Governance, Ethics and Compliance
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As a global healthcare company operating in more than 100 countries, Baxter recognizes the need to adhere to the law and promote a culture of ethics and compliance supported by policies that are clearly communicated and understood companywide.

In 1995, Baxter became one of the first companies to adopt formal corporate governance guidelines. These 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 that process.

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 business 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
• Ethics and Compliance
Corruption poses a significant challenge to the global economy. It is an impediment to sustainable development, increases inequality, undermines public institutions, and dampens economic growth. For companies, corruption adds to the cost of doing business, represents significant legal and reputational risks and creates unsustainable business relationships. Baxter realizes that its ongoing business success relies on a sustainable business model in which Baxter and its partners market and sell the company's products in an ethical way that complies with applicable laws around the globe.

Baxter has policies governing its interactions with healthcare professionals and government officials in every region of the world. The company encourages open discussion of questions and concerns to avoid inappropriate decision-making or actions that potentially violate standards. Baxter employees are obligated to raise perceived violations of standards regarding the company's financial affairs, accounting practices, auditing matters, corruption, fraud, or other serious concerns. A variety of local and global channels may be used to raise questions or concerns, including a website, a hotline, regional ethics and compliance committees and other ethics and compliance personnel, and Baxter's Corporate Responsibility Office.

Major efforts in 2010 focused on finalizing the company’s Third Party Policy, which completes the suite of policies that underpin Baxter's anticorruption compliance program. The Third Party Policy applies to business entities and individuals that conduct the following activities outside the United States on Baxter's behalf:

- Marketing, promoting or selling Baxter products;
- Negotiating or executing Baxter agreements;

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• Lobbying or advocating for Baxter;
• Interacting with non-U.S. government officials; and
• Remunerating healthcare professionals or other relevant entities.

While Baxter’s existing anticorruption policies prohibit Baxter and third parties from providing inappropriate payments or benefits to foreign government officials, healthcare professionals and other entities, the Third Party Policy provides a consistent process to conduct due diligence on business partners, and to retain and train them with respect to anticorruption laws and Baxter’s expectations.

In the United States in 2010, Baxter piloted a robust approach to educating its U.S. business teams on U.S. healthcare compliance issues, and revamped its e-learning course on the subject, which it launched in early 2011.

Also in 2010, 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 170 international anticorruption training sessions, reaching nearly 5,000 employees in targeted positions, and delivered more than 65 U.S. healthcare compliance training sessions to more than 1,800 employees.

In 2010, Baxter evaluated a number of the more than 100 country-level organizations and 22 regional, global and multilateral organizations it identified in 2009 to prioritize with whom to collaborate to create industry-level codes of practice related to product marketing and sales. While Baxter determined it could not devote the resources to actively engage with any of these organizations in 2010, the company continues to view this as a long-term opportunity. At a regional level, Baxter continues to participate in Eucomed’s efforts to support ethical marketing and sales practices in the European Union.

The company also researched broader anticorruption initiatives such as the United Nations Global Compact and the World Economic Forum Partnering Against Corruption Initiative, but has not yet determined whether to endorse those efforts.

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Corporate Governance

Baxter is operated under the direction of the company’s board of directors. Eleven independent directors and Baxter’s chief executive officer (CEO) comprise the company’s 12-person board. Baxter’s CEO serves as the chairman of the board. The board believes this structure 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 for direct communications from interested parties.

Baxter has long adhered to principles designed to ensure effective corporate governance. Since 1995, the board has had in place corporate governance guidelines that address the operation of the board and its committees, strategic and succession planning, and director qualifications, independence and compensation.

To further align the interests of directors and management with shareholders, Baxter requires directors and officers to own Baxter common stock. Baxter’s CEO is required to own common shares valued at six times his annual base salary and each of the other executive officers is required to achieve ownership of shares worth four times his or her annual base salary within five years of becoming an officer. Directors must hold Baxter common stock equal to five times their annual cash retainers within five years of commencing board service.

In selecting nominees for director, the board considers experience in business, government, education, healthcare, science, technology and other areas relevant to the company’s activities, as well as diversity of background, including diversity of gender, race, age and ethnicity or national origin. The board considers candidates recommended by shareholders, board members and management, and evaluates all candidates based on the same criteria.

Baxter’s board has six committees: Audit, Compensation, Corporate Governance, Finance, Public Policy, and Science and Technology. Each committee 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 members.

<table>
<thead>
<tr>
<th>Committee</th>
<th>Focuses on integrity of Baxter’s financial statements, system of internal accounting controls, internal and external audit process, and process for monitoring legal and regulatory compliance.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compensation Committee</td>
<td>Exercises the authority of the board relating to employee benefit plans, and is responsible for overseeing compensation generally and for the design of Baxter’s executive compensation program.</td>
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</tbody>
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### Corporate Governance Committee
Oversees director nomination process, board committee structure, annual review of corporate governance guidelines, succession planning, and evaluation of CEO and board performance.

### Finance Committee
Assists board in fulfilling its responsibilities regarding Baxter's financial affairs, including overseeing significant financial proposals, capital expenditures, acquisitions and divestitures.

### Public Policy Committee
Ensures Baxter policies and practices are consistent with company’s responsibility to act with integrity. 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. The committee also oversees Baxter’s government affairs activities, including political contributions, positions on pending legislation and political advocacy.

### Science and Technology Committee
Advises board on scientific matters relating to Baxter's research and development (R&D) and technology programs and initiatives, reflecting Baxter's enhanced focus on R&D in recent years.

The board meets in executive session at each regularly scheduled meeting, and convened nine times in 2010. Board committees held a total of 35 meetings in 2010, with average attendance of 98%. View more information on the board's activities and responsibilities.

Baxter’s compensation philosophy is to recognize company and individual performance, drive strong long-term financial performance (by encouraging innovation and appropriate levels of risk-taking), and reflect the value of each officer’s position in the marketplace and within the company. Baxter’s executive officers are compensated 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 designed to be competitive with those of other companies with which Baxter competes for talent. See Baxter’s 2011 Proxy Statement for more details.

Demonstrating its commitment in this area, the Compensation Committee recommended to the board an executive recoupment policy, which the board adopted in February 2009. This policy allows the board to take any actions it deems appropriate regarding 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 Baxter and the officer.

Shareholders and interested parties may communicate directly with 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.
Ethics and Compliance

As a global healthcare company operating in more than 100 countries, Baxter recognizes the necessity of adhering to the law and promoting a culture of ethics and compliance supported by policies that are clearly communicated and understood companywide. 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.

Working closely with operating and legal teams based regionally in Baxter’s businesses, the company’s Ethics and Compliance team ensures that the actions of Baxter and its employees 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:

• Code of Conduct
• Structure and Programs
• Guidance and Compliance
Code of Conduct

Baxter’s Code of Conduct defines the core principles that govern employee behavior at Baxter and how the company conducts its business. 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.

In 2010, Baxter translated the Code of Conduct into Arabic, making it now available in 21 languages. The Code applies to Baxter’s board of directors as well as all employees, including the chief executive officer and other senior officers. It builds on Baxter’s longstanding 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 of Conduct reflects evolving regulations and industry practices, including Baxter’s relationship with healthcare practitioners, medical institutions and patient organizations in the United States and internationally. This includes Baxter’s Global Anticorruption Policy, which covers how the company’s employees, contractors, agents and third parties conduct themselves with government officials. In addition, the Code requires the prompt reporting of perceived misconduct and outlines the consequences of failure to comply with applicable laws or Baxter’s policies and procedures. Baxter provides ongoing training and a Code of Conduct website to keep employees up to date on the company’s ethics and compliance policies, topic-specific training and other tools and resources.

The company’s Ethics and Compliance Standards for Baxter Suppliers is designed to ensure that all Baxter suppliers also comply with the company’s Code of Conduct. These standards, translated into 20 languages, define policies and set common expectations about ethical behavior when doing business with Baxter. Baxter’s purchasing and supplier management group evaluates and approves all key suppliers before any materials, components, products or services may be purchased. Suppliers must agree to abide by these standards to conduct business with Baxter (see Managing Supplier Performance for more information).

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.

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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.

Corporate Responsibility Office

The Corporate Responsibility Office (CRO), established by Baxter’s board 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, and later 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 legal resources in each of its global regions: Asia Pacific, Europe/Middle East/Africa (EMEA) and Latin America/Canada. During 2010, these attorneys conducted 11 ethics and compliance assessments: two in Asia Pacific (Malaysia and Philippines), five in EMEA (Belgium, Poland, Russia, Turkey and the United Kingdom) and four in Latin America/Canada (Canada, Chile, Colombia and Mexico). These are in addition to the three assessments the company conducted in the United States during the year.

Baxter also is enhancing its monitoring efforts to better measure performance between formal assessments and has begun identifying country- and business-specific resources to supplement its compliance programs. (See 2010 Case Study: Baxter Creates New Entity to Support Ethics and Compliance at U.S. Business Level.)

Baxter’s Ethics and Compliance team also works closely with the company’s Corporate Audit group. Corporate Audit participates in most of the ethics and compliance audits, and works with the Ethics and Compliance team to identify ethics and compliance issues during selected financial audits. In 2010, Corporate Audit and the Ethics and Compliance team developed new monitoring tools and processes, and piloted more formal monitoring in Asia and Europe. The team has scheduled a Latin America pilot and more extensive rollout in 2011.
Certificate of Integrity and Compliance

Each year, Baxter requires executives, mid-level supervisors, 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 2010, more than 16,000 employees – over a third of Baxter’s workforce – completed the COIC, which is available in 11 languages.

Legal and Regulatory Compliance Training

Baxter requires employees worldwide to take Web-based training on legal and regulatory compliance. In 2010, 43,930 employees completed 86,991 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 426 classroom sessions around the world in 2010 to train employees on Baxter’s ethics and compliance standards and supporting policies.
Also in 2010, 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. In 2010, Baxter conducted more than 170 international anticorruption training sessions, reaching nearly 5,000 employees in targeted positions, and more than 65 U.S. healthcare compliance training sessions to more than 1,800 employees.

**Physician Payment Disclosure/Sunshine Act**

Beginning March 31, 2013, companies operating in the United States that manufacture covered drugs, devices, biologics and medical supplies 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) given to U.S. physicians and teaching institutions that total more than $100. The first report will cover payments made in 2012. As an example, Baxter makes payments to physicians who serve as investigators in clinical trials and collaborate on other R&D initiatives to compensate them for work done on the company’s behalf, which contributes to the development and introduction of new products. Baxter is working toward implementing the new Federal requirements to ensure its disclosures are complete and accurate.

**Broader Anticorruption Activities**

In 2010, Baxter expanded the scope of its anticorruption program to address the activities of its business partners, consultants and other entities that may engage with foreign government officials while performing services for Baxter. In 2010, the company standardized its risk-based approach to conducting due diligence on these entities and began training on these requirements.

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. In 2010, Baxter continued to work with Eucomed and other industry organizations that have initiatives focused on setting industry-wide standards for interactions with healthcare professionals. In the longer term, Baxter will continue to identify and prioritize organizations with whom it can partner to create industry-wide codes for marketing and sales practices. Baxter also continues to evaluate how broader anticorruption initiatives such as the UN Global Compact, World Economic Forum Partnering Against Corruption Initiative or the Organisation for Economic Co-operation and Development Principles may complement the company’s approach.

See the Ethics and Compliance priority update for more information.

**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 require the company to protect this information. In 2009, Baxter created a Global Privacy Council to manage and oversee the protection of personal information companywide. Complementing the council is a network of Local Privacy Owners (LPOs) responsible for privacy compliance in their respective countries. In 2009 and 2010, Baxter established
LPOs in Canada, the United States and more than a half-dozen countries in Europe. Most other countries in Europe will have LPOs in place by the end of 2011. The company will begin to introduce the privacy program to the Asia Pacific and Latin America regions in the latter part of the year as well. Also in 2010, Baxter adopted a new global privacy policy. This policy defines Baxter’s standards in this area and ensures that all of the company’s global operations follow the same controls for protecting the personal information of Baxter stakeholders.

Closely aligned with data privacy is information security. Baxter’s Information Technology (IT) Risk Governance Board meets monthly to ensure appropriate accountability and decision-making relative to information technology risks. In 2009, Baxter established a cross-functional Information Security Assessment Team to prioritize organizational response to security and privacy risks. The company has since established a robust Information Protection Program, complete with global policies and governance systems, to define appropriate and inappropriate use and protection of Baxter information and technology. In 2010, Baxter deployed an Information Classification and Trade Secret Policy, which was translated into 14 languages and will be communicated to all employees in 2011 via a mandatory e-training course. Other key security initiatives in 2011 include automating security and compliance risk assessments, improving computer access and authorization controls, and implementing data loss prevention strategies.

**Advertising and Promotion**

The U.S. Food and Drug Administration (FDA) and other agencies worldwide regulate the advertising and promotion of pharmaceuticals, medical devices and biologics. Included in FDA’s oversight are print and broadcast advertising, websites, press releases, sales brochures, scientific symposia and convention booths, among other promotional materials and activities. Baxter’s Advertising and Promotion staff manage the company’s compliance with promotional regulations companywide. See Product Use for more detail.
Guidance and Compliance

Open communication is at the core of Baxter's commitment to integrity. 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). Through these channels, 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 stakeholders. 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.

In 2010, 340 inquiries were logged into the Helpline system. Sixty of these were raised through the Certificate of Integrity and Compliance (COIC) process and 280 through other channels, including the Regional Ethics and Compliance Committees and Corporate Responsibility Office channels. Of the 340 inquiries received, 152 were related to ethics and compliance, and all were addressed.

These inquiries were not all reports of misconduct. Baxter encourages employees to use the Helpline, COIC process and other channels to ask questions and seek advice on these topics. Items identified through these channels also help Ethics and Compliance managers identify key risks, develop appropriate training, and design and apply compliance assessment methodologies.
In April 2010, Ludwig Hantson, Ph.D., joined Baxter from Novartis Pharmaceuticals Corporation, where he was chief executive officer of the company’s North American pharmaceuticals business. In October 2010, after serving a brief time as corporate vice president and president of Baxter’s International business, Hantson was named corporate vice president and president of the company’s BioScience business, where he created the U.S. BioScience Corporate Responsibility Office. The new entity is designed to bring added focus on ethics and compliance to Baxter’s U.S. BioScience business. In this interview, Hantson talks about why he formed this group and the importance he places on ethics and compliance at Baxter.

Baxter already has a Corporate Responsibility Office (CRO) to oversee ethics and compliance at the corporate level and Regional Ethics and Compliance Committees to ensure these standards are met globally. Why the need to create an ethics and compliance organization specific to U.S. BioScience?

Baxter’s CRO, of which I am a member, takes a corporate-wide view in governing ethics and compliance at Baxter. The Regional Ethics and Compliance Committees work to ensure that Baxter business is conducted appropriately outside the United States. The new U.S. BioScience CRO complements the existing structure. It allows us to focus more deeply on how BioScience operates in the U.S. business environment. Its role is basically to support and facilitate the implementation of our ethics and compliance policy across the U.S. BioScience business, and to ensure we have sufficient resources dedicated to this.

What kind of support will the U.S. BioScience CRO provide?

We plan on doing risk assessments within the U.S. operation. We are looking at how we communicate our ethics and compliance policies, programs and procedures to see how we can improve. We'll provide additional
guidance to employees to make sure we “walk the talk” as a team, consistent with our corporate policies. I think there’s only upside in providing added focus on ethics and compliance in the organization. I want to ensure transparency, understanding, visibility, ownership, best practice sharing, and monitoring of ethics and compliance throughout BioScience.

Who makes up the U.S. BioScience CRO?

It’s a multi-functional group made up largely of senior U.S. BioScience management team members. Sales and Marketing, Legal, Human Resources, Finance, Regulatory, Medical Affairs, and other key functions, including Ethics and Compliance, are represented — about 15 people in all.

What kinds of ethics and compliance issues might Baxter face that are specific to the U.S. business?

Compliance with the Sunshine Act is one example. Beginning in 2013, this will require healthcare manufacturers to report all payments to physicians of more than $100. It will require a change in our monitoring and reporting of transactions with physicians that will affect all of our U.S. operational teams, as well as our global teams that interact with healthcare providers in the United States. This is just one example of legislation and other regulatory issues that warrant increased focus at the U.S. business level.

How do you balance your focus on ethics and compliance with growing the business?

The way I look at it, it’s not about balance. Ethical business practices are the rules of the game, and we have to make sure we play within that framework. We can still play hard, but it must be according to the rules. So it’s not about finding a balance between the two. It’s about defining up front what is acceptable — this is what we can do, and this is what we cannot do — and conducting business accordingly.

Ethics and compliance is critical to any business. Is it any more critical in healthcare?

Every business must play by the rules. I think the difference between healthcare and some other industries is that healthcare is under a microscope from the U.S. government and other governments due to its importance, the money spent in this area, and past improprieties that have received a lot of attention. As an organization, we take this very seriously, and every individual in the organization must do so as well.

In tough economic times, is it more difficult to get people to adhere to high ethics and compliance standards when they may feel increased pressure to "make their numbers"?

I understand the question, because it’s natural to think that if a company is going through tough times, it may put more pressure on people in the field to do whatever is necessary to “close the deal.” But if you have the right culture and people know that regardless of external factors, ethics and compliance must remain central, then the answer is no. When times are tough, we have to be more innovative in solving our customers’ problems, but the rules of the game don’t change.