Supply Chain
Supply Chain

At Baxter, "supply chain" refers to the organization and activities that plan and coordinate product inputs from tens of thousands of suppliers worldwide to Baxter manufacturing operations; develop schedules to meet forecasted demand; and distribute finished products to customers in more than 100 countries. The company relies on this supply chain to securely deliver the right products to the right places at the right time.

In addition to the Global Supplier Sustainability Program, Baxter drives a sustainable supply chain through a variety of activities including:

- **Managing Supplier Performance** - Establishing Baxter’s expectations for and ensuring supplier commitment to sustainability;
- **Global Sustainable Supply Chain** - Promoting practices that enhance supplier environmental performance;

Bureau Veritas has provided assurance on the content on this page.
• **Product Transport and Packaging** - Optimizing logistics and improving packaging to minimize related environmental impacts (included in the Product Responsibility section);

• **Supplier Diversity** - Maintaining a supplier base that reflects the diversity of Baxter’s markets and the communities in which the company operates; and

• **Customers** - Managing a safe, secure and reliable supply chain to ensure patient safety and meet customer needs, and decreasing environmental impacts and cost through e-commerce.
A significant amount of Baxter's broader environmental impacts occur within its supply chain. Baxter concentrates its efforts to green its supply chain on minimizing transportation-related emissions, procuring raw materials and other goods and services with reduced environmental impacts, and promoting suppliers improving their environmental performance.

In 2010, Baxter's U.S. car fleet emitted 10,200 metric tons carbon dioxide equivalent (CO$_2$e) of greenhouse gas (GHG) emissions. Baxter's average GHG emissions per mile declined by 0.3% below the 2007 baseline, mainly due to a shift to the use of four cylinder vehicles from six cylinder vehicles.

Baxter began adding four cylinder vehicles to its fleet in 2008 and is increasingly doing so as cars come up for renewal. Baxter expects to see ongoing incremental improvements in GHG emissions from its auto fleet as this trend continues.
Starting in 2010, Baxter only offered SmartWay™ certified vehicles on its main selection list, covering 95% of the company's United States car fleet upon replacement. Baxter also implemented a pilot of hybrid vehicles with its sales force in 2011.

Baxter has faced challenges in making progress against this goal, such as meeting driver requests while maintaining costs and reducing emissions. In 2009, Baxter found that the actual fuel efficiency varied from manufacturers' claims on a new model that many U.S. drivers had in 2009, which negatively impacted progress against the goal. To address this, Baxter selected new vehicle manufacturers in 2010 and only selected model types more than one year old to ensure reliable data exist on the model. Baxter also continued its benchmark against other companies through Baxter's fleet management partner to determine best practices.

In 2010, Baxter continued to roll out its Global Supplier Sustainability Program, which includes an initiative to procure products and services that help the company reduce its environmental impact while maintaining continuity of supply and managing costs. Approximately 70% of the initiatives comprising the Global Supplier Sustainability Program are implemented at the regional or country level.

In 2010, Baxter created an internal Global Supplier Sustainability Council to provide oversight for implementing the company's Global Supplier Sustainability program worldwide. The Council meets quarterly to encourage employee engagement and address obstacles in implementing the program locally.

Since 2009, Baxter has incorporated 20 green criteria into its purchasing procedures to provide its procurement organization a framework to evaluate suppliers' sustainability initiatives. Baxter structured these criteria to fall into four categories that align with Baxter's own sustainability efforts. In 2010, Baxter added a fifth category to evaluate suppliers' protection of human rights since Baxter considers this an important component of suppliers' sustainability commitments. Baxter conducted its second annual survey of its select 100 suppliers in 2010 to evaluate suppliers' performance against these green criteria (see table and discussion).
## Baxter Annual Supplier Sustainability Survey Results

<table>
<thead>
<tr>
<th>Category</th>
<th>% Green*</th>
<th>2009**</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental / Sustainability Program</td>
<td></td>
<td>34%</td>
<td>30%</td>
</tr>
<tr>
<td><em>Example criteria: Measures and reports environmental information</em></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Protection of Human Rights</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><em>Example criteria: Has a goal and programs to prevent &amp; reduce work-related injuries</em></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reductions in Carbon Footprint</td>
<td></td>
<td>46%</td>
<td>61%</td>
</tr>
<tr>
<td><em>Example criteria: Has a goal and program to reduce GHG emissions</em></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reduction in Natural Resources Use</td>
<td></td>
<td>61%</td>
<td>55%</td>
</tr>
<tr>
<td><em>Example criteria: Has a goal and activities to reduce waste generation</em></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Enhanced Product Stewardship</td>
<td></td>
<td>24%</td>
<td>35%</td>
</tr>
<tr>
<td><em>Example criteria: Uses a product stewardship / life cycle approach</em></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Suppliers considered green in category when responding positively ("yes" or "in progress") to 90% of those questions in category.

**2009 Results modified to include suppliers responding positively to programs "in progress."

Baxter continued its e-Impact program to recognize employees and suppliers for impactful environmental initiatives. (See Case Study: Baxter Recognizes Suppliers through e-Impact Program for recent examples.)

Integrating sustainability language in request for proposal (RFP) and supplier contract templates is another core aspect of Baxter's program. In 2010, Australia, Brazil, Colombia, Mexico, and New Zealand implemented these changes, in addition to Canada and the United States which had done so previously.

Baxter's efforts to drive a sustainable supply chain extend beyond these two 2015 goals. Please see the Supply Chain section in this report to learn more, including regarding the company's material compliance project, water scarcity strategy, efforts to reduce product transport-related emissions, and participation in the U.S. Customs-Trade Partnership Against Terrorism (C-TPAT) program.
Managing Supplier Performance

Approximately 35,000 suppliers in more than 100 countries provide the goods, services and raw materials required by Baxter's operations worldwide. In 2010, Baxter's total supplier spending was approximately $5.5 billion. About 26% of this was on "direct" supplies - raw materials and components used in Baxter products. Baxter buys most of its direct supplies from companies located near its operations. All other supplies are considered "indirect" – goods and services that support other aspects of the company's operations.

Supplier Standards

Baxter’s Global Supplier Sustainability Program builds on several sustainability-related standards that govern Baxter's supplier relationships. Baxter's Supplier Quality Standard and Ethics and Compliance Standards for Baxter Suppliers provide a framework for consistent supplier-evaluation and selection, and define policies and expectations for ethical behavior when doing business with Baxter. Baxter evaluates and approves all suppliers before purchasing any materials, components, products or services.

The Supplier Quality Standard specifically addresses sustainability issues, including indentured child labor, employment standards, waste and energy reduction, and ethics. Baxter's Ethics and Compliance Standards for Baxter Suppliers, available in 19 languages, also cover child labor, as well as confidential information, intellectual property, gifts and entertainment, anti-corruption, conflicts of interest, trade compliance, fair employment opportunities, and environment, health and safety (EHS).

Baxter expects all suppliers to comply with both sets of standards as well as all laws governing purchasing, and may terminate agreements with suppliers that do not. Baxter also asks key suppliers to provide emergency response plans describing how they will continue to provide vital supplies in the event of a catastrophe or other business interruption.

Ethics training is mandatory for employees in Baxter's Purchasing and Supplier Management (PSM) organization. All PSM employees that interface with suppliers are required to take an online ethics and compliance course as well as a live session conducted by Baxter's Ethics and Compliance organization.
Annual Supplier Sustainability Survey

Baxter conducted its second annual survey of 100 select suppliers in 2010 to evaluate their performance against the company’s green criteria (see table). Suppliers’ responses do not affect whether Baxter will continue to work with the supplier. Rather, Baxter uses the surveys to learn more about suppliers’ sustainability programs and identify opportunities for best practice sharing and collaboration designed to improve the performance of both Baxter and its suppliers.

Baxter identifies 100 suppliers each year to survey based on spend, the supplier’s importance to business continuity, and their carbon footprint. In 2010, these suppliers represented approximately 18% of Baxter’s global supplier spend. This group includes suppliers from each of Baxter’s regions and all of its major commodity groups and purchasing categories. In 2010, 77% of the suppliers asked to complete the survey did so.

Based on supplier responses, 44% of the respondents in the 2010 survey were rated “green” based on Baxter’s criteria, compared to 34% of 70 respondents in 2009.

<table>
<thead>
<tr>
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<th>2009**</th>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Example Criteria: Has a goal and programs to prevent and reduce work-related injuries</td>
<td>(added in 2010)</td>
<td>88%</td>
<td></td>
</tr>
<tr>
<td>Reductions in Carbon Footprint</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
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<td>61%</td>
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<td>Reductions in Natural Resource Use</td>
<td></td>
<td></td>
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<td></td>
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<td>Example Criteria: Uses a product stewardship/life cycle approach</td>
<td>24%</td>
<td>35%</td>
<td></td>
</tr>
<tr>
<td>Percentage of Responding Suppliers Considered &quot;Green&quot; Overall</td>
<td></td>
<td>34%</td>
<td>44%</td>
</tr>
</tbody>
</table>

*Suppliers considered green in category when responding positively ("yes" or "in progress") to 90% of those questions in category.

** 2009 Results modified to include suppliers responding positively to programs "in progress."

While Baxter aims to the keep the supplier list consistent for comparability year over year, certain suppliers are added or removed from the survey set due to changes in business needs, contractual needs or other reasons. Percentage changes from 2009 to 2010 in some categories may be due partly to this variation.
Supplier Environmental, Health and Safety Audits

Baxter has a long history of conducting audits to verify that the company's facilities have EHS programs that meet Baxter's EHS requirements, goals and objectives (see EHS Audits). Increasingly, Baxter is extending this practice to its suppliers, to ensure that they also meet Baxter’s standards. Audits can improve supplier performance, support continuity of supply by identifying potential risk at supplier facilities, and strengthen supplier relationships with Baxter. This practice involves collaboration between Baxter's Ethics and Compliance, Global Purchasing Supplier Management, and Global Compliance Supplier Quality organizations.

Recognizing Supplier Sustainability Efforts

Baxter continued its e-Impact program in 2010 to document, communicate and recognize supplier environmental initiatives. Suppliers who implement projects that improve their sustainability performance, such as changing a manufacturing process in a way that reduces energy usage or waste generation, are recognized with an electronic certificate. Baxter employees who submit such stories are also recognized.

In 2010, Baxter’s e-Impact program recognized five supplier initiatives that produced the following benefits:

<table>
<thead>
<tr>
<th>Combined Results of Recognized e-Impact Examples, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost Savings</td>
</tr>
<tr>
<td>CO₂e Emissions Reduction</td>
</tr>
<tr>
<td>Recycled Material</td>
</tr>
<tr>
<td>Water Reduction</td>
</tr>
<tr>
<td>Corrugated Boxes Saved</td>
</tr>
<tr>
<td>Cost Savings</td>
</tr>
</tbody>
</table>

See Case Study: Baxter Recognizes Suppliers through e-Impact Program and Case Study: Engaging Suppliers to Reduce Environmental Impact for additional information and examples from the e-Impact program.
Global Sustainable Supply Chain

Baxter educates and empowers its global Purchasing Supplier Management (PSM) personnel and the company’s broader employee population to influence purchasing decisions and implement supplier initiatives that enhance sustainability performance. These efforts support and strengthen Baxter’s commitment to reduce its environmental impact while maintaining continuity of supply and managing costs.

Global Supplier Sustainability Program

Through Baxter’s Global Supplier Sustainability Program, the company integrates sustainable practices into its procurement policies and procedures. Approximately 70% of the initiatives comprising the Global Supplier Sustainability Program were implemented at the regional or country level by the end of 2010. The program focuses on:

- **Green supply chain** - Procuring products and services that have reduced environmental impact (see below);
- **Material compliance** - Working with suppliers to meet the growing number of regulations worldwide related to product materials (see below);
- **Supplier environmental, health and safety audits** - Ensuring that suppliers meet Baxter standards in their manufacturing operations (see Managing Supplier Performance); and
- **C-TPAT (Customs-Trade Partnership Against Terrorism) Program** - Collaborating with governments and other businesses to strengthen international supply chains and U.S. border security (see below).

Green Procurement

One of Baxter's 2015 sustainability goals is to incorporate green principles into its purchasing program with 100 select suppliers. Baxter and its suppliers both benefit from these efforts.

Since 2009, Baxter has integrated 20 green criteria into its purchasing procedures to provide its procurement organization a framework to evaluate suppliers’ sustainability initiatives. These criteria fall into four categories that align with Baxter’s own sustainability efforts. In 2010, Baxter added a fifth category to evaluate suppliers’ protection of human rights since Baxter considers this an important aspect of suppliers’ sustainability commitments. Baxter conducts an annual survey of 100 select suppliers to evaluate their performance against these green criteria.


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RFPs and Supplier Agreements

Baxter considers cost, quality, environmental criteria and other factors when selecting and evaluating its suppliers to reduce the company’s environmental impact while maintaining continuity of supply and managing costs. Since 2008, Baxter has included sustainability language in its request for proposal (RFP) documents and its standard supplier agreements used in the United States and Canada, to complement price, quality, service and other traditional selection factors. Starting in 2010, Baxter now includes sustainability language in RFPs and supplier contract templates in Australia, Brazil, Colombia, Mexico and New Zealand, and plans to extend this to additional countries in 2011.

Baxter’s updated RFPs ask suppliers to provide:

• Their sustainability policy and mission statement;
• A description of company sustainability initiatives and outcomes;
• A list of sustainability-related awards received;
• Disclosure of environmental violations and fines for the past three years;
• Details on purchasing from diverse suppliers, particularly related to products and services in the RFP (as applicable); and
• Information about other initiatives that would support Baxter’s sustainability goals.

Baxter’s standard supplier agreement requires U.S.-based suppliers to certify compliance with federal and state equal opportunity laws. Suppliers also commit to make good-faith efforts to consider small, minority-owned, women-owned, veteran-owned and other diverse suppliers when engaging their own suppliers.

The agreement also encourages suppliers to support Baxter’s sustainability initiatives by identifying for Baxter’s use products and/or services with reduced environmental impact. Baxter asks its suppliers to provide updates on their sustainability activities.

Tracking Global Progress

Baxter monitors global PSM progress in implementing the company’s green supply chain programs as well as supplier progress in applying Baxter’s green criteria. The company also tracks suppliers’ progress in their own sustainability programs, and incorporates results into supplier business reviews.

Understanding the risks and opportunities related to reducing GHG emissions within its supply chain is a related area of focus. To this end, the company participated in the Carbon Disclosure Project (CDP) Supply Chain Program in 2009 and 2010. This program encourages transparent disclosure of GHG emissions data by providing a standard methodology to calculate supply chain emissions using supplier data. This is a key step in understanding and managing a company’s broader carbon footprint. The CDP distributed a questionnaire on Baxter’s behalf to 10 of the company’s top suppliers. Six of these suppliers responded to the survey in 2009 and six of 10 suppliers responded in 2010.
Product Material Regulatory Compliance

Effectively tracking the materials and chemical substances used in products and manufacturing is complex since a product may contain many components from numerous suppliers worldwide. To better meet this challenge, Baxter contracted with a specialized service provider to manage environmental and other information related to new and existing products. This includes information about product materials content, which will help Baxter evaluate compliance to the European Union Restriction of Hazardous Substances (RoHS) and Registration, Evaluation and Authorisation of Chemicals (REACH) Directives as well as similar emerging regulations in other parts of the world.

Baxter began contacting suppliers in September 2010 as part of the company’s Material Compliance Project. This initiative ensures that materials used in Baxter’s products comply with a wide range of environmental regulations in Europe, individual U.S. states, and other countries worldwide (e.g., Australia, Canada, China, Korea and Japan) while maintaining high-quality standards and satisfying customer requirements.

Baxter will store data collected from suppliers in a database that interfaces with other company and supplier information systems, to allow Baxter to better understand, manage and optimize product environmental performance and meet customer needs while facilitating regulatory compliance. The company began phasing in this system in 2009. See Materials Use for more information about Baxter's programs in related areas.

U.S. Customs-Trade Partnership Against Terrorism (C-TPAT) Program

In March 2011, Baxter was recognized as a Tier III Partner in the U.S. Customs-Trade Partnership Against Terrorism (C-TPAT) program. C-TPAT is a joint U.S. government-business initiative that builds cooperative relationships to enhance U.S. border security, with a focus on strengthening security throughout the supply chain. As a C-TPAT participant since August 2009, Baxter has committed to maintaining Tier III security criteria as well as ongoing enhancements to the security of its global supply chain.

Tier III is the highest level an importer can achieve in the C-TPAT program. Currently, only approximately three percent of the more than 10,000 program participants have achieved this status. Baxter’s internal C-TPAT steering committee remains committed to monitoring and enhancing its supply chain practices and implementing process improvements as needed.
Supplier Diversity

Baxter works to develop mutually beneficial relationships with small and diverse suppliers, and strives to continue to expand the diversity of its supplier base. This is a key aspect of the company's broader commitment to inclusion and diversity. Baxter also uses its annual supplier sustainability survey and contracting process to assess the supplier diversity programs of its own suppliers.

Baxter has been a corporate sponsor of the National Minority Supplier Development Council (NMSDC) for more than 20 years, and in 2006 joined the NMSDC Health Care Industry Group. Baxter is also a corporate partner of the Women's Economic Development Organization. The company participates regularly in vendor fairs to promote supplier diversity, and maintains an online database that enables small and diverse businesses in the United States to share their capabilities with Baxter procurement representatives.

Since 2008, Baxter has included supplier diversity information in its supplier agreement summary sheets approved by senior management. These checklists include questions such as: How many diverse suppliers were included in the sourcing process? What classification were those suppliers? Was the selected supplier diverse? If not, why?

2010 Supplier Diversity Performance

In 2010, Baxter spent approximately $491 million with small businesses in the United States and Puerto Rico, which was approximately 20% of Baxter's total supplier spending of $2.4 billion in those markets during the year. The company spent approximately $97 million with women-owned businesses and $34 million with minority-owned firms in the United States and Puerto Rico. Veteran-owned, service-disabled veteran-owned, small disadvantaged and HUBZone-certified businesses represented approximately $6.6 million, $0.5 million, $13 million and $3.4 million of Baxter's spending, respectively.

<table>
<thead>
<tr>
<th>Baxter Supplier Diversity Spending (Dollars in Millions)*</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small Businesses</td>
<td>$504</td>
<td>$399</td>
<td>$457</td>
<td>$484</td>
<td>$491</td>
</tr>
<tr>
<td>Women-Owned Businesses</td>
<td>95</td>
<td>95</td>
<td>88</td>
<td>80</td>
<td>97</td>
</tr>
<tr>
<td>Minority-Owned Businesses</td>
<td>40</td>
<td>23</td>
<td>24</td>
<td>20</td>
<td>34</td>
</tr>
</tbody>
</table>

*United States and Puerto Rico. Fiscal year basis (October 1 through September 30 of the year noted). Accounts payable data are sent to a third party, which categorizes spending. Other categories in total include veteran-owned, service-disabled veteran-owned, small disadvantaged and HUBZone-certified businesses. HUBZone is a United States Small Business Administration (SBA) program for small companies that operate and employ people in Historically Underutilized Business Zones (HUBZones).
Customers

Baxter's supply chain extends from producers of raw materials to end users of the company's products. Maintaining a safe, secure and reliable supply chain is essential for ensuring patient safety. Baxter's supply chain must function without interruption even when natural disasters and other unexpected crises occur. Baxter also works to ensure the way it transports its products to customers is reliable and environmentally responsible.

Increasing Efficiency Through eCommerce

Baxter offers electronic product fulfillment options that help customers automate business transactions. The online eServices Center, provided to customers free of charge, enables easy order placement, inquiries, usage reports, and shipment tracking. Customers can find Baxter's products in the company's online catalog, available in 14 countries. Baxter supports standard electronic data interchange (EDI) as well as transactions processed through the Global Healthcare Exchange (GHX). The exchange is owned by Baxter and other healthcare manufacturers, group purchasing organizations and distributors, and enables healthcare providers to transact with multiple vendors through one electronic connection.

Electronic ordering, invoicing, payment, advanced-ship notices, distributor transactions and inquiries enable Baxter to streamline customer transactions and reduce paper use and costs. Nearly 82% of order lines are handled electronically in the United States.

Increasing Supply Chain Efficiency and Improving Patient Safety Through Global Standards

Baxter endorses and strongly supports the GS1 standards for healthcare. Baxter believes that industry-wide adoption of these standards will improve patient safety and will drive increased efficiency and integrity within the healthcare system.

To this end, Baxter is actively working with industry partners to implement GS1 standards for healthcare. These standards include standard location numbers that simplify the way customers order and are invoiced for products and standard product numbers that make it easier to consistently identify Baxter products.

Industry adoption of GS1 healthcare standards will help to ensure that our products are moved correctly and efficiently throughout the supply chain. Ultimately, adoption of these standards will enable healthcare professionals to ensure they are administering the right product to the right patient at the right time.
Case Study: Baxter Recognizes Suppliers through e-Impact Program

Baxter's e-Impact program documents, communicates and recognizes environmental initiatives launched in collaboration with the company's suppliers. Organizations that implement projects to reduce their environmental impact – for example by changing a manufacturing process to reduce energy usage or decrease material waste – are recognized by Baxter leadership with a certificate and award luncheon. Baxter employees who submit such stories are also recognized.

Examples during 2010 included the following:

- Baxter worked with Veolia Environmental Services to recycle and dispose of approximately 8,600 anesthetic vaporizer devices collected in the United States from Baxter customers at the products' end-of-life. The process included the disassembly of device components for recycling, such as circuit boards, alkaline batteries, various metals and plastic, and draining and proper disposal of hazardous materials, including a Baxter anesthetic agent, from each device. Veolia recycled 87 tons of materials – approximately 90 percent of the total weight. Throughout the process, Veolia went above and beyond to enhance their existing health and safety programs to cover this recycling operation.

- Baxter collaborated with Staples Advantage, the business-to-business division of Staples, Inc., to reduce energy use and improve recyclability of the company's office supplies in the United States. In May, with Baxter's support, Staples changed its minimum order requirement for Baxter from $35 to $50, resulting in a reduced number of office supply shipments. This change saves approximately 27,000 liters of water, 4.3 metric tons of carbon dioxide equivalent emissions and 2,100 corrugated boxes annually. Baxter and Staples Advantage also worked together to modify the Product Alternative Program for 183 commonly used office supplies, offering options made of recycled materials for 47 of the items. Staples Advantage also recently added FSC (Forestry Stewardship Council)—certified paper to Baxter's office supply list at the same price as standard copy paper.
Baxter has recognized the following suppliers through its e-Impact program:

2011

• InterfaceFLOR
• International Paper
• Temple Inland

2010

• Kent State University
• Staples, Inc.
• Temple Inland
• Veolia Environmental Services

2009

• Lexington Medical