrient line provides minerals for crops. Using a unique technology, we solve mineral deficiency in plants by delivering optimal mineral balance directly to the plant through a superior delivery system. The end result is healthier crops with larger yields and improved disease resistance. This approach also reduces the stress on land and water resources.



## ReaShure®

ReaShure® precision release choline, a major technological breakthrough, protects choline in the cow’s digestive tract for time-released, bioavailability, and nutritional efficacy.

- ✓ Higher milk production
- ✓ Fewer metabolic problems
- ✓ Essential nutrient

# 1,400 LBS

of additional milk produced per cow, per year





# PEOPLE

## FOOD SAFETY

Food safety is a top priority. We comply with a number of industry and government regulations, including:

- cGMP for food and supplements
- FAMI-QS and Safe Feed Safe Food for animals
- USP requirements for Choline
- USDA for milk and dairy products
- CFR 110, 117 food and dietary supplements
- NSF International

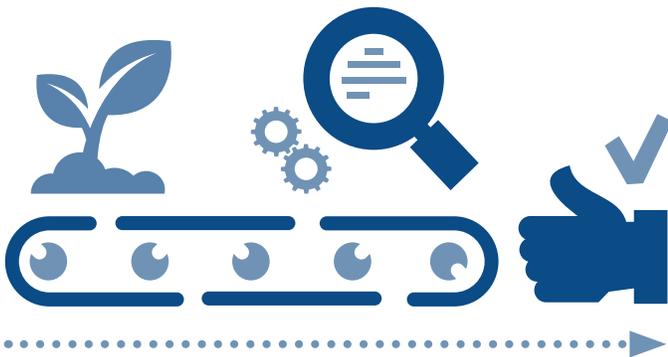
In 2016, the FDA issued the new Food Safety Modernization Act (FSMA) guidelines for food safety. To meet these new guidelines over the last two years, we have invested in additional personnel, procedures, systems, and facilities.

Balchem sites are audited internally, by government agencies, by customers, and by third parties for compliance with the appropriate regulations and for good manufacturing practices. Balchem retains Safe Quality Food (SQF) annually to independently audit all sites on the

regulations that govern our products. Any deficiencies or improvement opportunities are tracked to completion.



## HOW WE MANAGE QUALITY THROUGHOUT OUR SUPPLY CHAIN



**Step 1: Raw Material Sourcing, Evaluation, and Approval**



**Step 2: Site Quality Assurance Program**



**Step 3: Transportation Supplier Qualification**



### SUPPLIER SCORECARD

Quality Tracking

Corrective Action

Follow-up Site Audit



# PEOPLE

*Quality starts with our suppliers. We recognize we need to partner with the right suppliers to ensure product availability and integrity.*

We have an active raw material quality sourcing approval program. The program includes an evaluation of the supplier's quality program and material to be supplied, verification of supplier compliance with the Hazard Analysis and Critical Control Points (HACCP) program and a systematic preventative approach to food safety risks. In the food safety evaluation process, we consider how the product is made, how it is distributed and the intended use.

Balchem maintains an ongoing supplier scorecard, including quality tracking, corrective action, and completion and follow-up site audits as required. We take customer feedback seriously and track customer complaints, complaint investigations, and corrective actions and customer communication of complaint resolution.

## INNOVATING OUR BUSINESS

We are currently building a world-class R&D and Quality Control facility located at the Ogden, Utah HNH Production Campus. Our state-of-the-art micro laboratory and large, modern product development pilot plant are already in place.





# PEOPLE

*Balchem is committed to providing a safe and collaborative work environment that encourages the growth and development of all employees.*

## HUMAN CAPITAL

Our employees are our most valued asset and fundamental to our success. Balchem is committed to providing a safe and collaborative work environment that encourages the growth and development of all employees.

We strive to develop employee skills and knowledge. The employee experience begins with an online onboarding tool and employee handbook that provide extensive information on company policies. Training is facilitated through our online system designed with employee self-service training modules that document the understanding and completion of assigned or required training. This system is used to train for job-specific knowledge, regulatory requirements, and company policies, including Balchem's code of conduct, anti-harassment, and discrimination, foreign corrupt practices, antitrust, and various other compliance areas.

Our sponsored Employee Continuing Learning program offers a broad base of assistance for employees, including learning and development courses.

Employees have access to healthy lifestyle discounts through our Wellness Center, as well as debt, legal, and financial counseling. Peak performance training and multiple online services and courses enable our employees to choose their own learning paths and work to achieve their future goals for education, finances, and overall well-being.

We also work to extend education and outreach opportunities to the community at large. In November 2018, we invited local students into our Marano Ticino facility to learn about our company's mission and operations. The students were able to gain a feel for roles within the company as they prepared for their career paths and decided where they see themselves in the future. After a quick tour and presentation, students met fellow alumni

who are now employees to exchange experiences and learn more about the site's activities and future job opportunities. The experience gave these students a concrete example of how their schooling can lead to a successful career.

We provide financial support for employees to pursue degree programs, and on an annual basis, award scholarships to support the education of employees'



### EMPLOYEE SUCCESS

**Employee success starts with the expectation that all Balchem employees practice our core values:**

-  Always doing the right thing
-  Collaborating and growing together
-  Staying focused on the customer
-  Thinking big and acting small
-  Playing to win



### BALCHEM SONS AND DAUGHTERS SCHOLARSHIP PROGRAM

Since the program's inception in 2005, Balchem has proudly awarded \$98,000 in scholarships to children of employees, helping them to achieve their educational goals. We are excited to announce that in 2019 we will double the number of annual scholarship offers, awarding 10 scholarships totaling \$20,000.





# PEOPLE

children. Our annual performance review process fosters continuous growth and development by providing an opportunity to establish goals and deliver feedback relative to each employee's performance. Balchem's review process connects with a formal succession planning process designed to develop the next generation of leaders.

We are dedicated to providing full-time employees with a competitive compensation package that includes medical,

dental, vision, and prescription benefits in addition to a 401K matching program. Balchem also provides financial support for health and wellness programs such as sponsored weight-loss programs and subsidized gym memberships.

Diversity and inclusion is an important element of Balchem's Human Resources strategy. In 2018, 54% of salaried new hires were females. Our recruiting efforts proactively consider diversity as part of any search.



## BALCHEM WOMEN'S IMPACT NETWORK (BWIN)

**Established:** 2018

**Vision:** To inspire women of Balchem to capture their full potential.

**Mission:** To build a platform that informs, develops, and empowers all of us to thrive both professionally and personally.

**Current Membership:** 110

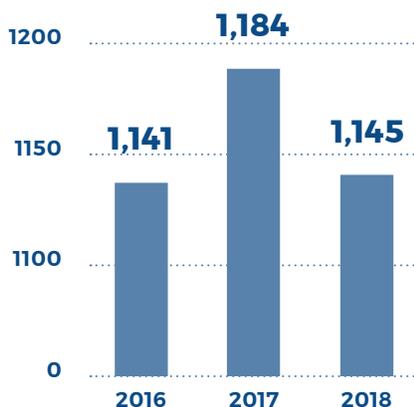


Employee turnover

2018  
**23%** HOURLY  
**10%** SALARY

2017  
**16%** HOURLY  
**8%** SALARY

## EMPLOYEE HEADCOUNT (AS OF 12/31/18)



Employee diversity (gender)

2018  
**76%** MALE  
**24%** FEMALE

2017  
**77%** MALE  
**23%** FEMALE



# PEOPLE

*We expect all employees, visitors, and contractors to take active personal ownership for their safety and the safety of others.*

## ENVIRONMENTAL, HEALTH, SAFETY, AND SECURITY

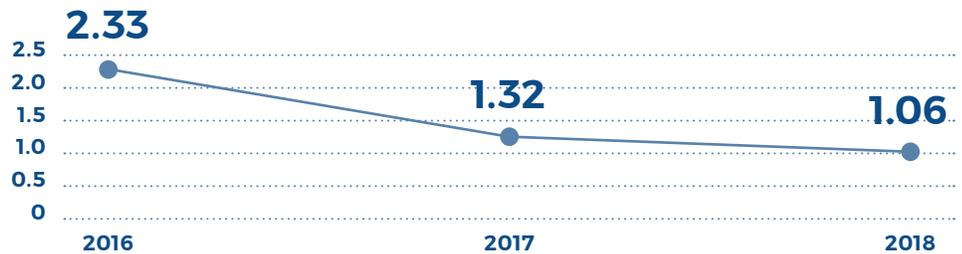
Protecting the environment and the health and safety of our employees, contractors, visitors, and neighbors is our top priority. Our goal is to achieve zero injuries and fatalities, and avoid worker exposure to harmful conditions. We continually upgrade our facilities to reduce risks and establish procedures with appropriate personnel protection for the safety of our employees. We expect all employees, visitors, and contractors to take active personal ownership for their safety and the safety of others. Our safety program is structured around five pillars: process safety, personal safety, industrial hygiene, transportation safety, and environmental safety.

We believe engaged employees will make the difference in meeting our goals. Our numerous avenues for employee or

contractor participation and communication include an open door policy, site suggestion boxes, safety huddles prior to work, an anonymous corporate concern hotline, and annual employee site safety surveys. Balchem conducts Job Safety Assessments (JSAs) to review the work

environment for potential risks and to identify the necessary safety requirements. Our Stop Taking Avoidable Risks (STAR) program encourages employees to make observations and provide input on steps to improve our operations and create safe working conditions.

### TOTAL RECORDABLE INJURY RATE



Rate defined by recordable injuries per 200,000 hours worked.



**SAFETY FOR ALL**

All Balchem sites have emergency management plans. We work with local emergency responders to build understanding and stage mock drills to identify opportunities for continuous improvement.



**STOP TAKING AVOIDABLE RISKS - STAR**

In 2017, we adopted STAR, a behavior-based program to help employees identify safe and risky behaviors in our work practices. We rolled out the system to capture observations and ideas for improvement, and in 2018 the program was fully put into practice.



**RESPONSIBLY WORKING WITH ETHYLENE OXIDE**

As part of our health and safety program, those employees who work with Ethylene Oxide (EO) wear monitors to track exposure levels and undergo testing annually to validate potential cumulative exposure levels. Balchem is a member of the EO Safety Task Group, a key industry working group that shares best practices around EO management.



# PEOPLE

## COMMUNITY INVOLVEMENT

We are proud to employ community members from all over the world. Many of our manufacturing locations are in small towns, and we work hard to employ people from these towns and give back to the surrounding community. We routinely participate in charity drives for local organizations like the Food Bank of Lincoln in Lincoln, Nebraska (pictured right). Additionally, we send volunteers to our communities' schools to support public STEM (Science, Technology, Engineering, Mathematics) educational efforts. We participate in Community Advisory Panel groups and hold public meetings to communicate site activities, share developments at the facilities, and address community questions and concerns. The local fire department and emergency response teams meet with us to perform annual walkthroughs, scenario reviews, and mock events to ensure proper training and preparation.

One example is our Slate Hill facility in New York, which holds annual workshops with the fire department and emergency personnel to develop response scenarios and training. As a strong supporter of local emergency services, when Balchem purchased a property to expand the Slate Hill site in 2018, the local fire department used the site's building for fire and rescue practice before it was removed.

In October 2018, the Marano Ticino site in Italy opened its doors to more than 200 visitors. The day included meeting the



plant personnel and touring the production facilities and lab. Many visitors were residents in the local town and community, along with former employees and their families. Guests were introduced to the rich 50-year history of the site and plans for continued growth and development. The initiative was part of a project promoted by the Piedmont Regional Government called "Fabbriche Aperte" (meaning "Open Factories"), aimed at introducing the territory's industries that have demonstrated excellence in operations and sustainability.



### VERONA BACKPACK PROGRAM

Every year our Verona, Missouri site contributes to the local school for their backpack program. This program prepares backpack lunches for underprivileged children to take home over the weekend so they don't go hungry without access to school breakfast and lunch.



### ST. GABRIEL COMMUNITY ADVISORY PANEL

St. Gabriel Community Advisory Panel (CAP) members and St. Gabriel Site Managers meet monthly to discuss facility updates:

- General business
- Injury reports
- Environmental reports
- Traffic concerns
- Open positions

The CAP members discuss standing questions before discussing other items in the community. Balchem, as a member of the panel, works closely with the community on subjects that are important to the community (employment opportunities, railroad crossing repairs, road work, etc.).

# 100%

# 18 OF 18

manufacturing sites with local community engagement efforts



# 5



**PLANET**



# PLANET

*We are committed to responsible sourcing and to encouraging our suppliers to employ sustainable practices.*

## MATERIAL SOURCING

We recognize that we must manage the impacts of our supply chain to reduce potential harm to the environment and society. In addition to globally sourcing agricultural products, petrochemical feedstocks, and minerals, we work with and encourage our suppliers to align on environmentally friendly best practices around land selection and use, production practices, and labor resource management. As a certified Roundtable on Sustainable Palm Oil (RSPO) member, we strive to use and support sustainable resources in our products and conduct annual audits to ensure compliance. All Balchem products now use certified palm oil. We also continue to source raw materials from renewable sources, increasing from 31% to 43% by volume in the last year alone.

The Sedex Members Ethical Trade Audit (SMETA) provides a four-pillar auditing methodology around best practices in environmental and business ethics. We utilize those pillars – labor standards, health and safety, business ethics, and the environment – as a basis for our own standards. All of our facilities are audited for SMETA compliance. Additionally, our Marano Ticino facility is part of the EcoVadis supplier transparency initiative and has achieved EcoVadis Gold level.

We expanded our Supplier Code of Conduct in 2018 and require all suppliers to acknowledge their commitment by signing the document. Our supplier audits include verification of elements of this code. New suppliers go through

a detailed quality and material approval process. The integrity of Balchem products starts with supplier quality, and our quality system is an integral element of supplier selection.

As part of our commitment to responsible sourcing and exercising due diligence, Balchem works closely with chemical suppliers to audit their facilities. Of our key chemical suppliers, 70% of them have been audited in the last three years.

2016-2018

**70%**

hazardous material suppliers audited in the past three years



**100%**

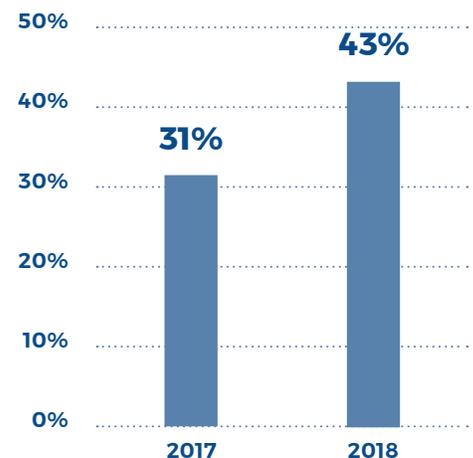
all palm oil sourced certified through RSPO

↑=10%

## MCPD CONVERSION PROGRAM

In 2018, Balchem responded to new European Commission legislation on the permissible levels of 3-MCPD and glycidyl fatty acid esters. Glycidyl fatty acid esters are food contaminants found in refined vegetable oils and fats. These compounds are hydrolyzed to glycidol in the gastrointestinal tract. Within four months, we reformulated our inclusions, powders, and encapsulated products intended for sale in the European Union with compliant oils.

## PERCENTAGE OF RENEWABLE RAW MATERIAL SOURCING (BY VOLUME)





# PLANET

*We are continuously looking for ways to improve our energy efficiency and reduce our environmental impact.*

## ENERGY MANAGEMENT

Our approach to energy management is two-fold: operate as efficiently as possible and invest in ways to reduce our energy intensity. This includes larger projects like our cogeneration unit in Marano Ticino, as well as investing in smaller projects with local energy companies and installing LED lighting and motion sensors for lights. We also actively monitor energy use in our facilities – both absolute and by production intensity – to identify efficiency opportunities.

The recent energy efficiency project at our Marano Ticino facility highlights our commitment to reduce our environmental impact. In 2016, we installed a natural gas cogeneration unit to replace the plant's old oil heating systems. The new 1200kW unit improves the site's emissions by converting energy sources from fuel oil to cleaner natural gas. Under normal operation, the Marano Ticino facility is electrically self-sufficient. Though still connected to the grid, the net exchange is practically zero.



Marano Ticino cogeneration unit



### SLEEPY EYE BOILER

In 2017, our Sleepy Eye facility identified its older boiler as an energy improvement opportunity. The project was completed in 2018 and the new boiler increases gas efficiency from 75% to 86%.



2018

**0.61**

GIGAJOULES

Energy intensity  
(GJ of energy per ton of  
products produced)



2018

**73,726**

MT

Scope 1 and scope 2  
greenhouse gas emissions  
(CO<sub>2</sub>e metric tons)



# PLANET

## WATER MANAGEMENT

Water consumption is primarily driven by manufacturing facilities and processes. An important part of our environmental responsibility is our effort to reduce water usage and manage the quality of water we return to local treatment plants. We actively monitor and manage each site's water use and consumption per metric ton of production. Most of the water we withdraw is returned to local municipal facilities for treatment and reuse. All Balchem facilities maintain operating permits and comply with permit requirements.

Our water stewardship doesn't stop at the factory door. Balchem's products play an important role in efficient water use. Our Specialty Products segment offers a proprietary line of foliar products which improve crop health and reduce crop loss and water waste. The ANH product lines improve animal productivity to reduce the total number of animals required in the supply chain, which mitigates environmental impact.



### SLEEPY EYE WATER REDUCTION

Over the last several years, we have implemented and improved automated Clean in Place (CIP) systems in our food plants, reducing water use for cleaning and the quantity of cleaning chemicals. Our conservation efforts results include:

- ~2,000 gallons/day of once-through cooling water recycled to the scrubber tank
- ~800 gallons/week saved by interlocking cooling water on high pressure pumps/homogenizers so water is only used while pump is running



### SLATE HILL WATER REDUCTION

We installed an automatic boiler blowdown system and improved our cleaning systems to reduce water discharge from ~25,000 gallons per month to 12,000 gallons per month. These efforts save us \$3,000 monthly.

2018

**11.5 M<sup>3</sup>**

water intensity (cubic meters of gross water withdrawal per ton of product produced)

2018

**0.3 M<sup>3</sup>**

water intensity (cubic meters of net water withdrawal - water withdrawn less water returned) per ton of product produced



2018

**1.8%**

Water withdrawal from regions with high or extremely high baseline water stress



# PLANET

*Balchem's processes generate very limited waste.*

## WASTE MANAGEMENT

Balchem's processes generate very limited waste. Our waste management program is focused on recovering EO and recycling packaging materials. EO is recovered from the returned containers used for transporting EO to sterilizers throughout North America and around the world. We recover over 4,000 pounds annually, which is over 99% of the EO residual. Additionally, we also collaborate with suppliers to collect and recycle packaging material, such as pallets and bags, from our operations.

Balchem aims to limit the quantity of hazardous materials on our sites through careful production planning and coordination with our suppliers. Our corporate

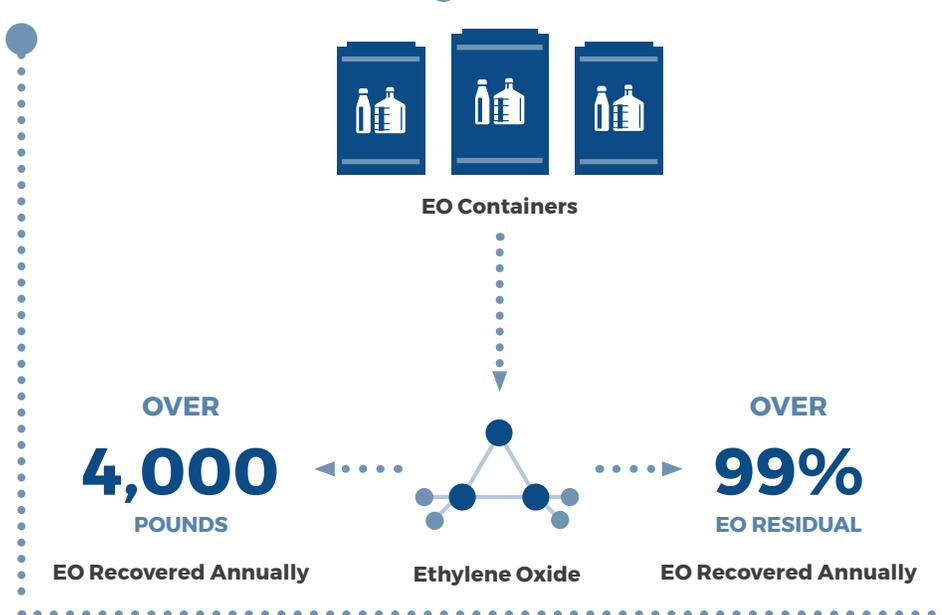
Enterprise Risk Management process ensures our safety processes and prevention strategies reflect strong stewardship. We follow all regulatory requirements for tracking and managing hazardous materials, and have a rigorous labeling system as part of our commitment to appropriate waste management. We use only licensed, reputable disposal companies for hazardous material removal, and audit these companies to check for appropriate certifications.



### ETHYLENE OXIDE RECYCLING

EO is supplied to the sterilizer in 400-pound drums, and only six pounds is left when returned. After we've reclaimed all of the residual material, we test its quality and then convert it into an industrial product. In 2018, we recovered almost 4,000 pounds of EO, which was then safely reused.

## ETHYLENE OXIDE RECOVERY



2018  
**99%**

hazardous waste reused or recycled\*

2018  
**70%**

hazardous material suppliers audited  
in past three years\*

\*Balchem defines hazardous materials as Ethylene Oxide, Trimethyl Amine, Hydrochloric Acid, Anhydrous Ammonia, Propylene Oxide and Carbon Disulfide.



# 6

**\$ PROFIT**



# PROFIT



*“At our core, we are a health and nutrition company.”*

– Ted Harris, Chairman and CEO

## OUR FOUNDATION

Balchem was founded in 1967 and, in its 50-plus years of existence, has grown into a global company that provides technology-based solutions for making the world a healthier place. Our businesses expand their competitive advantage by continuously improving our technology and solutions for the customers and markets we serve.

We grow organically by serving higher growth markets, expanding our global presence, deepening our market penetration, and providing new and innovative offerings. We are increasingly investing in both internal and external R&D, as well as international capabilities and infrastructure.

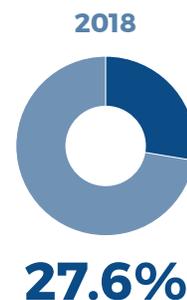
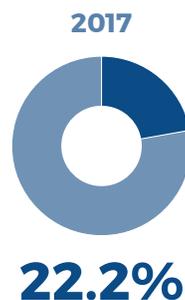
In our HNH segment, we have introduced a number of products for the sports and nutritional beverage market. Additionally, we continue to promote awareness of choline’s health benefits and our entire portfolio through research and market-facing initiatives, including the development of partnerships to further leverage the use of our technologies.

We actively pursue synergistic acquisitions where we can create new opportunities for growth or expand our competitive position. Our 2016 acquisition of Albion International, Inc. added premier branded chelated mineral products to our HNH segment’s portfolio of nutritional products. Our 2017 acquisition of Innovative Food Processors, Inc. (IFP) strengthened our North American encapsulation and agglomeration capabilities and our customer portfolio. The 2017 acquisition of



Chol-Mix Kft, a Hungarian manufacturer of dry choline chloride, expanded our ANH segment’s geographic reach. In 2018, we acquired Bio-Screen Technologies S.R.L., which expanded the European manufacturing capability for our ANH segment and added to our portfolio of product offerings.

We are committed to operating in an efficient and responsible manner. Our facilities generally have low energy intensity and water consumption, and generate minimal waste. We maintain appropriate regulatory approvals to operate and continually look for ways to reduce our energy consumption and impact on the environment.



revenue from products developed in the past five years



# PROFIT



## OUR GOVERNANCE

We have established leading practices in corporate governance. Our Board of Directors (Board) has affirmed that each of Balchem's directors, other than our Chairman and CEO, Ted Harris, is independent, as defined by the National Association of Securities Dealers Automated Quotations (NASDAQ) Marketplace Rules. All directors have attended at least 75% of Board and Board Committee meetings during the course of the last ten years. We strongly encourage directors to also attend the annual stockholder meeting. By switching to a virtual annual meeting, we reduced materials and cost. These practices are designed not only to satisfy regulatory requirements, but to provide effective company oversight and management.

Our Board and management, who are experienced in the businesses and markets we serve, are compensated to enhance

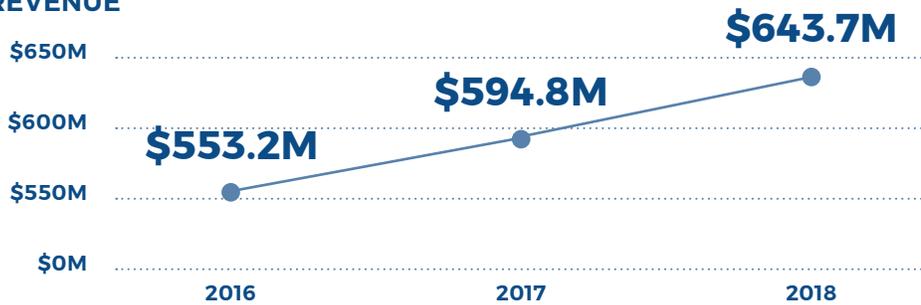
shareholder value. The compensation system outlined in our annual proxy statement – <http://proxymaterials.balchem.com/Proxy-2019.pdf> – is designed to align management and director compensation with financial results and shareholder return.

To oversee the Sustainability Framework and prioritization process, we convened a cross-functional executive steering committee, led by the Chairman and CEO, with representatives from business units, finance, investor relations, human resources, R&D, internal audit, law, supply chain, and operations. The charter of the Board's Corporate Governance and Nominating Committee (CG&N Committee) requires that group to consider corporate social responsibility matters. These considerations include reviewing Balchem's activities and practices regarding Environmental, Social, and Governance

(ESG) matters significant to Balchem's businesses. There is also a periodic review of the company's ESG strategy, initiatives, and policies. The CG&N Committee receives updates from the management committee responsible for significant ESG activities.

In addition to our Sustainability Framework, we have adopted a Code of Ethics for Senior Financial Officers that applies to Balchem's Chairman and Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer and Treasurer. We have also adopted a Code of Business Conduct and Ethics applicable to all of our employees and directors. The Code of Ethics for Senior Financial Officers and Code of Business Conduct and Ethics are available at <http://www.balchem.com/governance>.

## REVENUE

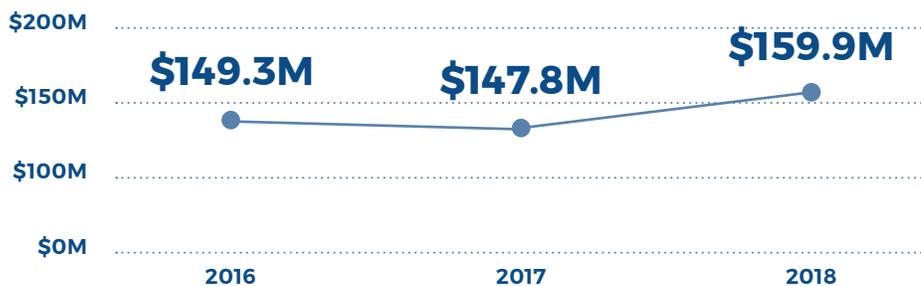


## 5-YEAR TOTAL SHAREHOLDER RETURN (TSR) VS RUSSELL 2000 INDEX

**21.1%** (2,108 bps)

TSR measured from 2014 to 2018

## ADJUSTED EBITDA\*



\*Adjusted EBITDA is defined as earnings before interest, other expense/income, taxes, depreciation, amortization, stock-based compensation, acquisition-related expenses, indemnification settlements, legal settlements, and the fair valuation of acquired inventory.



# PROFIT



## RISK MANAGEMENT

While the Board also provides direct risk oversight, the Audit Committee is the primary administrator of risk oversight. Our Board, the Audit Committee, and management regularly discuss our major risk exposures, the potential financial impact and the management of these risks. The Audit Committee receives, or arranges for the Board to receive, periodic reports from management on areas of material risk, including financial, operational, legal, regulatory, and strategic risks.

We employ an enterprise risk management system which ensures alignment with our overall enterprise risk management efforts. While we do not have a Chief Risk Officer, the Audit Committee receives regular reports from the member of management tasked with understanding and monitoring key risk mitigation. The Chairman of the Audit Committee reports to the full Board with respect to Balchem's risk management efforts, which enables the Board to monitor risks and oversee risk mitigation efforts. The Compensation Committee also evaluates risk related to our compensation program.



## ESG FRAMEWORK POLICIES

As part of our continued risk management and governance practices, Balchem has several policies in place related to our ESG framework:

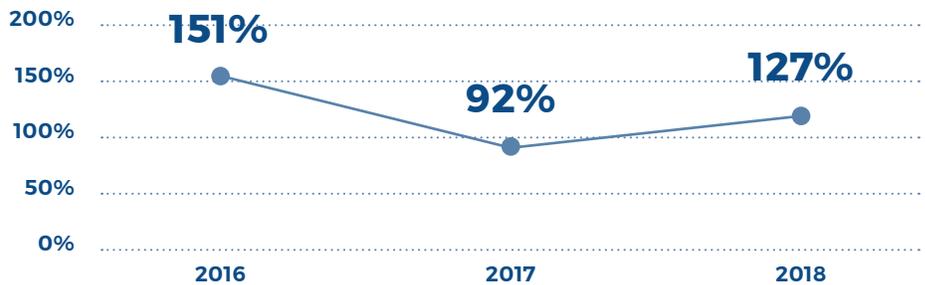
- Anti-bribery Policy
- California Consumer Privacy Act Policy
- Code of Business Conduct and Ethics
- Corporate Statement on the California Supply Chain Act
- Corporate Statement on Conflict Minerals
- Environmental Compliance Policy
- Risk Management Policy
- Safety and Health Policy
- Supplier Code of Conduct



## GAAP EARNINGS PER SHARE



## FREE CASH FLOW CONVERSION



2018  
**\$78.6M**

GAAP net earnings



# CONCLUSION



*We are dedicated to a sustainable future for our customers, suppliers, employees, communities, and shareholders where we live and work.*

We hope that Balchem's 2018 Sustainability Report allows for a better understanding of how we integrate sustainability into our strategy, operations and business decisions. The focus, priorities and actions outlined in the report form the foundation of our commitment, and we are proud to share these achievements. We are dedicated to a sustainable future for our customers,

suppliers, employees, shareholders, and communities where we live and work. As we grow, we will continue to promote these principles broadly along the entire value chain, to develop new ideas and technologies that help us work smarter and to help build a world that is a better place to live.



## APPENDIX



# APPENDIX

## GRI INDEX

This report has been prepared in accordance with the GRI Standards: Core option. The issues addressed in this report were identified and prioritized by engaging a wide range of stakeholders internally and externally (see *About Our Report*). Through this process, we identified ESG topics that are material to our company, some of which are covered by GRI Standards.

Those topics are included in this GRI Index. Based on availability of data, not all GRI disclosures are reported fully. For more information on GRI Standards, visit <https://www.globalreporting.org/standards>. Where relevant, cross references to the United Nations SDGs are provided in the Index.

Disclosure Number      Description      Location and Notes

### GRI 102: GENERAL DISCLOSURES 2016

#### ORGANIZATIONAL PROFILE

102-1	<b>Name of the organization</b>	<i>Our Mission</i>
102-2	<b>Activities, brands, products, and services</b>	<i>Message from Our Chairman and CEO</i>
102-3	<b>Location of headquarters</b>	<a href="#">2017 Annual Report</a>
102-4	<b>Location of operations</b>	<a href="#">2017 Annual Report</a>
102-5	<b>Ownership and legal form</b>	<a href="#">2017 Annual Report</a>
102-6	<b>Markets served</b>	<a href="#">2017 Annual Report</a>
102-7	<b>Scale of the organization</b>	<a href="#">2017 Annual Report</a>
102-8	<b>Information on employees and other workers</b>	<i>People – Human Capital</i>
102-9	<b>Supply chain</b>	<i>Planet – Material Sourcing</i>
102-10	<b>Significant changes to the organization and its supply chain</b>	<i>About Our Report</i>
102-11	<b>Precautionary principle or approach</b>	<i>Profit</i>
102-12	<b>External initiatives</b>	Included throughout the report



# APPENDIX

Disclosure Number	Description	Location and Notes
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## ORGANIZATIONAL PROFILE (CONTINUED)

102-13	<b>Membership associations</b>	<p>Management is officers or members of, or support, the following associations:</p> <ul style="list-style-type: none"> <li>• American Chemical Council – Ethylene Oxide Safety Task Group</li> <li>• American Chemical Council – Ethylene Oxide/Ethylene Glycols Management Committee</li> <li>• American Chemical Society</li> <li>• American Dairy Science Association</li> <li>• American Feed Industry Association</li> <li>• American Institute of CPAs (AICPA)</li> <li>• American Registry of Professional Animal Scientists (ARPAS)</li> <li>• American Society of Quality</li> <li>• EU Association of Specialty Feed Ingredients and their Mixtures (FEFANA)</li> <li>• Hudson Valley Council of Industry</li> <li>• Institute for Feed Education and Research (IFEEDER)</li> <li>• Poultry Science</li> <li>• The Council for Responsible Nutrition (CRN)</li> <li>• The Institute of Internal Auditors (IIA)</li> <li>• US Poultry Federation</li> </ul>
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## STRATEGY

102-14	<b>Statement from senior decision maker</b>	<u><a href="#">Message from Our Chairman and CEO</a></u>
102-15	<b>Key impacts, risks, and opportunities</b>	Included throughout the report, by topics

## ETHICS AND INTEGRITY

102-16	<b>Values, principles, standards, and norms of behavior</b>	<u><a href="#">Balchem Corporation Code of Business Conduct and Ethics</a></u>
102-17	<b>Mechanisms for advice and concerns about ethics</b>	<u><a href="#">Balchem Corporation Code of Business Conduct and Ethics</a></u>



# APPENDIX

Disclosure Number	Description	Location and Notes
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## GOVERNANCE

102-18	<b>Governance structure</b>	<i><a href="#">Profit - Our Governance</a></i>
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## STAKEHOLDER ENGAGEMENT

102-40	<b>List of stakeholder groups</b>	<i><a href="#">Message from Our Chairman and CEO</a></i>
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102-41	<b>Collective bargaining agreements</b>	Balchem has established good working relationships at the Verona, MO and Marano Ticino, Italy sites. One additional site is in the process of being covered as of this report date. In 2018, approximately 10% of our employees were represented by collective bargaining agreements.
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102-42	<b>Identifying and selecting stakeholders</b>	<i><a href="#">About Our Report</a></i>
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102-43	<b>Approach to stakeholder engagement</b>	<i><a href="#">About Our Report</a></i>
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102-44	<b>Key topics and concerns raised</b>	<i><a href="#">About Our Report</a></i>
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## REPORTING PRACTICE

102-45	<b>Entities included in the consolidated financial statements</b>	<i><a href="#">2017 Annual Report</a></i>
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102-46	<b>Defining report content and topic Boundaries</b>	<i><a href="#">About Our Report</a></i>
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102-47	<b>List of material topics</b>	<i><a href="#">About Our Report</a></i>
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102-48	<b>Restatements of information</b>	This is our first year releasing a sustainability report.
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102-49	<b>Changes in reporting</b>	This is our first year releasing a sustainability report.
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102-50	<b>Reporting period</b>	<i><a href="#">About Our Report</a></i>
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102-51	<b>Date of most recent report</b>	<i><a href="#">About Our Report</a></i>
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# APPENDIX

Disclosure Number	Description	Location and Notes
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## REPORTING PRACTICE (CONTINUED)

102-52	Reporting cycle	<i>About Our Report</i>
102-53	Contact point for questions regarding the report	<a href="mailto:sustainability@balchem.com">sustainability@balchem.com</a>
102-54	Claims of reporting in accordance with the GRI	Appendix - GRI Index
102-55	GRI content index	Appendix - GRI Index
102-56	External assurance	There is no external assurance obtained over the People and Planet pillars. Profit financial data that is listed in the 10-K has been audited.

## GRI 301: MATERIALS 2016

### GRI 103: MANAGEMENT APPROACH 2016

103-1	Explanation of the material topic and its Boundary	<i>About Our Report</i>
103-2	The management approach and its components	<i>Planet - Material Sourcing</i>
103-3	Evaluation of the management approach	<i>Planet - Material Sourcing</i>

## TOPIC-SPECIFIC DISCLOSURES

301-1	Materials used by weight or volume	<i>Planet - Material Sourcing</i> Total volume of materials (lbs): Renewable - 289.6M Non-renewable - 388.5M
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# APPENDIX

Disclosure Number	Description	Location and Notes
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## GRI 302: ENERGY 2016

### GRI 103: MANAGEMENT APPROACH 2016

103-1	<b>Explanation of the material topic and its Boundary</b>	<i>About Our Report</i>
103-2	<b>The management approach and its components</b>	<i>Planet – Energy Management</i>
103-3	<b>Evaluation of the management approach</b>	<i>Planet – Energy Management</i>

### TOPIC-SPECIFIC DISCLOSURES

302-3	<b>Energy intensity</b>	<i>Planet – Energy Management</i>
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## GRI 303: WATER AND EFFLUENTS 2018

### GRI 103: MANAGEMENT APPROACH 2016

103-1	<b>Explanation of the material topic and its Boundary</b>	<i>About Our Report</i>
103-2	<b>The management approach and its components</b>	<i>Planet – Water Management</i>
103-3	<b>Evaluation of the management approach</b>	<i>Planet – Water Management</i>

### MANAGEMENT APPROACH DISCLOSURES

303-1	<b>Interactions with water as a shared resource</b>	We performed water scarcity research (refer to <i>Planet – Water Management</i> ) and determined that a low percentage of water withdrawn is from high water stress areas. Management reviewed this analysis and water stress percentage and deemed it to be significantly low.
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# APPENDIX

Disclosure Number	Description	Location and Notes
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## MANAGEMENT APPROACH DISCLOSURES (CONTINUED)

303-2	<b>Management of water discharge related impacts</b>	Balchem works with local municipalities as facilities discharge water into municipal sources, except for one location which is tightly controlled. We operate largely in areas not faced with high water stress. The results of the water stress analysis (refer to <i>Planet – Water Management</i> ) were shared with the steering committee, who oversees water management stewardship.
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## TOPIC-SPECIFIC DISCLOSURES

303-3	<b>Water withdrawal</b>	<p><i>Planet – Water Management</i></p> <p>Total water withdrawn M<sup>3</sup>: 2018 – 4,101,479</p> <p>Water intensity (cubic meters withdrawn per metric ton of products produced): 2018 – 11.5 2017 – 12.7 2016 – 12.3</p>
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## GRI 305: EMISSIONS 2016

### GRI 103: MANAGEMENT APPROACH 2016

103-1	<b>Explanation of the material topic and its Boundary</b>	<i>About Our Report</i>
103-2	<b>The management approach and its components</b>	<i>Planet – Energy Management</i>
103-3	<b>Evaluation of the management approach</b>	<i>Planet – Energy Management</i>

## TOPIC-SPECIFIC DISCLOSURES

305-1	<b>Direct (Scope 1) greenhouse gas emissions</b>	<i>Planet – Energy Management</i>
305-2	<b>Energy indirect (Scope 2) greenhouse gas emissions</b>	<i>Planet – Energy Management</i>
503-4	<b>Greenhouse gas emissions intensity</b>	<p>Total greenhouse gas emissions intensity (metric tons/revenue in millions): 2018 – 115 2017 – 120 2016 – 136</p>



# APPENDIX

Disclosure Number	Description	Location and Notes
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## GRI 306: EFFLUENTS AND WASTE 2016

### GRI 103: MANAGEMENT APPROACH 2016

103-1	<b>Explanation of the material topic and its Boundary</b>	<i>About Our Report</i>
103-2	<b>The management approach and its components</b>	<i>Planet – Waste Management</i>
103-3	<b>Evaluation of the management approach</b>	<i>Planet – Waste Management</i>

### TOPIC-SPECIFIC DISCLOSURES

306-2	<b>Waste by type and disposal method</b>	<i>Planet – Waste Management</i> Total weight of hazardous waste (metric tons): 106.5
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## GRI 308: SUPPLIER ENVIRONMENTAL ASSESSMENT 2016

### GRI 103: MANAGEMENT APPROACH 2016

103-1	<b>Explanation of the material topic and its Boundary</b>	<i>About Our Report</i>
103-2	<b>The management approach and its components</b>	<i>People – Food Safety</i>
103-3	<b>Evaluation of the management approach</b>	<i>People – Food Safety</i>

### MANAGEMENT APPROACH DISCLOSURES

308-2	<b>Negative environmental impacts in the supply chain and actions taken</b>	<i>People – Food Safety</i> 4 out of 14 hazardous material suppliers were audited in 2018; 70% of total hazardous waste suppliers have been audited in the past three years.
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# APPENDIX

Disclosure Number      Description      Location and Notes

## GRI 403: OCCUPATIONAL HEALTH AND SAFETY 2018

### GRI 103: MANAGEMENT APPROACH 2016

103-1	<b>Explanation of the material topic and its Boundary</b>	<i>About Our Report</i>
103-2	<b>The management approach and its components</b>	<i>People – Environmental, Health, Safety, and Security</i>
103-3	<b>Evaluation of the management approach</b>	<i>People – Environmental, Health, Safety, and Security</i>

### MANAGEMENT APPROACH DISCLOSURES

403-1	<b>Occupational health and safety management system</b>	<i>People – Environmental, Health, Safety, and Security</i>
403-2	<b>Hazard identification, risk assessment and incident investigation</b>	<i>People – Environmental, Health, Safety, and Security</i> Refer to JSAs and STAR program
403-3	<b>Occupational health services</b>	<i>People – Environmental, Health, Safety, and Security</i> Refer to JSAs and STAR program
403-4	<b>Worker participation, consultation and communication on occupational health and safety</b>	<i>People – Environmental, Health, Safety, and Security</i> Refer to JSAs and STAR program
403-5	<b>Worker training on occupational health and safety</b>	<i>People – Environmental, Health, Safety, and Security</i> Safety training is performed by employees on at least an annual basis and is also integrated into a daily practice with tool talks and pre-shift huddles.
403-6	<b>Promotion of worker health</b>	<i>People – Human Capital</i>
403-7	<b>Prevention and mitigation of occupational health and safety impacts directly linked by business relationships</b>	<i>People – Environmental, Health, Safety, and Security</i>

### TOPIC-SPECIFIC DISCLOSURES

403-9	<b>Work-related injuries</b>	<i>People – Environmental, Health, Safety, and Security</i>
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# APPENDIX

Disclosure Number	Description	Location and Notes
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## GRI 405: DIVERSITY AND EQUAL OPPORTUNITY 2016

### GRI 103: MANAGEMENT APPROACH 2016

103-1	<b>Explanation of the material topic and its Boundary</b>	<i>About Our Report</i>
103-2	<b>The management approach and its components</b>	<i>People - Human Capital</i>
103-3	<b>Evaluation of the management approach</b>	<i>People - Human Capital</i>

### TOPIC-SPECIFIC DISCLOSURES

405-1	<b>Diversity of governance bodies and employees</b>	<i>People - Human Capital</i>
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## GRI 413: LOCAL COMMUNITIES 2016

### GRI 103: MANAGEMENT APPROACH 2016

103-1	<b>Explanation of the material topic and its Boundary</b>	<i>About Our Report</i>
103-2	<b>The management approach and its components</b>	<i>People - Community Involvement</i>
103-3	<b>Evaluation of the management approach</b>	<i>People - Community Involvement</i>

### TOPIC-SPECIFIC DISCLOSURES

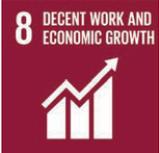
413-1	<b>Operations with local community engagement, impact assessments, and development programs</b>	<i>People - Community Involvement</i>
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# APPENDIX

## SUSTAINABLE DEVELOPMENT GOALS INDEX

### PEOPLE



**8 DECENT WORK AND ECONOMIC GROWTH**  
**Environmental, Health, Safety, and Security**  
**Human Capital**  
**Community Involvement**



**3 GOOD HEALTH AND WELL-BEING**  
**Human Nutrition and Health**



**2 ZERO HUNGER**  
**Animal Nutrition and Food Availability**

### PLANET



**7 AFFORDABLE AND CLEAN ENERGY**  
**Energy Management**



**6 CLEAN WATER AND SANITATION**  
**Water Management**



**12 RESPONSIBLE CONSUMPTION AND PRODUCTION**  
**Waste Management**  
**Safety and Environmental Stewardship of Chemicals and Genetically Modified Organisms**  
**Materials Sourcing Practices**  
**Food Safety and Health Concerns**