Governance, Ethics and Compliance

As a global healthcare company operating in more than 100 countries, Baxter is committed to effective corporate governance, adherence to the law, and a culture of ethics and compliance throughout the organization.

In 1995, Baxter became one of the first companies to adopt formal corporate governance guidelines. These guidelines address the operation of Baxter’s board of directors and board committees, which in turn govern the management of the company and represent shareholder interests. At Baxter, re-examining the company’s practices and setting new standards is an ongoing process. Today’s corporate governance guidelines reflect this evolution.

Baxter’s Ethics and Compliance team works closely with operating and legal teams based regionally in Baxter’s businesses to ensure that the company’s activities adhere to applicable laws and to company policies. The organization offers numerous channels to educate and counsel employees as well as confidential avenues to report alleged violations of law and policy, which it investigates promptly and reports to senior management as appropriate.

This section covers the following topics:

- Corporate Governance
- Codes and Standards
- Ethics and Compliance Structure and Programs
- Communication and Guidance

Employee Perspective

"Business ethics was one of the major reasons why I decided to join Baxter 10 years ago."

-Alexander, Business Unit Manager, Greece
Corporate Governance

Baxter is operated under the direction of the company’s board of directors. In 2011, 11 independent directors and Baxter’s chief executive officer (CEO) comprised the company’s 12-person board.

Baxter’s CEO also serves as the chairman of the board. The board believes this provides a single vision for the company and results in an efficient and effective organizational structure.

The board also annually appoints an independent lead director, who presides at executive sessions of the board and serves as a liaison between the other independent directors and the chairman. The lead director also reviews meeting agendas, works with the chairman to facilitate timely and appropriate information flow to the board, and serves as the contact person for interested parties to communicate directly with the independent members of the board.

Baxter’s board of directors has long adhered to principles designed to ensure effective corporate governance. Since 1995, the board has had in place corporate governance guidelines reflecting these principles. Baxter’s current corporate governance guidelines cover topics including director qualification standards, responsibilities, access to management and independent advisors, director compensation, director education, succession planning, and the annual evaluations of the board and its committees.

Baxter’s board has six committees: Audit, Compensation, Corporate Governance, Finance, Public Policy, and Science and Technology. Each is made up of independent directors and has the authority to obtain advice or assistance from outside experts, as the committee deems appropriate. The roles of these committees are described in the following table. Click on each link to view more detail, including a list of current members.

<table>
<thead>
<tr>
<th>Committee</th>
<th>Focus</th>
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<tr>
<td>Audit Committee</td>
<td>Focuses on the integrity of Baxter’s financial statements, system of internal accounting controls, the internal and external audit process, and the process for monitoring compliance with laws and regulations.</td>
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<tr>
<td>Compensation Committee</td>
<td>Exercises the authority of the board relating to employee benefit and equity-based plans and the compensation of the company’s officers.</td>
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<tr>
<td>Corporate Governance Committee</td>
<td>Assists and advises the board on director nominations, corporate governance, and general board organization and planning matters.</td>
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<tr>
<td>Finance Committee</td>
<td>Assists the board in fulfilling its responsibilities in connection with the company’s financial affairs, including overseeing financial proposals, capital expenditures, acquisitions, divestitures, dividend proposals, share repurchases, management of pension assets, financial policies and other financial actions.</td>
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<tr>
<td>Public Policy Committee</td>
<td>Assists the board in fulfilling its oversight responsibilities with respect to legal, regulatory and other compliance matters, and advises the board with respect to Baxter’s responsibilities as a global corporate citizen, including the range of topics discussed in this report. The committee annually reviews the company’s sustainability initiatives, including with respect to the spectrum of topics discussed in this report, and reports on these activities to the full board.</td>
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<tr>
<td>Science and Technology Committee</td>
<td>Assists and advises the board in the oversight of Baxter’s long-term research and development (R&amp;D) strategies and objectives, R&amp;D pipeline and significant technology platforms; and evaluates emerging issues and trends in science and technology that may affect the company’s overall business strategy.</td>
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The board meets in executive session at each regularly scheduled meeting. During 2012, the board held 10 meetings. All directors attended 85% or more of the meetings of the board and board committees on which they served. Average attendance was approximately 98%. View more information on the board’s activities and responsibilities.
The board considers candidates for director recommended by shareholders, board members, management and an independent search firm retained by the board to help identify and evaluate potential director nominees. The board evaluates all candidates in the same manner regardless of the source of recommendation. Directors are selected on the basis of talent and experience. The selection process takes into account diversity of background, including gender, race, ethnic or geographic origin, age and experience (in fields such as business, government and education as well as healthcare, science and technology). A nominee’s ability to meet the independence criteria established by the New York Stock Exchange is also a factor in the selection process.

**Executive Compensation**

Baxter’s executive compensation program is designed to recognize company and individual performance, drive the long-term financial performance of the company (and in doing so, encourage innovation and appropriate levels of risk-taking), and reflect the value of each officer’s position in the market and within the company. The objective of the program is to compensate Baxter’s executives in a manner that is consistent with these principles, aligns the interests of management and shareholders, and drives sustained and superior performance relative to the company’s peers. The program is also designed to be competitive with companies with which Baxter competes for executive talent in order to attract, retain and motivate high-performing executives.

In line with Baxter’s pay-for-performance philosophy, executives are compensated based on a range of financial and individual performance goals. The goals set for Baxter’s executive officers in 2012 reflected the diversity of the company’s business and the wide range of responsibilities attributed to each of these officers. In 2012, Baxter’s CEO had over 50 individual performance goals addressing a wide range of areas, including among them financial performance, innovation, quality, leadership and constituent relations (including with respect to sustainability matters).

See Baxter’s 2013 Proxy Statement for more detail on executive compensation.

The board adopted an executive compensation recoupment policy in February 2009. This policy allows the board to take any actions it deems appropriate with respect to executive incentive compensation following any restatement of the company’s financial results that requires an amendment to previously filed results, or if an officer violates a restrictive covenant in any agreement between the company and the officer.

**Stock Ownership Guidelines for Executive Officers and Board Members**

To further align the interests of directors and management with shareholders, Baxter requires its executive officers and directors to own Baxter stock. Baxter’s CEO is required to achieve ownership of Baxter common stock valued at six times annual base salary. Each of the other executive officers is required to achieve ownership of Baxter common stock valued at four times annual base salary within five years of becoming an executive officer. Each director is to hold Baxter common stock equal to five times annual cash retainer after five years of board service.

**Communicating with the Board of Directors**

Interested parties may communicate directly with any of Baxter’s directors by emailing boardofdirectors@baxter.com or writing a letter to Baxter Director c/o Corporate Secretary, Baxter International Inc., One Baxter Parkway, Deerfield, Illinois 60015. Baxter’s Corporate Secretary will forward communications directly to the lead director, unless a different director is specified.

**For More Information**

To read more about Baxter’s approach to corporate governance, please see the corporate governance section of Baxter’s website.

**Codes and Standards**

**Code of Conduct**

Baxter’s Ethics and Compliance Code and Standards are designed for employees and to the company’s relationships with suppliers, healthcare practitioners, medical institutions and patient organizations.

Baxter’s Code of Conduct defines the core principles that govern employee behavior at Baxter and how the company conducts its business. The Code applies to Baxter's board of directors, and all of its employees including the company’s chief executive officer and other senior management. It builds on Baxter’s long-standing commitment to leadership in ethical business practices, covering topics such as protection and use of company assets, accurate recordkeeping, competitive and confidential information, sales and marketing practices, anticorruption, insider trading, bioethics, conflicts of interest, gifts and trade compliance. The Code’s user-
friendly format includes questions and answers, decision guides and lists of additional resources available to employees to help maintain a culture of integrity throughout Baxter. The Code is available in 22 languages.

New Baxter employees receive Code of Conduct training within the first three months of employment at the company. Baxter’s corporate policies support the Code by defining the company’s intentions, setting behavioral expectations and requiring certain actions with respect to particular topics. A comprehensive Intranet site provides employees with additional information on corporate policies.

Baxter’s Code of Conduct reflects evolving regulations and stakeholder expectations regarding industry practices. It extends to the company’s relationships with healthcare professionals, medical institutions and patient organizations globally. This includes Baxter’s Global Anticorruption Policy, which covers how the company’s employees, contractors, agents and third parties conduct themselves with government officials.

The Code requires the prompt reporting of suspected misconduct and outlines the consequences of failure to comply with applicable laws or Baxter’s policies and procedures. The company provides ongoing training and a Code of Conduct website to keep employees up to date on Baxter’s ethics and compliance policies, topic-specific training and other tools and resources.

Human Rights
As a global healthcare company that conducts business in more than 100 countries, Baxter respects and is committed to fostering human rights, dignity and the diverse contributions of all. Baxter’s Human Rights Policy was approved in 2012. The company’s philosophy and policy are further supported by mechanisms already in place at the company, including Baxter’s Leadership Expectations, Culture and Shared Values, Code of Conduct, sustainability program, and numerous other global policies that set the company’s direction.

The company has also integrated Human Rights principles into its:
- California Transparency in Supply Chains Act of 2010 statement;
- Updated Ethics and Compliance Standards for Suppliers;
- Agreements with suppliers;
- Supplier sustainability survey; and
- Ethics training for purchasing and supplier management professionals

Standards for Baxter Suppliers
The company’s Ethics and Compliance Standards for Baxter Suppliers is designed to ensure that all Baxter suppliers also comply with the company’s ethical standards. These standards, translated into 19 languages, define policies and set common expectations about ethical behavior when doing business with Baxter. They also define expected conduct when working for or on behalf of the company. Baxter’s Supplier Quality and Purchasing and Supplier Management groups evaluates and approves all key suppliers before any materials, components, products or services may be purchased. To conduct business with Baxter, suppliers must consent to abide by these standards, which are incorporated into supplier agreements (see Supplier Standards for more information). Additionally, the Baxter Supplier Quality Standard and the Ethics and Compliance Standards for Baxter Suppliers specifically address sustainability issues, including indentured and child labor, employment standards, waste and energy reduction, and ethics.

In addition to the standards described above, Baxter has adopted other professional codes of ethics, including:
- AdvaMed Code of Ethics on Interactions with Health Care Professionals;
- Ethics & Compliance Officer Association (ECOA) Standards of Conduct for Business Ethics and Compliance Professionals;
- European Federation of Pharmaceutical Industries and Associations (EFPIA) Code of Practice on Relationships with Patient Organizations;
- Institute for Supply Management (ISM) Principles and Standards of Ethical Supply Management Conduct;
- Professional Society of Engineers Code of Ethics for Engineers;
- Regulatory Affairs Professionals (RAPS) Code of Ethics for Regulatory Affairs Professionals; and
- Society for Corporate Compliance and Ethics (SCCE) Code of Ethics for Compliance and Ethics Professionals.
Employee Perspective

"Compliance and integrity is core to what defines a person or a business. It is doing the right thing, every time. It creates a culture of trust with both internal and external customers."

- Mike, Area Vice President of Sales, U.

Ethics and Compliance Structure and Programs

Baxter designed and updates its ethics and compliance structure and programs regularly to reflect the needs of a diversified and complex global healthcare company. Additionally, the company manages a range of programs and activities to help employees make good decisions about appropriate behaviors in the markets in which they operate.

Corporate Responsibility Office

The Corporate Responsibility Office (CRO), established by Baxter’s Board of Directors in 1993 and composed of six senior executives, is responsible for communicating the company’s ethics and compliance standards, providing guidance and overseeing training to employees and directors, maintaining multiple channels for employees to report concerns, and monitoring compliance. The CRO, which meets at least every quarter, reports to the board’s Public Policy Committee and reports on financial matters to the board’s Audit Committee (see graphic). Baxter was one of the first companies to establish a direct reporting relationship between its CRO and its board, ensuring ethics and compliance oversight at the highest level.

The company has since established Regional Ethics and Compliance Committees to implement the CRO’s charter globally and enhance corporate understanding of local cultures, values and behavioral norms. Membership in the Regional Ethics and Compliance Committees rotates to ensure broad employee exposure and participation. The company also has dedicated compliance and legal resources in each region outside the United States. The company also has established similar governance structures for its BioScience and Medical Products businesses, bringing together a cross-functional group of commercial and functional leaders to enhance the effectiveness of Baxter’s compliance program.
Certificate of Integrity and Compliance

Each year, Baxter requires executives, managers, sales representatives and other selected employees around the world to reaffirm their commitment to the company’s ethics and compliance standards by completing and submitting a Certificate of Integrity and Compliance (COIC). The COIC also serves as a reporting document that measures the integration of ethical business practices throughout Baxter. In 2012, more than 16,600 employees who have manager or greater-level responsibilities completed the COIC, which is available in 12 languages.

Legal and Regulatory Compliance Training

Baxter requires employees worldwide to take Web-based training on legal and regulatory compliance. In 2012, 38,271 employees completed more than 110,280 e-Learning courses covering areas such as product complaints, pharmacovigilance, adverse-event reporting procedures, workplace violence prevention, data privacy, trade compliance, requirements for selling to the U.S. government, the Foreign Corrupt Practices Act, antitrust, intellectual property, and Baxter’s ethics and compliance standards. Baxter’s Ethics and Compliance group and Legal department also conducted hundreds of classroom sessions around the world in 2012 to train employees globally on Baxter’s ethics and compliance standards and supporting policies.

In 2012, Baxter continued to implement its risk-based anticorruption education program to provide awareness-level training to most employees, and more advanced training to employees who regularly interact with government officials and healthcare professionals. During the year, Baxter conducted more than 400 anticorruption training sessions, reaching more than 10,000 employees in targeted positions.

Baxter also expanded its Compliance Fitness training program in 2012. The program, initially implemented in Asia Pacific, was enhanced and implemented in targeted sub-regions within Europe, Latin America and the U.S. Compliance Fitness is a one day minimum interactive program that uses real-world compliance case studies tailored to the specific markets where participants work as teams to identify compliance issues and present solutions. As such, the programs are designed to drive discussion, to enhance leaders’ critical thinking skills to identify and address compliance issues in their markets, and to raise concerns when appropriate.

Relationships with Healthcare Professionals and Government Officials

Government spending on healthcare as a percentage of gross domestic product or per capita income has increased in the United States and abroad, and governments are seeking ways to reduce pressure on their budgets while maintaining current or improved levels of healthcare delivery. At the same time, healthcare companies face the perception that their marketing programs and R&D and production costs are significant factors in increasing healthcare costs. In this context, companies such as Baxter understand the importance of being transparent about their relationships with healthcare professionals. This includes the continued implementation of anticorruption programs that work to ensure that those relationships and related payments are for necessary and bona fide services. As a company dedicated to making a meaningful difference in patients’ lives, Baxter’s integrity in this area is paramount.

Physician Payment Disclosure/Sunshine Act

Beginning in August of 2013, companies operating in the United States that manufacture covered drugs, devices, biologics and medical supplies (including Baxter) will be required to report to the Centers for Medicare and Medicaid Services (CMS) all payments (such as consulting fees, travel and lodging, meals, education grants and royalties) provided to U.S. healthcare professionals (HCPs) and healthcare organizations (HCOs) that total more than $100. In response to the Sunshine Act, which was passed into law as part of U.S. healthcare reform 2010, Baxter implemented a program designed to address all applicable requirements and to help ensure compliance. Baxter employees continue to complete training to understand the law, Baxter’s updated systems and policies, and their individual role in ensuring compliance.

International Anticorruption Activities

During 2012, Baxter’s Ethics and Compliance team, working closely with other groups and functions in the company, continued to adapt its procedures, systems and tools to advance its anticorruption program. One of the tools includes periodic assessments and reviews of Baxter’s global operations with regard to key corruption risks. A total of 20 compliance audits were conducted in 2012 utilizing Corporate Audit and Ethics and Compliance resources. The audits took place in nine countries in EMEA, four countries in Latin America, six counties in Asia Pacific and two in North America. Assessment results have shown continued progress in awareness, understanding and implementation of Baxter’s anti-corruption programs.

Also in 2012, Baxter continued global execution of its International Anticorruption Third Party Policy, with particular emphasis on business partners who interface with non-U.S. healthcare professionals and government agencies in activities such as, but not limited
to the approval, registration, promotion and sales of Baxter’s products and therapies.

This multi-faceted program includes a robust process to conduct due diligence on such business partners, as well as to retain and train them with respect to anticorruption laws and Baxter’s standards and expectations. In 2012, Baxter also deployed a system to automate the due diligence process and enhanced training provided to third parties. The success of the third party program relies on extensive, ongoing collaboration between Baxter’s Ethics and Compliance, Legal and business teams, as well as with the company’s business partners.

Because anticorruption efforts can be impeded or enhanced by others in the industry, Baxter also is committed to establishing and improving industry codes of conduct and enhancing ethical behavior across the healthcare industry. Baxter continued to share the company’s perspectives with Eucomed and AdvaMed on a European approach to third party anticorruption efforts. Additionally, Baxter’s China ethics and compliance team continues to work with the Chinese industry association, RDPAC on an industry-wide ethical sales and marketing code.

Trade Compliance
In 2012 the company launched a Trade Compliance Council to help drive Baxter’s trade compliance policy globally. In addition, the company continues to identify and train a network of trade compliance officers globally, who are tasked with spotting and handling basic trade compliance issues in their countries and functions, and seeking advice from their designated trade compliance expert as warranted. Baxter also continues to enhance tools and processes to screen for and address trade compliance risks involving its products and business transactions. Additionally, the company improved its Export Control and Economic Sanctions trade compliance e-learning course with new and engaging story-based training on the topic. Key employee groups are required to complete this course, which is designed to raise awareness about global export controls and economic sanctions, regulations and related company policies. The course also focuses on Baxter’s procedures, as well as the responsibility of employees to ensure compliance in this area.

Data Privacy and Security
In the course of business, consumers, patients, plasma donors, healthcare professionals, employees and others share personal information with Baxter. Privacy laws and our global privacy policy require the company to protect this information. The company’s policy defines Baxter’s privacy standards and ensures that all of the company’s global operations follow similar controls for protecting the personal information of Baxter stakeholders. All employees have completed an online training course on the policy.

Baxter’s global privacy program includes a Global Privacy Council and a network of Local Privacy Owners (LPOs). The council manages and oversees the protection of personal information companywide while the LPOs are responsible for privacy compliance in their respective countries. Canada, the United States and all countries in Europe have LPOs in place. The company will introduce the privacy program in selected countries in the Asia Pacific and Latin America regions in 2013.

Closely aligned with data privacy is information security. Baxter’s Information Technology (IT) Risk Governance Board meets quarterly to ensure appropriate accountability, priority and decision-making relative to IT risks. A cross-functional Information Governance Council oversees organizational responses to security, privacy and legal information risks. The company also has a robust Information Protection program, complete with global policies, organizational awareness mechanisms and compliance systems, to enforce appropriate use and protection of Baxter information and technology.

In 2012, Baxter implemented additional security technologies to identify and protect sensitive electronic business information, while extending the company’s capability to log, monitor and manage information stored internally and sent externally via e-mail and other network transit, such as secure file transfer. This investment will help strengthen the company’s security capabilities and support its commitment to protect the best interests of customers, employees, management and other stakeholders.

See Product Use for detail about advertising and promotion.

Employee Perspective
“Being compliant should be a key value to all of us: a way of living, not just a training or an exercise we perform once or twice a year.”

-Marlene, Sales and Marketing Manager, Netherlands
Communication and Guidance

Open communication is at the core of Baxter’s commitment to integrity. The organization offers numerous channels to educate and counsel employees as well as confidential avenues to report suspected violations of law and policy, which it investigates promptly and reports to senior management as appropriate. Managers are responsible for maintaining an environment that enables employees to safely raise and discuss issues. Baxter encourages employees to seek guidance and report concerns through a number of formal channels (see graphic). In this way, Baxter prevents incidents from occurring and addresses issues when they do arise.

One such channel is the Baxter Ethics and Compliance Helpline, a telephone and Web resource available to employees and their families, suppliers, customers and other Baxter constituencies. Callers can report an issue or seek guidance in their local language. Counselors are available in 150 languages, 24 hours a day, seven days a week. The Helpline is an independent channel of communication to raise issues and open communications about Baxter’s ethics and compliance issues. Persons calling the Helpline may choose to remain anonymous. There are no caller identification features attached to this line.

Baxter Ethics and Compliance Helpline
Phone: 1-877-BAXTER3
Fax: 1-847-948-2867
Web

In 2012, 487 inquiries from 50 countries were logged into the Helpline system and addressed in a prompt, thorough and professional manner.

Not all of these inquiries were reports of alleged misconduct or related to compliance. In all cases, Baxter encourages employees to use the Helpline, COIC process and other channels to ask questions and seek advice. Items identified through these channels also help Ethics and Compliance personnel to identify key risks, develop appropriate training, enhance policies and procedures, and design and conduct compliance assessments.

Upon receipt of reasonable indications of suspected noncompliance, the Ethics and Compliance department, working with other functions and in coordination with business leaders, will triage and investigate the allegations to gather the facts and take appropriate remedial action where necessary. See Ethics and Compliance Communications and Reporting for more information.

Employee Perspective
“Building a reputation of integrity takes years, but it takes only a second to lose.”

-Mohamed, Area Sales Director, Middle East
Case Study: It Starts with Me

"Compliance is not a task that belongs to any one function. It is everyone's responsibility" Alex Wu, Director, Renal, Baxter China.

Integrity is the foundation of Baxter's long-term success. Every day, Baxter’s stakeholders around the world - including customers, patients, regulators, investors and employees - count on the company’s dedication to ethics and compliance. Baxter is committed to complying with the law in the more than 100 countries where it operates as well as driving a culture of ethics and compliance throughout the organization.

As part of this commitment, in 2012, Baxter’s Asia Pacific operations launched a new ethics and compliance program designed to drive a high-integrity culture. The three-pronged approach consists of: training and improving integrity-related leadership skills; integrating compliance into HR processes, known as iComply; and launching a comprehensive communications program to reinforce a high-integrity culture.

"We are conscious that a disciplined approach toward the compliance process (as defined by U.S. and local laws and industry codes) does not always come naturally to all employees," said Gerald Lema, region head, Japan. "Asia Pacific has a diversity of cultures, a variety of legal frameworks and different levels of economic development so we need to provide clear and direct guidance on how to ensure a disciplined process and decision-making, and which activities or actions are compliant and which are not. This requires continuous effort to ensure our employees work according to Baxter's high standards."

The program includes the "It Starts with Me" campaign, which focuses on driving employee awareness and encouraging personal accountability for ethics and compliance. Employees also share real-world experiences, answering questions such as: If they encountered a grey area, how did they handle it? What was the most difficult part of resolving the situation?

"Compliance is not a task that belongs to any one function. It is everyone's responsibility," said Alex Wu, director, Renal, Baxter China. "Each of us has the responsibility to understand what the requirements are and choose to behave with integrity as we make decisions in our daily operations. We are our own role models. It starts with you and me."

The program also includes an online newsletter, discussion group and workshops, an intranet site, toolkits with information on real-world issues and solutions and contact information for Baxter colleagues who can provide assistance when questions or ambiguous cases arise. Additionally, managers have access to toolkits to better enable them to drive a high-performance, high-integrity culture across the region.

Junho Byun, senior sales representative, Baxter BioSurgery, Korea, shared his team's story. "We experienced a challenge in a sub-segment of our business," he said. "Instead of giving in to inappropriate demands, we chose to strategically diversify and focus our marketing and sales efforts on other sub-segments. It was not easy, but we overcame this challenge and at the end of the year, we achieved 100% of our sales plan while staying true to our principles."