



# 2005 SUSTAINABILITY REPORT

75 YEARS OF SAVING AND SUSTAINING LIVES [www.baxter.com/sustainability](http://www.baxter.com/sustainability)

## Contents

Chairman and CEO Letter	1
Sustainability at Baxter	3
Company Profile	6
Governance and Business Practices	8
Employees	10
Environment, Health and Safety	16
Product Responsibility	22
Supply Chain	27
Community Support	30
Economic Impacts	36
Sustainability Reporting	38
Summary Data Table	40



For a full Global Reporting Initiative index, see [www.baxter.com/GRI](http://www.baxter.com/GRI).



The release of this report coincides with Baxter's 75th anniversary of innovation and leadership in healthcare. Throughout each section, historical photographs and milestones are highlighted to bring Baxter's rich history to life. To learn more about Baxter's sustainability history, see [www.baxter.com/timeline](http://www.baxter.com/timeline).



### **On the cover:**

The Deepalaya school and hostel near the village of Ghusbethi, India, provides shelter, education, care and support to the community's most vulnerable children. Baxter employees in India volunteer their time and offer support to help these children receive life's basic essentials. This is just one example of Baxter's commitment to the long-term, sustainable well-being of the communities where its employees live and work.

[www.baxter.com/sustainability](http://www.baxter.com/sustainability)

# FROM THE CHAIRMAN AND CEO

## 75 YEARS OF SAVING AND SUSTAINING LIVES

At Baxter, sustainability is part of our business, and our business success. Since our founding in 1931, we have provided the world with medical technologies and therapies that have saved and sustained countless lives. Today, as we celebrate our 75th anniversary, we are also focused on the social, environmental and economic impacts we have on our stakeholders as we work to meet the challenges of a complex and changing global healthcare environment.

As the first manufacturer of commercially prepared intravenous (IV) solutions, Baxter revolutionized an industry. Today, as we celebrate our 75th anniversary, saving and sustaining lives remains our hallmark, and our mission. Breakthrough technologies in hemophilia treatment, kidney dialysis and other advances over the years have given rise to current research initiatives involving adult stem cell therapies, tissue-regeneration technologies, and vaccines for avian flu and other infectious diseases using our patented “vero cell” technology – all aimed at providing better healthcare for people worldwide.

Our ability to continue providing life-saving products and therapies for future generations requires a strong foundation to invest in new product development, acquisitions and alliances, and longer-term research and development (R&D) opportunities. We’ve made substantial progress over the last few years in strengthening our business and our financial position, giving us the resources to accelerate R&D spending and other investments in our future. I believe our success as a business and our ability to excel across all aspects of sustainability go hand in hand. The successful companies of the future will recognize that these elements do not operate independently, but rather, depend on each other, and must be integrated into the fabric of a company’s culture.

Clearly, innovation is key to our future success. In January 2006, we lost one of the great innovators in the history of healthcare when former Baxter Chairman and Chief Executive Officer William B. Graham passed away at the age of 94. Mr. Graham presided over Baxter’s most innovative period, during which the company introduced a steady stream of new products and therapies that changed the face of medicine. The reputation Baxter enjoys around the world to this day is largely due to Bill Graham’s leadership from the 1950s to the early 1980s. We aspire to continue his legacy.

### Meeting Healthcare Challenges

We are privileged to work in an industry where the products we make save lives. At the same time, the healthcare industry is complex, highly regulated and defined by constantly changing technologies. These dynamics create unique challenges for companies like Baxter, and for doctors, patients, payers and others in a varied array of healthcare systems around the world. Key challenges and how we address them are highlighted below. You’ll have an opportunity to read more about these issues and Baxter’s response throughout this report.

**Patient Safety.** As a company with a long history of products and therapies that improve patient safety, we are working with customers and industry groups to reduce medication errors and promote other safe medical practices. In December 2005, Baxter was one of the first healthcare companies to participate in the Institute for Healthcare Improvement’s 100,000 Lives Campaign – an initiative to save 100,000 lives in U.S. hospitals over 18 months through adoption of best-safety practices.

**Access to Care.** The rising cost of healthcare and limited reimbursement makes expanding access to care a major challenge, particularly in developing countries. We invest significant time and resources in educating elected officials around the world on the costs of different therapies, and work with them to facilitate



**Robert L. Parkinson, Jr.**  
Chairman and Chief Executive Officer

reimbursement policies to fund needed healthcare in their countries. We also provide cost-effective products and therapies that make care more accessible in emerging markets like China, where our peritoneal dialysis (PD) products make home therapy possible for thousands of people with end-stage kidney disease who might otherwise go untreated.

**Product Quality.** One of our greatest challenges in 2005 and 2006 has been working with the U.S. Food and Drug Administration (FDA) to resolve quality issues related to our COLLEAGUE and SYNDEO infusion pumps. In June 2006, we reached agreement on a consent decree with the FDA outlining steps we must take to resume sales of new pumps in the United States. Baxter has a long tradition of quality excellence, and we continue to make this the highest priority in the company. With today's healthcare technologies more complex than ever, we must continue to improve our quality systems to sustain the reputation we enjoy around the world, today and in the future.

**Public Health.** We are partnering with governments around the world to help protect citizens from potential pandemics and bio-terrorist threats. In the last few years, Baxter has been involved, directly or indirectly, in the development and/or production of vaccines targeted at smallpox, SARS, anthrax and avian flu, as well as therapeutic products for nerve gas exposure.

### Other Sustainability Highlights

We've made significant progress in our understanding of sustainability and its importance to our business. In part, this is reflected in a more robust report this year, with more in-depth reporting and several new sections, including content that covers Baxter's broader economic impacts as well as efforts to influence our suppliers' sustainability performance.

I believe sustainability reporting is not just a way to be transparent with our stakeholders, but also helps motivate organizational improvement. In my letter last year, I mentioned the need to set sustainability priorities with measurable goals in areas where we can have the greatest impact. In the next section of this report, you can read about where we are in this process.

Other highlights in the report include:

- **New EHS goals:** We describe our performance against our 1996-2005 environmental, health and safety (EHS) goals and introduce a new set of long-term goals. Last year also marked our third straight year of record safety performance. However, with several serious work-related accidents, we must continue to improve in this area.
- **Update on diversity:** Although we recognize the need to improve our employee diversity programs, we've increased the diversity of our senior management significantly over the last few years. Of our 16 corporate officers, seven are women or minorities, none of whom were in their positions three years ago. This reflects our commitment to a diversified work force, which must start at the top.
- **Addressing market needs:** We launched a new line of IV solution containers made of non-PVC (non-polyvinyl chloride) film, containing no latex and offering a DEHP-free [di (2-ethylhexyl) phthalate-free] fluid pathway to patients. Coupled with our existing lines of non-PVC containers, we are now positioned to offer the broadest non-PVC, non-DEHP portfolio of any manufacturer.
- **Community support:** Total giving by Baxter and The Baxter International Foundation exceeded \$35 million in 2005, including cash contributions, product donations and foundation grants. In a year marked by natural disasters, we donated more than \$17 million worth of vital healthcare products to recipients in 51 countries, mostly through international disaster-relief and humanitarian-aid organization AmeriCares.

As we reflect on our 75th anniversary, we will continue to develop products and therapies to save and sustain lives for another 75-plus years. At the same time, we will be equally focused on sustaining our world in a socially, environmentally and economically responsible manner. There is much to do on all these fronts. I look forward to reporting progress in the coming years.



Robert L. Parkinson, Jr.

**Today, as we celebrate our 75th anniversary, saving and sustaining lives remains our hallmark, and our mission.**

# SUSTAINABILITY AT BAXTER

Baxter views sustainability as a long-term approach to balancing its business with social, economic and environmental responsibilities. This aligns with the company's important purpose to save and sustain people's lives.

## Baxter's Approach

Baxter focuses on several key aspects of sustainability, including:

- Operating in a sound and ethical manner;
- Using financial resources wisely to ensure continued commercial success;
- Providing a rewarding, safe and healthy workplace for employees;
- Contributing to communities in need worldwide;
- Supporting those impacted by disasters;
- Ensuring patient safety;
- Expanding access to healthcare; and
- Reducing the company's environmental impact.

Baxter's longstanding commitment to sustainability began with the establishment of a formal environmental program and policy in 1977. The company quickly demonstrated that environmental leadership requires achieving specific milestones as well as integrating environmental principles into its global operations. Baxter set air toxics and chlorofluorocarbons-reduction goals in 1989, updated its formal environmental policy in 1990 and issued its first public environmental report in 1992.

As a global healthcare company, Baxter recognizes the importance of focusing on other critical aspects of sustainability. In 1986, the company established its philanthropic foundation, today called The Baxter International Foundation. In 1989, Baxter published its first formal ethics manual, and in 1993, the company established a Corporate Responsibility Office. In 1995, Baxter became one of the first companies to adopt formal corporate governance guidelines, years before corporate America was required to meet the standards of the Sarbanes-Oxley Act of 2002. And, in 1999, Baxter

issued its first sustainability report covering social, economic and environmental performance. This was among the first reports to be aligned with the Global Reporting Initiative Guidelines.

Since the late 1990s, Baxter has been recognized for its commitment to sustainability, as evidenced throughout this report. For additional information, please refer to *Sustainability Reporting* (see page 38) and the *Awards and Recognition* section on Baxter's website.

## Establishing Sustainability Priorities

While Baxter has strategies, goals and programs to focus on certain sustainability issues, such as environmental protection, employee safety and business practices, the company has not yet developed a comprehensive sustainability strategy linked to its core business. To do so, as chairman and CEO Bob Parkinson acknowledged in the company's *2004 Sustainability Report*, Baxter must first establish clear sustainability objectives and priorities. The company has taken important steps in this direction in 2005 and 2006.

In the fall of 2005, Baxter engaged SustainAbility, a strategy consultant/think tank, to help identify, assess and prioritize the company's key sustainability issues. Sustainability issues were defined as those that impact the environment, health, safety and well-being of internal and external stakeholders (including future generations), and those that affect Baxter's long-term business success.

After conducting a review of sustainability issues facing business and society, with a focus on the healthcare industry, SustainAbility assessed stakeholder concerns, activist campaigns, media and existing and emerging regulations. Then, the project team interviewed approximately 25 Baxter leaders. From this process, a number of



sustainability issues emerged, which SustainAbility then analyzed along the following dimensions:

- Impact on Baxter: potential impact on the company over the next three to five years based on financial, operational and reputational aspects.
- Degree of societal concern: level of media coverage, non-governmental organization (NGO) activity and standards addressing the issue.
- Baxter's degree of control: company's ability to impact the issue, ranging from complete control to little or no influence.
- Trend: relative change in importance of the issue, including change in societal concern and/or impact on Baxter, over the next three to five years.

These findings will assist Baxter as it develops its sustainability strategy during the coming year.

### Moving Forward

In June 2006, Baxter's senior leadership approved the formation of a Sustainability Steering Committee with representatives from business development, communications, compliance, environment, health and safety, facilities engineering services, human resources, investor relations, marketing, research and development, supply chain and other areas. This committee will serve as the main body within Baxter that:

- Assesses sustainability issues and opportunities for the company;
- Defines Baxter's sustainability strategies;
- Establishes performance targets and implements initiatives to achieve a leadership position;
- Tracks progress on key sustainability activities, drives organizational accountability and recognizes accomplishments;
- Reports status and engages senior management on appropriate actions and direction;
- Guides and informs company sustainability reporting; and
- Provides a sounding board for stakeholder inquiries and recommends necessary actions.

## CASE STUDY

### Engaging with Stakeholders Regarding PVC

In late 1998, several shareholders approached Baxter regarding the use of polyvinyl chloride (PVC) in its medical products. After meeting with the organizations in 1999, Baxter agreed to provide further information about its products and plans to develop non-PVC intravenous solution containers. The company and these shareholders also agreed to an ongoing dialogue, through yearly, in-person meetings, which have occurred each year since. Following these discussions, the shareholders withdrew a planned shareholder proposal for the company's annual meeting demanding a phase-out of PVC.



Baxter's new AVIVA premium line of intravenous solution containers is made of non-PVC film, contains no latex and offers a DEHP-free fluid pathway to patients.

Through this ongoing dialogue, Baxter has deepened its understanding of important stakeholder concerns about PVC as well as

One of this committee's first tasks is to review and discuss the findings from the project described previously and to develop the company's sustainability strategy. Baxter plans to report on this work in its 2006 Sustainability Report.

### Stakeholder Engagement

As a global healthcare company, Baxter interacts with a wide range of stakeholders worldwide, and engages them to better understand their needs and reach common goals. Baxter appreciates the important role that each of its stakeholders plays in its continued success, and strives to effectively balance their varied and sometimes conflicting needs. Baxter approaches stakeholder engagement and dialogue in a manner that is consistent with the company's values. These interactions occur in a decentralized manner throughout the company, within many businesses, regions and functions. Examples of stakeholder engagement are included throughout this report.

Baxter works with nine main stakeholder groups, including:

- Communities
- Customers
- Employees
- Government, regulatory, health authorities
- Industry organizations
- Investors
- Non-governmental organizations
- Patients and patient advocacy groups
- Suppliers

#### Stakeholder Views

This report includes Stakeholder Views submitted by external experts in various aspects of sustainability. These are intended to provide additional, balanced perspectives on Baxter's sustainability programs and performance. See the online report for additional Stakeholder Views.

To learn more about each of these stakeholder groups, including channels used for engagement, please visit the online report.



For additional information, including awards and recognition:  
[www.baxter.com/approach](http://www.baxter.com/approach)  
[www.baxter.com/recognition](http://www.baxter.com/recognition)

other issues, and has been challenged to more effectively communicate its own positions. The environmental, regulatory and business aspects of these issues are complex. Baxter has learned the importance of providing stakeholders necessary background information to ensure the most productive discussion, while at the same time appropriately preserving confidential information that helps it compete and continue to serve customers.

Since this initiative began, Baxter has developed numerous innovations in non-PVC products. The company offers more than 300 intravenous medications, parenteral nutrition solutions, injectable drugs, biopharmaceuticals, access systems, administration devices and other products that use or are contained in non-PVC or non-DEHP [di (2-ethylhexyl) phthalate] materials. In the United States, hospital customers can meet approximately 50 percent of their needs with non-PVC or non-DEHP products from Baxter's portfolio. Baxter will soon have the broadest non-PVC and non-DEHP product portfolio of any manufacturer.

For more information about Baxter's position on PVC and a case study about the AVIVA container, see the online report.

## CASE STUDY

### Key Sustainability Effort: Disaster Preparedness and Response

Recent natural disasters such as tsunamis, earthquakes and floods, along with terrorist threats and the potential for widespread outbreaks of infectious diseases, such as avian flu, underscore the importance of disaster preparedness. As a global provider of life-saving healthcare products, Baxter works to protect its employees, the continuity of its business and citizens worldwide from such events.

#### Protecting Employees and Ensuring Business Continuity

Given the potential for a worldwide avian flu pandemic, Baxter created a Global Pandemic Preparedness Team in August 2005 to facilitate companywide coordination, planning, decision-making and communication in the event of such a crisis. Additional teams were formed at the regional, country and facility level. Working together, the teams have evaluated scenarios and established training, tools and processes to ensure effective execution of contingency plans to protect the health of Baxter employees, and the continued supply of medical products to those in need.

The Global Pandemic Preparedness Team established a pandemic-planning Intranet site for employees containing avian flu virus (H5N1) information and suggested actions in an outbreak. The site also includes travel policies, security information and personal-preparedness resources. If a pandemic occurs, the site will serve as a central information source.

The global and local preparedness teams also have engaged governments, health officials and customers to learn about their pandemic preparedness plans; collaborated with these stakeholders to assist in broader state, national and regional preparedness initiatives; and benchmarked with other global companies to share Baxter's expertise and identify additional focus areas.

Baxter is working with suppliers to address potential vulnerabilities, and assesses supply-interruption risk due to industry shortages, natural disasters or other occurrences. Mitigation plans include stockpiling inventory, developing alternative supplier manufacturing sites, moving inventory to safe sites prior to pending disasters such as hurricanes, or accelerating finished-goods production.

Baxter offers a number of resources to support employees with emotional and practical concerns during a disaster, including coping with grief and loss, taking care of children, rebuilding a life after a traumatic event and resources for financial emergencies.

#### Vaccine Development and Manufacture

Baxter partners with governments and companies worldwide to develop and produce vaccines and other therapeutics to protect against bio-terrorism and infectious diseases. In partnership with Acambis Inc., Baxter has supplied smallpox vaccine stockpiles to the U.S. government and 12 other countries since 2002. In 2003, the U.S. National Institute of Allergy and Infectious Diseases (NIAID) contracted with Baxter to develop and produce a vaccine against Severe Acute Respiratory Syndrome (SARS).

In May 2006, Baxter announced a partnership with DVC LLC, a bio-defense company, to develop seasonal and pandemic influenza



*Baxter is developing pandemic influenza vaccines with a unique protein- and serum-free "vero cell" technology, which has the potential to significantly reduce production time compared to traditional vaccine production methods using embryonated hens' eggs.*

vaccines for the U.S. government. Also in 2006, Baxter was contracted to supply 2 million doses of a candidate avian flu vaccine to the United Kingdom.

Baxter's unique protein- and serum-free "vero cell" technology was an important factor in securing these contracts. This technology offers potential cost, yield, speed and quality benefits compared to other vaccine production methods.

Baxter also develops and manufactures therapeutics to treat poisoning from chemical warfare agents. In 2005, the U.S. Department of Defense (DOD) contracted with Baxter, again in partnership with DVC LLC, to develop a plasma-based therapeutic agent for nerve gas exposure.

#### Participation in Disaster Simulations and Seminars

Baxter has sponsored disaster preparedness seminars and helped distribute a disaster preparedness video produced by the Federal Emergency Management Agency (FEMA). In Europe, Baxter participated in a European Union (EU) exercise to test national and pan-European response to a simulated EU-wide influenza pandemic.

#### Community Support

Throughout its history, Baxter has provided government agencies, including the DOD and FEMA, with stockpiles of healthcare products for medical emergencies. Baxter works with the U.S. National Guard, American Red Cross and international disaster-relief and humanitarian-aid organization AmeriCares to provide intravenous (IV) solutions, dialysis supplies, blood transfusion products and other life-saving supplies to disaster victims worldwide (see page 32 for more details).

In 2006, The Baxter International Foundation approved a two-year, \$190,000 grant to AmeriCares to establish a warehouse in India that will enhance disaster response in Asia and Africa. Currently, most donated healthcare products are shipped from AmeriCares warehouses in the United States and the Netherlands. The new warehouse will enable AmeriCares to respond to communities in the region more quickly and cost-effectively, potentially saving thousands more lives.

# COMPANY PROFILE

Baxter International Inc. is a global diversified healthcare company that develops, manufactures and markets products to treat hemophilia, immune disorders, infectious diseases, cancer, kidney disease, trauma and other complex medical conditions. These products are used in both acute and chronic healthcare settings to save and sustain patients' lives.

Baxter has approximately 47,000 employees, conducts business in over 100 countries and generates more than half of its sales outside of the United States. In 2005, sales totaled \$9.8 billion globally. Baxter has more than 60 manufacturing facilities worldwide, in the United States, Europe, Canada, Asia, Latin America and Australia.

Baxter's unique combination of expertise in medical devices, pharmaceuticals and biotechnology differentiates the company from others in the healthcare industry. Other company strengths include a global presence and strong manufacturing capabilities as well as long-standing relationships with healthcare providers. Although no single company competes with Baxter in all of its businesses, the company faces substantial competition in each of its segments from a diverse range of international and domestic healthcare and pharmaceutical companies.

Baxter operates in three business segments:

The **BioScience** business is a leading manufacturer of plasma-based and recombinant proteins used to treat hemophilia, and other biopharmaceutical products, including plasma-based therapies to treat immune disorders, alpha-1 antitrypsin deficiency and other chronic blood-related conditions; biosurgery products for hemostasis, wound-sealing and tissue regeneration; and vaccines. The business also manufactures manual and automated blood and blood-component separation and collection systems.

The **Medication Delivery** business is a leading manufacturer of intravenous (IV) solutions and administration sets, pre-mixed drugs and drug reconstitution systems, pre-filled vials and syringes for injectable drugs, electronic infusion pumps and other products used to deliver fluids and drugs to patients. The business also provides IV nutrition solutions, containers and compounding systems and services, general anesthetic agents and critical-care drugs, contract manufacturing services, and drug packaging and formulation technologies.



*Baxter's worldwide headquarters in Deerfield, Illinois, United States.*

The **Renal** business is a leading manufacturer of products for peritoneal dialysis (PD), a home therapy for people with end-stage renal disease, or irreversible kidney failure. These products include a range of PD solutions and related supplies to help patients safely perform fluid exchanges, as well as automated PD cyclers that perform solution exchanges for patients overnight while they sleep. The business also distributes products (hemodialysis instruments and disposables, including dialyzers) for hemodialysis, a form of dialysis generally conducted several times a week in a hospital or clinic.

Baxter's customers include hospitals and clinics, research labs, blood and plasma collection centers, kidney dialysis centers, rehabilitation centers, nursing homes, healthcare professionals and patients. The company interacts with these groups through training and education, participation in professional societies and advisory boards, customer service and clinical helplines, publications and presentations, clinical trials and customer advisory councils.

## *Company Milestones:*

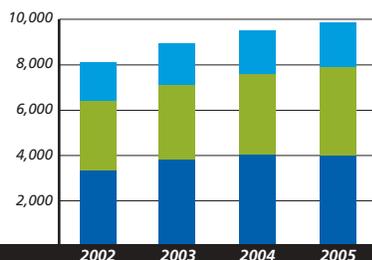
**1931** Company founded as the **Don Baxter Intravenous Products Corporation** by **Dr. Ralph Falk** and **Don Baxter** as the first manufacturer of commercially prepared intravenous solutions.

**1939** Introduced the first sterile, vacuum-type blood collection and storage unit, allowing blood to be stored up to 21 days, making blood banking practical for the first time.

Baxter's products, facilities and operations are subject to regulation by the U.S. Food and Drug Administration (FDA) and other regulatory authorities worldwide. Baxter works with such authorities to develop and manufacture safe and effective products for the company's customers.

### Sales by Business

(in millions)



Renal	\$1,692	\$1,808	\$1,958	\$2,007
BioScience	\$3,096	\$3,269	\$3,504	\$3,852
Medication Delivery	\$3,311	\$3,827	\$4,047	\$3,990
<b>Total</b>	<b>\$8,099</b>	<b>\$8,904</b>	<b>\$9,509</b>	<b>\$9,849</b>

### Baxter's History of Innovation

Founded in 1931 as the first manufacturer of commercially prepared IV solutions in glass bottles, Baxter has a long history of innovation. In 1939, Baxter developed the first sterile, vacuum-type blood collection and storage unit, allowing blood to be stored up to 21 days, making blood-banking possible. The company introduced the first commercial artificial kidney in 1956, making life-saving dialysis possible for people with kidney disease. This was followed by the first plastic blood-collection system, making it possible to separate blood into its components, advancing the field of blood-component therapy; the first concentrated Factor VIII clotting factor for people with hemophilia; and the first plastic IV containers, which revolutionized IV therapy worldwide. In 1978, Baxter introduced continuous ambulatory peritoneal dialysis (CAPD), the world's first portable kidney-dialysis therapy, followed a year later by the first automated blood-cell

separator. In 1992, Baxter introduced the first recombinant, or genetically manufactured, Factor VIII therapy, and improved the therapy even further in 2003 with the introduction of the first genetically produced Factor VIII free of blood-based additives. *For more information about Baxter's history of innovation, please visit the online report.*

Continued research and development (R&D) is essential to Baxter's future growth and to remaining competitive in each of the company's business segments. Principal R&D focus areas include continued development of recombinant and plasma-based therapeutics, adult stem-cell therapies, biosurgery products, enhanced packaging systems for medication delivery, improved solutions and devices for kidney dialysis, new drug formulation technologies and sterilization technologies. The company convenes R&D leadership teams from each Baxter business to assess key R&D projects from a "pan-Baxter" perspective, and established a Portfolio Review Committee in 2003 to make recommendations on R&D strategy.

In 2005, Baxter accelerated R&D spending and business development efforts, and announced 20 new product launches/collaborations and partnerships. For example, in 2005 Baxter acquired the exclusive worldwide rights from Kuros Biosurgery AG, a Swiss biotech company, to develop and commercialize a portfolio of hard and soft tissue-repair products. In the area of drug delivery, Baxter's collaboration with Halozyme Therapeutics resulted in FDA approval of a new product, HYLENEX, a liquid injectable formulation of recombinant human hyaluronidase that increases the absorption and dispersion of injectable drugs and simplifies the delivery of medications subcutaneously. The company also has partnerships aimed at developing longer-acting forms of Factor VIII and other blood-clotting proteins, reducing the frequency of injections required to treat chronic blood-clotting disorders.

### R&D Expenditures

(in millions)

2002	\$501
2003	\$553
2004	\$517
2005	\$533



**For additional information:**  
[www.baxter.com/profile](http://www.baxter.com/profile)



*"We have always pursued the good of the patient, and Baxter continues that today. With that greater goal always in mind, we have been privileged to save, extend and improve the quality of life for hundreds of thousands of people all over the world."*

– William B. Graham

*William B. Graham stands with the former president of the New York Stock Exchange (NYSE), Keith Funston (right), during the first day of trading of Baxter stock on the NYSE, May 15, 1961. Graham, CEO of Baxter from 1953 to 1980, passed away in January 2006 at the age of 94.*

**1956** Introduced first commercial artificial kidney, making life-saving dialysis available for people with end-stage renal disease.

**1968** Introduced first commercially produced Factor VIII concentrate to treat hemophilia.

**1970** Introduced first plastic container for intravenous solutions.

# GOVERNANCE AND BUSINESS PRACTICES

Since its founding in 1931, Baxter has fostered a culture of values-based decision making, supported by structures and processes that facilitate acting with integrity and the effective oversight of business activities worldwide. Baxter is committed to earning the trust and respect of its stakeholders by living the company's values.

*Corporate governance* refers to the framework under which Baxter, including its board of directors, is organized. The board oversees the company's corporate governance practices, which align with appropriate external standards. *Business practices* refers to how Baxter conducts its business — with integrity and in compliance with laws, regulations and Baxter policies. Baxter's work environment encourages ethical behavior, and integrity is central to its business success.

## Corporate Governance

Baxter has long recognized the importance of good corporate governance for Baxter's shareholders, employees, customers and communities. In 1995, Baxter adopted formal corporate governance guidelines, years before U.S.-based companies were required to do so by the Sarbanes-Oxley Act of 2002. These guidelines set standards for the company's board of directors in areas such as fiduciary oversight, strategic planning, social responsibility, succession planning and board elections. The guidelines also address the operation of the board and its committees, director qualifications, director independence, stock ownership for independent directors and director compensation.

Baxter's 12-person board has 11 independent directors and one Baxter executive (the chief executive officer). The board has five committees:

audit, compensation, corporate governance, finance and public policy. These committees address topics such as the integrity of financial reporting, nominations of directors and officers, compensation, corporate governance standards, financial affairs and social responsibility.

In 2005, the board met 13 times and board committees held a total of 30 meetings.

*For more information on the board's activities and responsibilities, see the online report.*

## Business Practices

As a global healthcare company operating in over 100 countries, Baxter recognizes the importance of adhering to a common set of ethics policies and values that are clearly communicated and understood throughout the company.

Baxter's ethics policies are detailed in the company's Global Business Practice Standards manual, developed by the company's Corporate Responsibility Office (CRO) and adopted by Baxter's board of directors to promote ethical conduct, ensure compliance with applicable laws and serve as a guide for business decision-making. The standards, which used early company ethics policies as a foundation, apply to members of Baxter's board of directors and all company employees, including the chief executive officer, the chief financial officer and other senior officers. The standards are routinely updated to reflect the changing business climate.

*See the online report to read a conversation with Corporate Secretary David Scharf and Business Practices Vice President Gretchen Winter about the role of governance and business practices at Baxter.*

These standards, which are available in 18 languages, define Baxter's commitment to doing business with integrity and cover topics such as protection and use of company assets, accurate recordkeeping, competitive and confidential information, insider trading, bioethics, conflicts of interest, gifts and trade compliance. The standards describe Baxter's commitment to full, balanced, accurate, timely and clear disclosure in all public communications. They also outline the consequences of failure to comply with applicable law or Baxter's policies and procedures and require prompt reporting of wrongdoing.

Baxter's Global Business Practice Standards for Suppliers provides a consistent supplier evaluation approach, defines policies, and sets common expectations about ethical behavior when doing business with Baxter. Suppliers must be evaluated and approved before any materials, components, products or services may be purchased. These standards are included in contracts used during all supplier and contractor negotiations (see page 28 for more information).

### Baxter Enhances its Compliance Program

In July 2006, Baxter established a new organization, Ethics and Compliance, within the Office of the General Counsel to operate its ethics and compliance program. David H. Resnicoff joined Baxter as associate general counsel/vice president, Ethics and Compliance, to lead the group.

The Ethics and Compliance group, which includes the business practices and environmental, health and safety audit and compliance groups, will be responsible for ensuring that Baxter's Ethics and Compliance Program is effective, tailored to Baxter's businesses and supports the company's business goals. The group will work closely with existing business and legal teams to ensure Baxter's practices are aligned with applicable law and Baxter policy through education, counseling, business practice review and investigation of alleged violations of law and policy.



David H. Resnicoff

*Governance and Business Practices Milestones:*

**1989** Published first formal ethics manual.

**1993** Established Corporate Responsibility Office and supporting Business Practice function, accountable directly to the Public Policy Committee of the board of directors.

## Corporate Responsibility Office

The Corporate Responsibility Office (CRO), established by the board in 1993, is responsible for communicating the Global Business Practice Standards, providing guidance and training to employees and directors, maintaining multiple channels for employees to report concerns and monitoring compliance with the Global Business Practice Standards. The CRO, which meets at least every quarter, reports to the board's Public Policy Committee and on financial matters to the board's Audit Committee (see Baxter Global Business Practices Structure graphic in online report). Baxter was one of the first companies to establish a direct reporting relationship between its CRO and the board, ensuring oversight of ethical business conduct at the highest level.

Baxter's Regional Business Practice Committees implement the Public Policy Committee's charter globally and enhance corporate understanding of local cultures, values and behavioral norms. Committee membership rotates to ensure broad employee exposure and participation.

## Certificate of Integrity and Compliance

Every year, Baxter requires mid-level managers and above, sales representatives and other selected employees around the world (almost 25 percent of Baxter's workforce) to reaffirm their commitment to the company's Global Business Practice Standards. To do so, these employees are required to complete and submit an

annual Certificate of Integrity and Compliance (COIC), available in 11 languages.

The COIC is a reporting document designed to measure the integration of ethical business practices throughout Baxter. Participation has more than doubled since 2000, as Baxter expanded the number of people required to complete this process. In 2005, the COIC process identified 91 issues requiring follow-up by Business Practices staff, all of which have been resolved.

## Legal and Regulatory Compliance Training

Baxter offers employees worldwide Web-based training about legal and regulatory compliance requirements. In 2005, 27,471 employees completed a total of 95,175 modules covering areas such as data privacy, U.S. Medicare fraud and abuse, trade compliance, special requirements when selling to the U.S. federal government, the Foreign Corrupt Practices Act, antitrust and intellectual property.

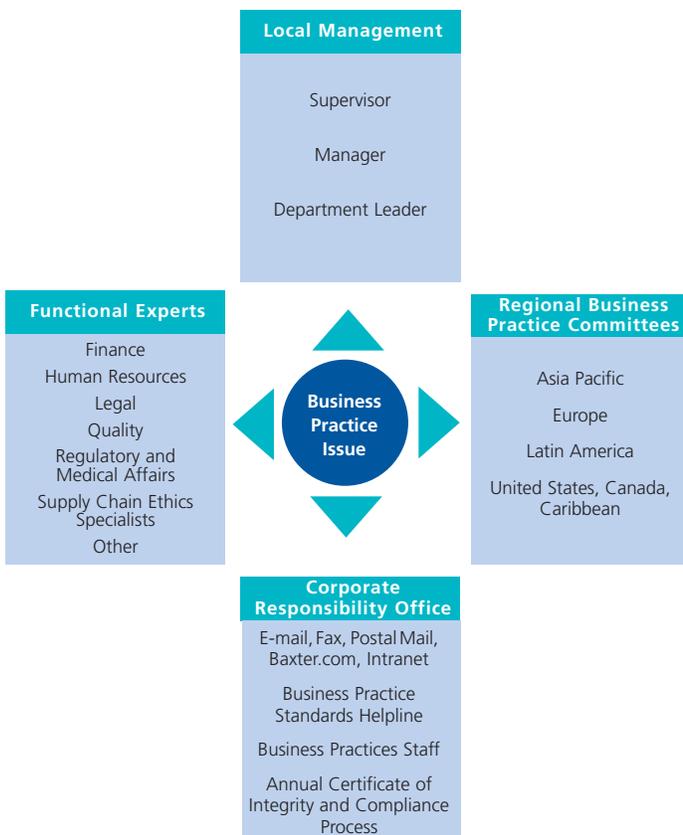
## Guidance and Compliance

Open communication is at the core of Baxter's commitment to work with integrity. The company encourages employees to seek guidance and report concerns as needed through numerous formal channels (see graphic at left).



For additional information:  
[www.baxter.com/governance](http://www.baxter.com/governance)

## Channels for Employees Seeking Guidance or Raising Issues on Business Practice Matters



## Business Practices Helpline and Certificate of Integrity and Compliance Inquiry Topics

Inquiry Topic	2003	2004	2005
Assets, Information, Records and Methods of Communication	52	49	40
Bioethics	3	6	6
Business Practice Elements	19	22	16
Conflicts of Interest	9	12	9
Contracting with Third Parties	29	11	4
Customer Relations	0	13	4
Employment Practices	13	17	13
Environment, Health and Safety	6	2	4
Gifts and Entertainment	10	12	19
Human Resource Concerns	137	104	107
Political Activities and Public Affairs	2	1	0
Prohibition of Corrupt Practices	6	3	2
Providing Information to Governmental Organizations	0	0	0
Quality and Regulatory Compliance	16	15	14
Sales and Marketing Practices	24	17	19
Trade Compliance	2	3	3
Other	34	22	14
<b>Total</b>	<b>362</b>	<b>309</b>	<b>274</b>

Baxter Business Practices Helpline  
Toll Free: 1-877-BAXTER3 (1-877-229-8373)  
International: 01-847-948-4964  
Fax: 1-847-948-2867

**1994** Established Business Practices Helpline.  
**1995** Adopted formal corporate governance guidelines.

**2000** Published Baxter's Global Business Practice Standards Manual in 18 languages.



At Baxter's research and development center in Orth, Austria, employees apply innovative science to develop biopharmaceutical products, including the first genetically produced Factor VIII therapy free of blood-based additives.

# EMPLOYEES

Baxter's culture is grounded in an employee base that has a passion to innovate and drive for solutions, personal accountability for results, integrity, eagerness to learn and continuously improve, uncompromising dedication to quality, relentless focus on rapid and disciplined action and respect for the diverse contributions of all.

As a global, diversified healthcare company, Baxter provides a wide range of opportunities for its 47,000 employees to help fulfill their potential and perform challenging, rewarding work that ultimately contributes to the well being of millions of people worldwide.

Baxter's industry is dynamic, and employees play a critical role in the company's ongoing success. To adapt to this changing environment, the company strives to preserve the best aspects of its 75-year history and culture while promoting employee behaviors that contribute to a high-performance organization and increase Baxter's competitiveness.

Baxter has employee policies that apply globally or at the country level, in more than 40 subject areas, including employee performance and conduct, resolution of employee concerns, equal employment opportunity, privacy of employee records, pay and compensation, time off, and many others. These policies reflect Baxter's commitment to treat all employees with dignity and respect and to work openly and supportively in teams, aiming toward shared goals and high performance.

To help ensure consistency in employee practices, Baxter relies on an e-learning system of required compliance education modules, including, among other topics, courses focused on discrimination and harassment. Employees complete annual or biannual course work in their subject area, depending on their role and legal or regulatory obligations.

## Driving a High-Performance Organization

To motivate higher levels of organizational and individual performance and to create a competitive advantage through employee performance, Baxter is focused on three areas:

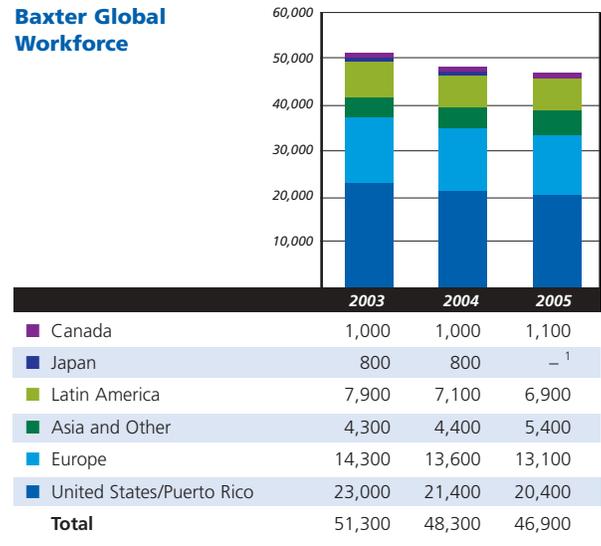
- Goal alignment
- Performance management
- Leadership development

### Goal Alignment

At the end of 2005, Baxter launched a process to ensure that employees and teams work together to achieve Baxter's goals, which are focused on customers, innovation, people/team, quality/regulatory/compliance, operational excellence and financial performance.

*Baxter employees, including those pictured throughout this section, are committed to meeting customer and patient needs as well as making a positive impact on society at large.*

## Baxter Global Workforce



<sup>1</sup> Japan employees included in "Asia and Other" as of 2005.

Goals are cascaded throughout the company to ensure that all teams and individuals are aligned with broader organizational objectives. Teams and individuals establish work plans and set their own specific, measurable targets to help Baxter achieve its overall strategic goals.

## Performance Management

While a review process occurs twice each year for employees and their managers to assess individual performance against goals, the company encourages ongoing coaching and feedback throughout the year. Individual performance contributes to differentiated rewards.

To drive and sustain high performance, in 2006, Baxter instituted a new global performance management process that reduces the focus on procedures and forms and emphasizes frequent, candid performance discussions between managers and employees. The redesigned system is available in seven languages. Nearly 26,000 employees globally use the performance management system to document their goals, performance feedback and year-end ratings.

## Leadership Development

Based on input from more than 20 focus groups across Baxter's global organization in 2004, the company's senior management team identified a set of leadership competencies or behaviors deemed most important for success in different leadership roles, including drive for results, integrity and trust, customer focus, decision quality and personal accountability.

In 2004, Baxter began the process of rolling out these competencies across the company. Late in 2005, Baxter held a one-day leadership development program for 1,400 Baxter leaders from around the world, which focused on using these characteristics to create a high-performance culture.

The leaders that joined the one-day session now participate in a quarterly global teleconference learning exchange, which reinforces skills and enables them to apply the leadership competencies in the



Jeanne K. Mason

## A Conversation with Jeanne K. Mason, Corporate Vice President, Human Resources

### **What drew you to Baxter?**

I was very impressed by Baxter's leadership team – a group of high-energy, passionate and committed people. They were selected to lead Baxter into the next era. Also, Bob Parkinson's vision for the company was extremely engaging. I was eager to be a part of the team, which I joined in May 2006.

### **What is your human resources philosophy?**

An important responsibility of an organization is to create opportunities for people to live their dreams. That becomes truly possible when a company provides the training, development and career opportunities to grow. Human Resources (HR) must understand what capabilities the business needs, what capabilities it has and how to close the gap through hiring or development. HR must understand where and how to add value and deliver on this understanding. Ultimately HR is a key enabler to the overall Baxter vision.

### **How would you describe Baxter's culture?**

My early impression since joining Baxter is that people feel a huge sense of purpose and commitment to the company. There is a tremendous amount of pride at Baxter because people feel they are helping to save and sustain people's lives, which motivates them to go the extra mile.

*Employee Milestones:*

Baxter is in the midst of a transition to a more performance-based culture, grounded in a passion for innovation, personal accountability for results and integrity, eagerness to learn and continually improve, dedication to quality, focus on rapid and disciplined action and respect for the diverse contributions of all.

### **What are your priorities in your new leadership role and what changes can employees expect to see in 2006?**

Talent acquisition, professional development and performance assessment with an emphasis on more effective succession and organization planning are key priorities. We also want to re-invigorate our focus on diversity, which must encompass ethnic and cultural diversity as well as other forms of difference that contribute to an effective workplace.

The HR team is in the process of an evaluation to understand what's working and not working across all our processes, practices and structure. Once we are clearly grounded in the voice of our customers, we will be in the position to prioritize our actions, set the HR strategy to align with the business strategy and build a roadmap to achieve our plans. While I expect to have our plan completed soon and hopefully have some early deliverables, the results of change will unfold over time. However, employees should see evidence that we're moving in a new direction and they should see the road map of that change. It's a process of continuous change, which requires both patience and persistence.

**1933** Opened first manufacturing facility in a renovated automobile showroom in Glenview, Illinois, United States.

**1945** Initiated employee profit-sharing trust.

workplace day to day. The leadership development program is being introduced in 2006 to a broader base of leaders companywide, beginning in Europe, and Baxter's Human Resources (HR) team is developing an ongoing strategy and curriculum to advance leadership training throughout the company.

Creating a high-performance organization also requires Baxter to recruit the right talent. To do so, the company's HR organization has integrated leadership competencies into interview guides to help hiring managers focus selection criteria on these desired behaviors.

## Compensation and Benefits

Baxter provides its employees with opportunities for professional growth, supported by comprehensive compensation, benefits and development programs. The company's global total compensation philosophy is to provide market-competitive pay while rewarding employees for individual and business performance. The company also strives to ensure that employees understand the value of their rewards.

Baxter's total compensation package includes base salary and may include variable pay, such as cash bonuses and stock options. It also includes a broad variety of market-competitive benefits that may vary by region, business and role, to help employees meet their health-care, income-protection, financial, retirement and time-off needs.

During 2005, Baxter paid its employees more than \$2.5 billion in compensation and benefits worldwide.

### Executive Pay

The Compensation Committee of Baxter's board of directors, which consists solely of independent, non-employee directors, determines executive officer compensation each year based on an assessment of competitive compensation market data, business conditions and



*In 1933, six employees of Don Baxter Intravenous Products, Inc. manufactured a complete line of five intravenous solutions in glass containers in a renovated automobile showroom in Glenview, Illinois, United States.*



company objectives. The Compensation Committee approves executive officers' financial and non-financial goals and, at year-end, assesses officer performance against those goals and makes pay decisions accordingly.

### Pension Management

Baxter contributed more than \$500 million to its U.S. pension plan during 2005 to improve the plan's funded status. The plan is now essentially fully funded on a projected benefit obligation basis under generally accepted accounting principles.

## Training and Development

Baxter's continued success depends on ongoing employee learning and skill development. To achieve this objective, Baxter offers employees a range of training and development programs.

Baxterlearning.com is the company's global learning management system. It houses 426 eLearning programs, available to employees in eight languages, on a variety of subjects, including PC skills, project management, quality, essentials of Six Sigma and many more. In 2005, 8,995 employees completed Baxterlearning.com courses.

Employees take courses both for professional development and to meet regulatory requirements. Baxter tracks regulatory requirements related to training documentation through a software system called ISOtrain at 45 of Baxter's global facilities. ISOtrain software tracks and reports training requirements by course, curriculum and employee.

In its BioScience business, Baxter is rolling out a 12-month supervisor development program designed to help new or recently promoted first-line supervisory personnel. The program uses a blended learning approach (online self-study and classroom training) that is segmented

into five modules: Leadership, Quality and Regulatory Knowledge, Technical Expertise, Operational Excellence and HR/EHS Systems/Processes. Although many courses are in development, 32 are active. The goal is to expand the program to other Baxter businesses over time.

### Employee Survey

Baxter regularly conducts companywide employee surveys to assess employee satisfaction, measure trends on specific issues and help shape employee programs. Baxter conducted the most recent surveys in 1999, 2003 and 2005.

Baxter administered the 2005 survey online in 13 languages through its intranet site. More than 25,500 employees completed the survey, representing 54 percent of Baxter’s workforce, compared to 34 percent in 2003.

Employees remain highly engaged and committed to company objectives despite restructuring in 2004 and 2005. Baxter’s 2005 scores are generally in the upper ranges – more than half the items in 11 broad categories (see below) showed favorable scores of 70 percent or higher. A favorable rating of 70 percent or higher is considered a strength; 60-69 percent is considered good; less than 60 percent suggests need for improvement.

Baxter plans to conduct the next employee survey during 2007 and is considering making this an annual process.

### Category Scores for 2005 Employee Survey<sup>1</sup>

(% of respondents)



<sup>1</sup> Percentages in some categories do not add up to 100 percent, due to rounding.

### Work/Life Balance

Work/life balance is a critical aspect of overall employee engagement at Baxter. The company works hard to create a work environment that supports a healthy balance between work, personal and family life and recognizes and encourages open discussion about work/life conflicts when they occur. Managers and employees share responsibility for achieving and managing a healthy work/life balance.

Baxter provides managers and employees a guidebook for understanding work/life issues, as well as the following programs and resources for U.S. employees and in some instances, globally:

- Adoption assistance and reimbursement;
- Alternative work arrangements, including part-time, compressed week, job sharing, telecommuting and flexible time;
- Back-up/emergency child and elder care;<sup>2</sup>
- Dependent care reimbursement account;
- Educational assistance;
- Employee assistance and counseling program;
- Enhanced elder care management services;
- Lactation rooms;<sup>2</sup>
- Resource and community referrals for family, financial and work issues; and
- Various national child care support options.

While Baxter’s U.S. operations offer more work/life resources than other locations, the company encourages its global operations to work with external organizations to help facilitate work/life programs for non-U.S. operations.

<sup>2</sup> Location specific.



## Employee Diversity

Baxter is committed to fair opportunity for all employees, and recognizes that every individual's unique background and experiences contribute to a successful organization.

Discrimination in hiring, promotion and all other employment decisions on the basis of race, color, religion, gender, national origin, age, disability, sexual orientation, veteran status or any other basis protected by federal, state or local laws is prohibited. Baxter's global operations comply with applicable laws and company business standards around the world.

The company encourages employees to report discrimination to a supervisor, human resources representative or any member of management so Baxter can address the situation promptly. Baxter requires that U.S. manager-level employees and above take an online training course to ensure compliance with the company's workplace diversity and fair employment opportunity policy.

The following tables illustrate Baxter's ethnic and gender diversity at various levels in the company.



**For additional information:**  
[www.baxter.com/employees](http://www.baxter.com/employees)

*As of publication in 2006, seven of Baxter's 16 corporate officers (44 percent) are women or minorities. This reflects Baxter's commitment to a diverse workforce, which it believes must start from the top.*

### Board and Officer Ethnic Diversity

(% non-white of total)

	2003	2004	2005
Board of Directors	17%	9%	8% <sup>1</sup>
Corporate Officers	16%	7%	14%

### Board and Officer Gender Diversity

(% female of total)

	2003	2004	2005
Board of Directors	17%	18%	17% <sup>2</sup>
Corporate Officers	11%	20%	21%

### Gender Diversity at Baxter

(% female globally)

	2003	2004	2005
Vice President and Above	20.1%	20.1%	19.6%
Supervisor to Director	37.2%	38.4%	38.2%
Non-Manager	57.6%	57.3%	57.0%
<b>Total</b>	<b>54.6%</b>	<b>54.6%</b>	<b>54.1%</b>

<sup>1</sup> Board membership increased from 11 in 2004 to 12 in 2005. Minority representation did not change.

<sup>2</sup> Board membership increased from 11 in 2004 to 12 in 2005. Female representation did not change.



# ENVIRONMENT, HEALTH AND SAFETY

Baxter made substantial progress in its environmental, health and safety (EHS) performance in 2005, capping a decade of improvement during which the company raised the bar in this area of its operations.



Arthur J. Gibson

## 2005 EHS Highlights

The year 2005 marked the end of a 10-year period (1996-2005) of EHS goals at Baxter. Having joined Baxter as vice president of EHS in November 2005, I am excited to lead EHS as we embark on a new set of long-term goals to advance EHS at the company through 2010.

For EHS, the annual sustainability reporting cycle enables us to reflect on our activities and serves as a

catalyst for driving continual improvement as we contribute to Baxter's journey toward sustainability. Although the company faced a number of challenges in 2005 in its quest to improve EHS performance, we addressed most of these, and achieved many outstanding accomplishments.

## Environment Year in Review

Baxter made great progress in its environmental performance in 2005, reducing air toxics, energy usage, non-hazardous waste and packaging material usage. The U.S. Environmental Protection Agency (EPA) and other environmental groups recognized these and other achievements with several awards. Still, work remains in reducing regulated waste, energy consumption and associated greenhouse gas emissions over the long term.

For more information, please see the Environmental Performance Against Targets table on the next page.

## Safety Year in Review

2005 was Baxter's third consecutive year of record-best safety performance since the company began keeping safety records in 1982. At the same time, the company must continue working to improve in this area. Unfortunately in 2005, two Baxter employees and two contractors lost their lives in off-site incidents, and nine employees were seriously injured in work-related accidents. These statistics are unacceptable. Our continued safety improvement is driven by the conviction that even one injury is too many. I encourage stakeholders to refer to the health and safety section of the online report to learn more about these incidents and the steps we are taking to reduce the risk of similar events in the future.

For more information, please see the health and safety tables on the next page.

## EHS Partnerships at Baxter

Baxter's EHS organization also is helping strengthen sustainability throughout the company by fostering partnerships with other functions and groups (see table below). We believe these partnerships represent the next step toward developing a more sustainable business, helping Baxter further reduce its environmental footprint and achieve greater competitive advantage.

Partner	Activity
Device Center of Excellence	<ul style="list-style-type: none"> <li>Conduct product sustainability reviews on all new medical devices</li> <li>Develop product stewardship database</li> </ul>
Purchasing, Supply Chain	<ul style="list-style-type: none"> <li>Increase number of Baxter suppliers in the U.S. EPA's Green Suppliers Network</li> </ul>
Plant Management, Human Resources	<ul style="list-style-type: none"> <li>Strengthen safety culture and build greater accountability for safety</li> </ul>
Cross-functional Global Pandemic Preparedness Team (see page 5)	<ul style="list-style-type: none"> <li>Protect the health and safety of Baxter employees and the continuity of business operations in case of a pandemic</li> </ul>

We hope you find this information interesting and informative. We look forward to reporting further progress in the coming years.

Arthur J. Gibson

Baxter commissioned ERM Certification and Verification Services (ERM CVS) to perform verification assurance on the environmental, health and safety (EHS) and greening the supply chain data and analysis in Baxter's 2005 Sustainability Report. The objective of the verification was to establish that information presented is an accurate, reliable and transparent representation of performance. ERM CVS has provided assurance on all EHS content in this print document, except the case study.



For more information, see [www.baxter.com/auditor](http://www.baxter.com/auditor).

## Environmental Performance at-a-Glance

### Environmental Performance Against Targets

Indicator	1997-2005 (% reduction from 1996)		2005 (% reduction from 2004)		
	Goal	Performance	Goal	Performance	Savings <sup>1</sup> (in millions)
Air Toxics <sup>2</sup>	80%	85%	n/a <sup>3</sup>	18%	\$0.0
Energy Use and Associated GHG Emissions <sup>2</sup>	30%	27%	3%	6%	\$8.5
Energy and Process-Related GHG Emissions <sup>2</sup>	n/a	39%	n/a	4%	\$0.0
Regulated Waste Generation <sup>2</sup>	35%	30%	6%	1% increase	\$(0.3)
Non-hazardous Waste Generation <sup>2</sup>	35%	40%	6%	13%	\$6.9
Packaging <sup>4</sup>	20%	20%	2%	1%	\$3.5
Water Use <sup>2</sup>	n/a	25%	n/a	2%	\$0.2

<sup>1</sup> Total savings and cost avoidance realized in 2005 from activities completed in 2005.

<sup>2</sup> Per unit of production value.

<sup>3</sup> Goal met in 2001.

<sup>4</sup> Goal is for 1995 – 2005. Performance is for 1996 – 2005. Performance is measured as the sum of project reductions as a percent of the 1995 baseline. Savings are for 1999 – 2005.

## STAKEHOLDER VIEW

*Why do you believe that environmental management is an important issue for corporations, specifically for Baxter?*

Too often, companies are so fixated on short-term financial results that they ignore the natural assets – clean water, healthy air, a stable climate, biodiversity – on which these results depend. In a world of finite natural resources and growing populations, proactive environmental management is essential for any company serious about reducing risks and building long-term shareholder value. Baxter has taken these risks seriously by moving beyond environmental compliance to set aggressive targets for reducing waste, energy and greenhouse gas emissions, packaging and air toxics.

*How would you describe Baxter's work and performance in this area?*

Baxter continues to be a global leader on corporate environmental stewardship. On the climate change front, the company is a founding member of the Chicago Climate Exchange and has slashed greenhouse gas emissions by 39 percent per unit of production value. Baxter has also significantly reduced water and energy use and the amount of regulated and non-hazardous waste it generates per unit of production value, in some cases exceeding its 10-year goals.

Mindy Lubber, JD, MBA  
President  
Ceres

## Health and Safety Performance at-a-Glance

### Occupational Injury and Illness Performance

Indicator	1996	2002	2003	2004	2005
Recordable Case Rate <sup>5, 6, 7</sup>	3.17	2.50	1.93	1.60	1.52
Days Lost Rate <sup>5, 6, 7, 8</sup>	28.02	14.14	10.46	11.37	7.08
Restricted Days Rate <sup>5, 6</sup>	29.90	24.69	24.95	18.74	22.80
Cases with Days Lost Rate <sup>5, 6, 7</sup>	1.28	0.75	0.56	0.45	0.30
Employee/Contractor Serious Injuries (total number)	0/0	5/0	4/1	3/0	9/0
Employee/Contractor Fatalities (total number)	0/0	2/1	0/0	0/0	2/2
Worldwide Workers' Compensation Estimate (in millions)	\$16.9	\$22.4	\$21.0	\$22.4	\$20.6

<sup>5</sup> All rates based on 100 full-time employees (FTE) working one year. 100 FTEs equals 200,000 work hours. Baxter applies U.S. Occupational Safety and Health Administration recordkeeping practices worldwide.

<sup>6</sup> Recordable cases – Work-related injuries or illnesses requiring medical attention beyond first-aid, including cases with days lost.

Days lost – Number of days lost due to work-related injuries and illnesses.

Restricted days – The number of days an employee or supervised contractor is unable to work full duty due to a work-related injury or illness. The date of injury and date of return to full duty are not counted as restricted days.

Cases with days lost – Work-related injuries or illnesses that cause an employee to lose at least one full day after the date of the incident.

<sup>7</sup> 1996 performance adjusted to account for acquisitions and divestitures made in 2000.

<sup>8</sup> 1996 data adjusted upward by 30 percent due to 2002 Occupational Safety and Health Administration recordkeeping rule changes.

Environmental, Health and Safety Milestones:

**1976** Created company's first Environmental Affairs and Health and Safety departments.

### Health and Safety Performance Against Targets

Indicator	1997-2005 (% reduction from 1996)		2000-2005 (% reduction from 1999)		2005 (% reduction from 2004)	
	Goal	Performance	Goal	Performance	Goal	Performance
Cases with Days Lost	60%	77%	n/a	n/a	3%	33%
Days Lost	n/a	n/a	n/a	n/a	5%	38%
Recordable Injury and Illness Cases	n/a	n/a	50%	40%	3%	5%



Baxter's commitment to minimizing waste is evidenced at its manufacturing facilities that capture, regrind and reuse scrap plastic materials. The company's operations reported reusing more than 3,800 metric tons of scrap plastic in 2005.

**1990** Board of directors adopted new environmental policy and set goal to develop a best-in-class environmental program.

## Global Requirements and Management Systems

Baxter's EHS program follows a management-systems approach guided by its global EHS requirements. Baxter applies the same EHS policies to all its facilities worldwide. Baxter's global requirements serve as the foundation for the company's EHS program, establishing the minimum standards facilities must meet. These requirements protect employees, neighbors and the environment; reduce risk for the company; and decrease the cost of waste, as well as injuries and illnesses.

### ISO 14001 Certification

Baxter committed to achieve ISO 14001 certification by 2002 for all manufacturing, research and development and other major operations. Certification is optional for all other Baxter locations. Though this commitment has not been met fully, nearly 94 percent of applicable facilities (62 of 66, see map online) obtained or maintained ISO 14001 certification as of December 31, 2005.

### Occupational Health and Safety Assessment Series 18001 (OHSAS 18001)

OHSAS 18001 certification was included in the scope of approximately 50 percent of the EHS audits conducted in 2005. OHSAS certification generally is limited to manufacturing facilities, larger warehouses and research facilities that have achieved ISO 14001 certification. As of December 31, 2005, 21 Baxter locations (see map online) met the criteria for initial certification to OHSAS 18001<sup>1</sup>.

<sup>1</sup> Non-accredited certification to OHSAS 18001.



*The use of isolators provides a controlled, sterile work environment that is less energy intensive than traditional manufacturing environments. Baxter has integrated the use of isolators into many of its facilities, including Round Lake, Illinois, United States.*

## Environmental Compliance

Baxter received 17 environmental notices of violation (NOVs) in 2005, up from 16 in 2004<sup>2</sup>. Of these, 12 were related to wastewater, a slight improvement compared with 2004. The one air violation was for exceeding the running time of an emergency generator. Two violations were related to drinking water reporting and two were related to regulated waste.

Baxter paid \$11,825 in environmental fines in 2005. Of this amount, \$5,000 was paid to remedy the air violation, \$3,850 was related to wastewater violations that occurred in 2005, \$500 was in connection to a wastewater violation from 2004, and \$2,475 was related to a regulated waste violation.

<sup>2</sup> An NOV is a written notice from a government agency that identifies environmental noncompliance.

## Health and Safety Compliance

Baxter settled one radiation-related citation received in September 2005 following a government inspection. This violation involved the facility's failure to meet all of its permit requirements in northern Illinois, United States, in a timely manner. Since then, Baxter has met all permit requirements. Baxter paid no safety-related fines in 2005.

## EHS Audits

Baxter's EHS audit process helps the company manage EHS risk and ensures that EHS programs are in place and effective. Baxter's EHS audit program is staffed by internal audit teams and external EHS auditors from ERM Certification and Verification Services.

Auditors check compliance with regulatory and global company requirements, evaluate the facility's management systems and review the accuracy of data submitted for EHS reports. Audits evaluate the facility's performance in key areas, such as compliance, risk reduction, accident prevention and environmental-impact reduction.

In 2005, the corporate EHS audit team audited approximately 40 percent of Baxter's major operations – 40 independent audits that covered 38 facilities and an overall EHS global ISO 14001-certificate assessment. Of the 38 facilities audited, 15 are in the United States, Puerto Rico or Canada; 14 are in Europe; and nine are in Asia or Latin America.

## Select 2005 EHS Awards and Recognition

Sponsor/Organization	Title of Award/Recognition
U.S. EPA / Climate Leaders Program	2005 GHG Reduction Goal Achievement Award
Hospitals for a Healthy Environment	Champion for Change Award
U.S. EPA / Performance Track Program	Corporate Leader Award
American Board for Occupational Health Nurses	Employer Recognition Award

**1995** Developed first environmental financial statement.

**1996** Merged Environmental Affairs, Environmental Engineering and Health and Safety into one department.

**1999** Commissioned ERM Certification and Verification Services to verify EHS data.

Select EHS performance detail. More information is available online.

## Managing Energy Use and Cost

Since 2002, Baxter's energy costs have increased more than 10 percent per year while company energy usage remained essentially flat. Energy is among Baxter's most costly manufacturing inputs.

In 2005, Baxter promoted best practices across the company, increased the number of facility energy reviews, tracked more closely the completion of identified energy savings projects and expanded the use of utility invoice payment services.

Facility-based energy-efficiency projects included the following:

- Replacing metal halide lamps and high-pressure sodium lamps with energy-efficient lighting systems, installing improved control technologies, conducting lighting surveys and installing improved lighting reflectors. This produced estimated annual savings of \$40,000 to \$250,000 per facility.
- Improving motor efficiency by using intelligent controls for motors with varying loads. Efficiency gains vary but range from 5 to 60 percent.
- Optimizing the generation and distribution of compressed air used in manufacturing processes.

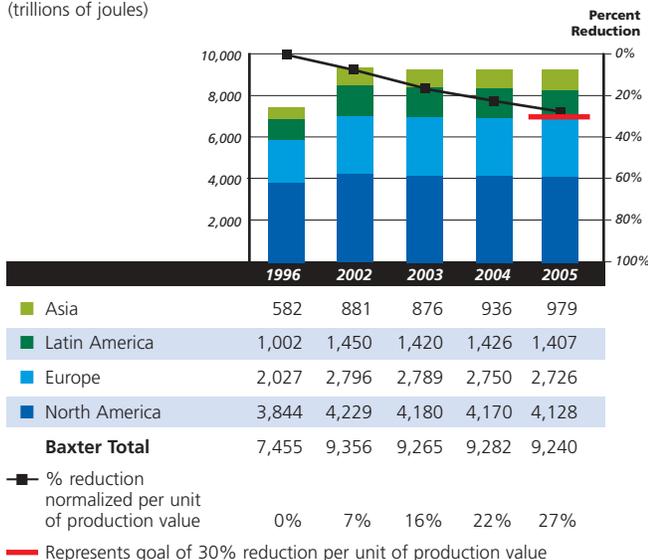
By year-end 2005, Baxter reduced energy usage 27 percent per unit of production value compared to 1996, 3 percent short of its target of 30 percent. Baxter failed to meet the target due to the following factors:

- Increases in process automation in the company's manufacturing operations over the last five years; and
- Extensive quality-assurance validation testing for certain new processes and facilities.

See the online report to read a case study about Baxter's energy monitoring systems.

### Energy Usage from Baxter Operations<sup>1</sup>

(trillions of joules)



<sup>1</sup> Energy usage from Baxter operations excluding energy consumption associated with material and product delivery and employee commuting and travel (Baxter Operations Total line item from Energy Usage and Greenhouse Gas Emissions table online).

## Improving Safety Performance

Baxter uses a risk-based approach that identifies and prioritizes health and safety hazards, and carries out actions designed to correct and prevent them. Baxter encourages all employees, beginning with managers, to be accountable for safety. The EHS organization reports safety performance to Baxter senior leadership on a monthly basis. Safety targets are integrated into managers' annual performance management objectives, impacting annual compensation.

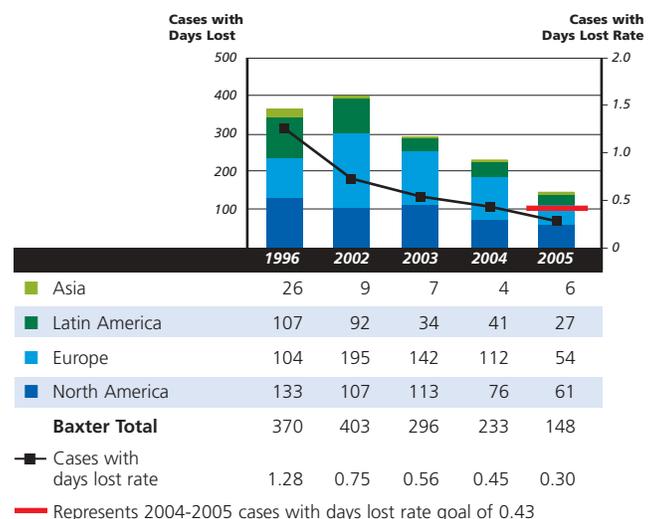
Baxter achieved record performance per 100 employees in several key metrics in 2005:

- *Cases with days lost rate.* Work-related injuries or illnesses that cause an employee to lose at least one full day after the date of the incident. The 2005 rate improved 33 percent from 2004.
- *Days lost rate.* Number of days lost due to work-related injuries and illnesses. The 2005 rate improved 38 percent from 2004.
- *Recordable case rate.* All work-related injuries or illnesses requiring medical attention beyond first aid, including cases with days lost. The 2005 rate improved 5 percent from 2004.

A focus on prevention and case management helps Baxter manage the medical treatment costs of work-related injuries. The company estimates that incident avoidance and case management saved Baxter \$28.5 million from 1997 to 2005.

As part of its focus on prevention, Baxter is targeting reducing ergonomic injuries and illnesses, which account for approximately half of Baxter's total incidents, and using leading indicators to identify factors to prevent injuries. In 2005, Baxter developed posture guidance documents, medical care guides, and a facility assessment tool to help facilities with ergonomics efforts. Baxter piloted leading indicators in 2004, and set a target that by the end of 2005, 65 percent of facilities with 25 employees or more would have at least one health and one safety leading indicator. Baxter missed that target due to data collection inefficiencies and challenges with facilities understanding the topic.

### Cases with Days Lost and Rate



## 2010 Environment, Health and Safety Goals

Baxter has reflected on the past decade of progress to define its next generation of EHS goals. Most of these goals will span five years to ensure that the organization keeps up with the rapidly changing business environment.

### Environmental (base year 2005)

- Reduce total waste (non-hazardous and regulated) 30 percent indexed to revenue.
- Reduce water usage 20 percent indexed to revenue.
- Reduce energy usage 20 percent indexed to revenue.
- Reduce greenhouse gas (GHG) emissions 20 percent indexed to revenue.
- Reduce environmental incidents by 50 percent.

### Product Stewardship

- Successfully apply the Sustainability Review Gates in the new Baxter Product Development Process (PDP) for all new medical devices developed from 2006-2010. *See R&D and Design (page 25) for more detail.*
- Implement an electronic product take-back program to meet emerging customer and global requirements.
- Develop an implementation plan to proactively eliminate certain hazardous substances<sup>1</sup> in the company's packaging and products.



At Baxter's manufacturing facility in Marion, North Carolina, United States, employees are trained to reduce ergonomic-related injuries and illnesses by using optimal ergonomic techniques to perform their jobs.

### Occupational Health and Safety

- Reduce work-related days lost rate to 6.0.
- Reduce days lost case rate to 0.23.
- Reduce recordable case rate to 1.27.
- Implement a case management program in 75 percent of facilities with 25 employees or more.
- Implement at least one health and one safety leading indicator in 90 percent of facilities with 100 or more employees.

### Industrial Hygiene

- Ensure that 95 percent of manufacturing and R&D sites have current industrial hygiene risk assessments and monitoring plans.
- Evaluate and define hearing conservation programs and then use engineering and administrative controls to reduce the need for employees to use hearing protection by 25 percent.
- Specify the use of respiratory protection by establishing exposure criteria and then implement engineering and administrative controls to reduce the need for employees to use respiratory protection by 25 percent.

<sup>1</sup> To meet EU Restriction of Hazardous Substances Directive limits for lead, mercury, cadmium, hexavalent chromium and brominated flame retardants. Maximum concentration values for the above substances in homogenous materials.

## CASE STUDY

### Case Management Helps Improve Safety Performance in Europe

Baxter has 24 manufacturing plants in Europe employing approximately 9,000 people. In 2005, 14 of these plants implemented a new case management process that significantly improved safety performance. Collectively, these plants reduced their cases with days lost rate from 1.41 in 2004 to 0.70 in 2005, and their days lost rate from 41.52 to 19.75.

Employees are now required to report incidents or pain immediately to their supervisor and the EHS department and to visit the plant's occupational health nurse or physician. These healthcare professionals are trained and experienced in diagnosing and treating work-related injuries and authorizing modified work arrangements. If medically indicated, employees can return to work with no lost time.

For work-related injuries, the plant performs a comprehensive hazard identification and risk assessment to help ensure that a similar incident does not reoccur. Accident prevention already had been a major focus for Baxter in Europe prior to the new case management process.

Baxter's manufacturing plant in Castlebar, Ireland, implemented the new case management process in 2005, and it produced dramatic results. The plant, with approximately 1,200 employees, reduced its cases with days lost from 18 in 2004 to five in 2005.

In countries that require employees injured on-the-job to be evaluated and treated by a non-Baxter physician, Baxter provides the physician a full description of the employee's job to assist in their medical assessment and treatment.

Baxter remains committed to improving safety performance in Europe. In 2006, manufacturing sites are focusing on ergonomics to minimize cumulative trauma disorders. In many of Baxter's European plants, the company is also providing engineers with EHS and ergonomics training to avoid potential incidents from new equipment and changes to existing equipment.

**2002** **Joined Hospitals for a Healthy Environment (H2E), an initiative designed to reduce the environmental impact of healthcare.**

**2003** **Joined Chicago Climate Exchange, North America's only, and the world's first, GHG emissions registry, reduction and trading platform.**

## Baxter 2005 Environmental Financial Statement

### Estimated Environmental Costs, Income, Savings and Cost Avoidance Worldwide<sup>1</sup>

(in millions)

	2005	2004	2003
<b>Environmental Costs</b>			
<b>Basic Program</b>			
Corporate Environmental – General and Shared Business Unit Costs <sup>2</sup>	\$1.4	\$1.2	\$1.2
Auditor and Attorney Fees	\$0.4	\$0.4	\$0.3
Energy Professionals and Energy Reduction Programs	\$1.0	\$1.0	\$0.9
Corporate Environmental – Information Technology	\$0.3	\$0.3	\$0.5
Business Unit/Regional/Facility Environmental Professionals and Programs	\$6.1	\$6.3	\$5.4
Packaging Professionals and Packaging Reduction Programs	\$1.2	\$1.0	\$1.0
Pollution Controls – Operation and Maintenance	\$2.9	\$3.2	\$2.8
Pollution Controls – Depreciation	\$0.7	\$0.8	\$0.8
<b>Basic Program Total</b>	<b>\$14.0</b>	<b>\$14.2</b>	<b>\$12.9</b>
<b>Remediation, Waste and Other Response</b>			
(proactive environmental action will minimize these costs)			
Attorney Fees for Cleanup Claims and Notices of Violation	\$0.1	\$0.1	\$0.7
Settlements of Government Claims	\$0.0	\$0.0	\$0.0
Waste Disposal	\$6.4	\$6.2	\$6.9
Environmental Fees for Packaging <sup>3</sup>	\$1.1	\$1.0	\$1.0
Remediation/Cleanup – On-site	\$0.1	\$0.1	\$0.4
Remediation/Cleanup – Off-site	\$0.0	\$0.2	\$0.1
<b>Remediation, Waste and Other Response Total</b>	<b>\$7.7</b>	<b>\$7.6</b>	<b>\$9.1</b>
<b>Total Environmental Costs</b>	<b>\$21.7</b>	<b>\$21.8</b>	<b>\$22.0</b>
<b>Environmental Income, Savings and Cost Avoidance</b>			
(see Detail on Income, Savings and Cost Avoidance from 2005 Activities online)			
<b>From Initiatives in Stated Year</b>			
Air Toxics <sup>4</sup>	\$0.0	\$0.0	\$0.0
Regulated Waste Disposal	\$(0.1)	\$0.7	\$0.4
Regulated Waste Materials <sup>5</sup>	\$(0.2)	\$2.0	\$1.5
Non-hazardous Waste Disposal	\$0.3	\$0.6	\$0.5
Non-hazardous Waste Materials <sup>5</sup>	\$6.6	\$4.7	\$6.6
Recycling (income)	\$4.8	\$3.4	\$3.0
Energy Conservation <sup>6</sup>	\$8.5	\$8.2	\$4.0
Packaging	\$3.5	\$2.9	\$1.7
Water Conservation	\$0.2	\$0.8	\$0.9
<b>From Initiatives in Stated Year Total<sup>7</sup></b>	<b>\$23.6</b>	<b>\$23.3</b>	<b>\$18.6</b>
As a Percentage of Basic Program Costs	169%	164%	144%
<b>Cost Avoidance from Initiatives Started in the Six Years Prior to and Realized in Stated Year<sup>7, 8</sup></b>	<b>\$62.2</b>	<b>\$46.9</b>	<b>\$35.6</b>
<b>Total Environmental Income, Savings and Cost Avoidance in Stated Year</b>	<b>\$85.8</b>	<b>\$70.2</b>	<b>\$54.2</b>

<sup>1</sup> Totals are rounded to reflect an appropriate degree of accuracy.

<sup>2</sup> Corporate environmental costs have been restated since 2003 using a more accurate method that reflects the environmental portion of total EHS costs. Corporate environmental costs are composed of environmental costs related to operating corporate environmental and environmental law programs. While corporate EHS and certain business unit EHS groups integrated in the fourth quarter of 2003, business unit program costs remain in the Business Unit/Regional/Facility line, as those environmental costs more directly support facility programs. Additionally, since 2003, corporate environmental costs include environmental engineering department costs reflected in previous reports as corporate environmental and energy engineering costs.

<sup>3</sup> Certain environmental fees for 2005 packaging are estimated.

<sup>4</sup> Decreased purchases of raw materials resulting from Baxter's efforts to reduce air toxics emissions.

<sup>5</sup> Decreased purchases of raw materials due to increased materials efficiency.

<sup>6</sup> The increase in cost savings and avoidance associated with energy conservation is partly due to the continued trend of increased energy costs worldwide.

<sup>7</sup> In calculating savings and cost avoidance for waste-reduction activities, it is assumed that production and distribution grew proportionately with the cost of goods sold, adjusted for changes in inventory and inflation. Baxter uses a three-year rolling average of the annual percent change in growth to determine the financial values for each stated year. For 2005, the three-year rolling average was 6 percent; for 2004, 8 percent; and for 2003, 9 percent. This rolling average helps avoid distortions due to startups and delayed environmental effects from production changes.

<sup>8</sup> Accumulation of cost avoidance terminates at seven years, the approximate life of new facility projects and development of new products.



For additional information:  
[www.baxter.com/ehs](http://www.baxter.com/ehs)

**2003** Joined Green Suppliers Network, a collaboration of industry, the U.S. Environmental Protection Agency and the U.S. Department of Commerce's Manufacturing Extension Partnership (MEP).

**2005** Testified before U.S. House of Representatives about business benefits of addressing climate change.



Students in the city of Quzhou in the Zhejiang province of China study with Yin Le (bottom right), who is one of more than 7,500 end-stage renal disease patients in China that use peritoneal dialysis (PD). China is one of the world's fastest-growing markets for PD, a therapy for which Baxter is the world's leading provider of products and services.

# PRODUCT RESPONSIBILITY

## Product Life Cycle

Baxter produces and sells a wide range of products that help save, extend and improve the quality of people's lives worldwide. At each stage of the product life cycle, Baxter encounters social and environmental issues, from clinical trials and materials selection in research and development (R&D), to energy efficiency and waste minimization in manufacturing, to advertising and promotion and access to health-care during product use, and finally, responsible product disposal. Baxter has policies and programs to address these important issues, as summarized in the graphic to the right.

Quality and safety are two issues that cut across the entire product life cycle. Baxter has programs to ensure the highest standards in these areas.

## Quality

Baxter's reputation is built on the quality of its products and services. Baxter's quality systems apply across the product life cycle, including design, development, manufacturing, sterilization, labeling, packaging, handling, distribution and promotion.

To assess and facilitate compliance with applicable requirements, the company regularly assesses its quality systems and conducts quality management reviews to identify issues that may affect product and service quality. Baxter also assesses its suppliers of raw materials, components and finished goods.

To more effectively address product quality matters when they arise, Baxter is reviewing and redesigning its quality systems. As a part of this renewed focus, the company initiated organizational changes in 2005 within the quality, regulatory affairs and medical surveillance functions. The company also is increasing investments in human and other resources, and has developed product quality improvement plans for the company's device portfolio.

Cheryl White was appointed corporate vice president, Quality, in April 2006 to specifically develop a sustainable Quality Improvement Plan.

Baxter identifies and addresses quality issues using Lean Six Sigma, a data-driven approach to improving and managing business processes. *To learn more, see the online report.*

Occasionally, Baxter may determine that products manufactured or marketed by the company do not meet company specifications, published standards or regulatory requirements. When Baxter identifies a quality issue, it investigates and takes

"Our goal is to have effective, standardized quality systems implemented consistently across all Baxter businesses and regions. We have outstanding systems in many segments of our operations, but need to ensure that we achieve the same standards and results everywhere. We are also implementing a systematic project management process to ensure that our quality systems improvement projects are well defined, well planned and that we are able to quantify the level of improvement."

Cheryl White  
Corporate Vice President, Quality

## Sustainability Issues Across the Product Life Cycle

### R&D and Design

ISSUE	APPROACH
Sustainable design	Product Sustainability Review process Design Center of Excellence Green chemistry
Bioethics	Bioethics policy and position statements
Clinical trials	Various external standards Ethics Committee/Institutional Review Board
Animal welfare	Various external standards

### Resources

ISSUE	APPROACH
Materials selection/ restricted materials	Product Sustainability Review process Green chemistry Supplier screening European EHS Task Force

### Manufacturing

ISSUE	APPROACH
Environmental impacts	EHS program, ISO 14001 and OHSAS 18001 management systems, risk assessments, audits and goals
Employee health and safety	

### Packaging/Distribution

ISSUE	APPROACH
Minimizing packaging Materials selection	Packaging reduction initiatives

### Product Use

ISSUE	APPROACH
Advertising and promotion	Center of Excellence for Advertising and Promotion
Safe handling	Material Safety Data Sheets
Access to healthcare	Product donations The Baxter International Foundation donations Business unit giving

### Product End-of-Life

ISSUE	APPROACH
Responsible disposal	Product take-back programs

QUALITY AND SAFETY

Product Responsibility Milestones:

**1935** As the company's sales and product offerings increased, Dr. Ralph Falk instituted more rigorous product testing routines.

**1945** Introduced first disposable plastic solution sets, which eliminated the problems associated with the cleaning and reuse of latex tubing.

appropriate corrective action, such as withdrawal of the product from the market, correction of the product at the customer location, notice to the customer of revised labeling and/or other actions. Please see COLLEAGUE Infusion Pump case study below.

### Ensuring Patient Safety

A focus on patient safety is at the core of everything Baxter does, from innovating new products, to collaborating with hospitals to help redesign processes, to partnering with third-party groups to develop patient and clinician educational materials, to facilitating discussion forums around key safety issues with stakeholder groups.

Baxter has been committed to creating a safer healthcare environment for much of its 75-year history. The company introduced the

first sterile, vacuum-type blood collection and storage unit, which made blood banking practical for the first time. The company was the first to introduce a closed, plastic intravenous (IV) container system in 1970, reducing bloodstream and other infections, and was the first to offer needle-free access systems in 1991. Baxter also developed and commercialized the world's first and only recombinant Factor VIII therapy for treating hemophilia without the addition of blood components, eliminating the potential risk of pathogens that may be carried in blood-based additives.

Baxter has pioneered products that help reduce medication errors, by advancing technology and improving the interface between technology and clinicians. Baxter offers a comprehensive and integrated product portfolio to help reduce medication errors and save clinician

## CASE STUDY

### COLLEAGUE Infusion Pump Challenges Lead to Quality Improvements

Baxter's COLLEAGUE Volumetric Infusion Pump, used to mechanically infuse intravenous solutions and drugs at specified rates, garnered significant attention in 2005 and 2006 with four customer communications and public announcements regarding quality and design issues.

Originally introduced in 1997, COLLEAGUE is a market-leading infusion pump used in hospitals worldwide, with more than 205,000 units in the United States and 50,000 abroad.

In 2005, Baxter notified customers about several design, user interface and battery issues with the COLLEAGUE pump that may have been associated with eight patient deaths and a number of serious injuries. Four of these customer letters were classified by the U.S.

Food and Drug Administration (FDA) as Class I recalls, the most serious classification. FDA inspections also raised concerns about design and quality systems, as well as product surveillance and corrective and preventive actions.

In June 2005, Baxter placed a voluntary hold on sales of new COLLEAGUE pumps and worked to identify corrective actions. In October, the FDA seized approximately 6,000 COLLEAGUE and SYNDEO pumps from Baxter's northern Illinois, United States, warehouses.

In June 2006, Baxter announced that it reached agreement on a consent decree with the FDA

regarding the company's COLLEAGUE and SYNDEO infusion pumps. The agreement has been approved by the U.S. District Court for the Northern District of Illinois.

The agreement, which is limited to Baxter's COLLEAGUE and SYNDEO infusion pumps, outlines the steps the company must take to resume sales of new pumps in the United States. The steps include obtaining FDA approval of Baxter's plan to resolve issues with the pumps currently in use in the United States, third-party expert reviews of COLLEAGUE and SYNDEO pump operations and other measures to ensure compliance with the FDA's Quality System Regulations.

Baxter's continued work to resolve COLLEAGUE pump issues has helped drive quality improvements across the company. *To learn more about quality improvements, see the online report.*

Baxter continues to collaborate with customers, the FDA and other ministries of health worldwide to respond to their needs and concerns regarding the COLLEAGUE and SYNDEO infusion pumps in a timely manner, restore confidence and trust in the safety and efficacy of Baxter products, and renew the company's relationship with these groups by delivering the highest quality products and services.

*For more information, see the online report.*

#### COLLEAGUE Pump Outside the United States

Baxter also worked with foreign ministries of health to discuss and seek clearance to deploy the corrective actions.

Upon receiving clearance, Baxter began deployment of corrective actions outside the United States in April 2006. The company expects to complete most of the deployment abroad by the end of 2006.

#### Resources Expand to Support Corrective Plan

- More than doubled the number of engineers working on the COLLEAGUE pump
- Increased Global Infusion Systems R&D spending by 32 percent from 2004-2006, the majority for the COLLEAGUE pump
- Tripled capacity in the service department to facilitate timely deployment
- Doubled manufacturing capacity

time, including bar code technology, a wireless patient information and medication management system, patient controlled pain management devices and ready-to-use medications.

Baxter recognizes that technology alone cannot fully address safety issues. For example, in Canada, the company launched Roadmap to Safety, a comprehensive approach to planning and implementing systemic changes in hospitals to improve patient safety. The program helps hospitals assess and prioritize safe medication delivery practices, identify gaps and develop action plans.

Additionally, Baxter supports and collaborates with numerous other organizations worldwide that improve patient safety and reduce medication errors. *To learn more, visit the online report.*

## R&D and Design

### Product Sustainability Review Process

In 2005, Baxter began implementing a new product development process (PDP) for all of its medical devices. The PDP has five stages: concept, feasibility, development, launch and post-launch support. One important element of the PDP is a Product Sustainability Review (PSR), which is a two-step process employing a thorough assessment of the environmental, health and safety, and social impacts of a product, its materials and processes throughout its life cycle. This information helps establish product requirements, influence design and confirm product feasibility. Beginning in 2005, all new medical devices in the concept stage were evaluated using a Product Sustainability Screen, a preliminary assessment designed to reveal high-level sustainability issues associated with a potential product, and a complete PSR that details sustainability impacts across the life cycle as part of the feasibility stage. As of June 2006, nine potential products were in this process and results have been positive.



*Baxter's early commitment to R&D was the beginning of the company's pioneering advances in medical technology.*



*Baxter spent approximately \$533 million on R&D in 2005.*

### Bioethics

At Baxter, bioethics covers a range of issues, including clinical trials, animal welfare, genetically modified organisms and the cloning and use of human embryos. The company revised its bioethics policy in 2005 to reflect technology advancements, regulatory changes and the latest standards, using input from a geographically and functionally diverse team to ensure a broad perspective.

#### Clinical Trials

Clinical trials play an essential role in the development of new medical products and are a required part of the research process for many of the products Baxter develops. Baxter protects the life, safety, privacy and dignity of clinical trial participants, as well as the integrity of data obtained from these studies.

Baxter announced in March 2006 that it initiated the first human Phase II adult stem cell therapy trial in the United States designed to investigate the efficacy, tolerability and safety of blood-derived selected CD34+ stem cells to improve symptoms and clinical outcomes in patients with chronic myocardial ischemia, a severe form of coronary artery disease.

#### Animal Welfare

Baxter supports the conscientious use of animals in research when no other valid scientific alternative exists. In many cases Baxter is legally required by health authorities worldwide to use animals in the development and testing process. To the extent possible, Baxter will minimize the use of animals in research and, where utilized, will treat them humanely and with the highest standards of care.

Baxter's animal facilities and programs meet all local, national and transnational laws and regulations (as verified by regular inspections by those authorities/agencies), and operate in accordance with relevant international guidelines.



**For more information about R&D and Design:**  
[www.baxter.com/rd](http://www.baxter.com/rd)

## Resources

### Materials Selection and Restrictions

Customers, governments and other stakeholders are increasingly interested in the materials used in products and packaging. In parts of the world, new and emerging legislation will restrict the use of specific substances in the coming years.

For example, the European Union's Restriction on Hazardous Substances (RoHS) Directive, effective July 1, 2006, seeks to phase out the use of lead, mercury, cadmium and three other substances used in electronic products such as computers, televisions and mobile phones. This is principally aimed at minimizing negative environmental impacts from these substances at the end of a product's useful life. Other countries, including China, have similar legislation.

Although the present RoHS Directive scope does not include medical equipment, Baxter is developing a proactive global strategy and implementation plan to eliminate the hazardous substances listed under RoHS. This is complex, since a single hardware product such as the ALYX Component Collection System, a portable blood collection device, may contain thousands of components and involve hundreds of suppliers worldwide.

Baxter's approach to these challenges demonstrates its commitment to innovative product design that minimizes environmental impact. The company's Design Center of Excellence and manufacturing operations work with EHS specialists to ensure that new products meet stringent environmental eco-design principles, avoiding hazardous substances wherever possible, minimizing resource use and enhancing opportunities for reuse, recovery and recycling.

## Manufacturing

Baxter has extensive environmental, health and safety (EHS) programs to minimize environmental impacts and ensure employee safety during the manufacture of Baxter's products. See page 16 for more detail.

Baxter also influences its suppliers' manufacturing practices through its Business Practice Standards for Suppliers, its Global Supplier EHS Questionnaire and participation in the Green Suppliers Network. See page 29 for more detail.

## Packaging/Distribution

Customers and regulatory agencies worldwide increasingly require improvement in the environmental performance of packaging. Baxter identifies and implements packaging initiatives that reduce materials use and promote preferable materials, without sacrificing the critical role packaging plays in product protection. See the EHS section of the online report for more detail.

## Product Use

### Advertising and Promotion

The 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.

In 2004, Baxter created a Center of Excellence for Advertising and Promotion to enhance its compliance with promotional regulations companywide. The Center of Excellence is staffed by regulatory professionals who specialize in the review of marketing materials for accuracy and balance in terms of product risks and benefits. In 2005, Baxter implemented global advertising and promotion standards in the United States to replace individual procedures within each business. The new standards incorporate best practices from inside and outside the company. In 2006, Baxter leveraged its enhanced U.S. standards in other regions where the company markets its products.

### Compliance

If a company is not in compliance with advertising and promotion regulations, the FDA may initiate one of several enforcement actions depending on the seriousness of the violation, its potential impact on public health, or other factors. Enforcement actions are most often in the form of an *untitled letter*, the least serious enforcement action, or a *warning letter*, an elevated enforcement.

In 2005, Baxter did not receive any untitled letters or warning letters for advertising and promotion issues compared to two warning letters in 2004 and no letters in 2003.

### Access to Healthcare

Worldwide, many people lack access to Baxter's products, due to insufficient resources, inadequate healthcare infrastructure, disruption caused by natural disasters and other crises, and other factors. Baxter offers products that expand access in developing countries and has numerous programs globally to extend access to its products. See page 32 for more detail.

## Product End-of-Life

The responsible disposal of electronic healthcare products is an emerging issue of concern worldwide. For example, the European Union's (EU) Waste Electrical and Electronic Equipment (WEEE) Directive impacts a range of products that Baxter sells in Europe, including dialysis machines, automated blood-component collection systems, intravenous infusion pumps and other electronic hardware. The WEEE Directive, effective August 13, 2005, requires companies to arrange for the take-back of electronic products at end-of-life to enable the recovery and recycling of product components.

Prior to WEEE regulations, Baxter embraced the principles behind the WEEE Directive by repairing and refurbishing medical equipment, when appropriate, to extend its useful life. However, Baxter is also working to ensure full compliance with WEEE as the regulations take effect in individual EU countries and appropriate registration bodies and compliance schemes are established.



For additional information:  
[www.baxter.com/lifecycle](http://www.baxter.com/lifecycle)

**2003** Introduced the first and only Factor VIII therapy free of blood-based additives.

**2006** Commenced the first-of-its-kind, Phase II adult stem cell trial in United States in patients with severe coronary artery disease.

# SUPPLY CHAIN

Since 1931, the foundation of Baxter's performance has been flexible and fast-moving manufacturing operations, which require efficiently delivered supplies of raw materials and components throughout the production process. Baxter's global supply chain makes the system run, ensuring the flow of products that sustain the lives of patients around the world.

Approximately 50,000 suppliers in more than 100 countries provide the goods, services and raw materials required for Baxter's operations worldwide. In 2005, Baxter spent approximately \$4 billion on supplies, with approximately 35 percent of the total spent on *direct* supplies, the raw materials and other components Baxter uses in its products. Baxter purchases these primarily from a core group of 300-500 suppliers, which account for approximately 80 percent of Baxter's direct supplier spending.

The remaining amount of Baxter's supply chain spending in 2005 was for *indirect* items – goods and services that are not used in products.

Baxter buys nearly all of its indirect supplies from local and regional companies located near its operations. Baxter has entered into global supply agreements for certain travel services, corporate credit cards, PC purchases and outsourced IT services. In 2005, spending was highest in the United States, followed by Europe, Japan, Canada, Latin America and the rest of the Asia Pacific region.

*Approximately 50,000 suppliers in more than 100 countries provide the goods, services and raw materials required for Baxter's operations worldwide.*



*Baxter's replenishment center (pictured) in Marion, North Carolina, United States, supplies components and finished goods around the world. It is part of the company's largest manufacturing facility, which is the world's highest volume producer of life-saving solutions in flexible containers.*

Baxter's purchasing volume provides it the opportunity to influence its suppliers to improve their sustainability performance in areas such as environmental management, working conditions and business practices and ethics. Baxter is committed to increasing its focus on its core group of suppliers regarding these and other areas of social, economic and environmental performance.

Sustainability-related issues and events directly affect Baxter's supply chain. For example, Baxter uses a significant amount of plastic resins and other thermoplastic materials, derived primarily from natural gas and petroleum. Socioeconomic and political factors impact both energy sources, and Baxter must continually address continuity of supply.

Weather-related events, such as the major hurricanes that hit the U.S. Gulf Coast during 2005, also affect Baxter's supply chain. These events delayed chemical shipments from one of Baxter's major suppliers. Baxter's raw material inventory system enabled the company to meet its manufacturing schedules, and the company responded by improving its storage facilities to address such events.

## Managing Supplier Performance

Baxter's supplier selection and management process is grounded in its Supplier Quality Standard and Global Business Practice Standards for Suppliers. These provide a consistent supplier-evaluation approach, define policies and set common expectations about ethical behavior when doing business with Baxter. Suppliers must be evaluated and approved before any materials, components, products or services may be purchased. Both standards are included in contracts used during all supplier and contractor negotiations.

The Supplier Quality Standard specifically addresses indentured and child labor, employment standards, waste and energy reduction policies and ethics. Baxter's Global Business Practice Standards for Suppliers, available to suppliers in six languages, also covers child labor, as well as the management of confidential information, intellectual property, gifts and entertainment, conflicts of interest, trade compliance, fair employment opportunities, and environment, health and safety. Baxter expects suppliers to comply with both sets of standards and to understand and comply with all laws governing purchasing. Noncompliance with these standards may provide Baxter grounds to terminate a contract.

Baxter provides training and guidance surrounding sustainability throughout its supply chain. Employees in Baxter's Purchasing and Supplier Management organization attend mandatory procurement ethics training. The company also offers suppliers a guide called the EthicsKit, which assists with the creation and implementation of business ethics programs within suppliers' businesses.

Additionally, Baxter's direct supplies – product raw materials and components – are subject to validation procedures required by

regulatory agencies worldwide, including storage and handling requirements. Government regulators and Baxter also evaluate direct suppliers' processes such as quality systems and good manufacturing practices.

Within Baxter, many purchasing professionals have attained the status of Certified Purchasing Manager (C.P.M.) and Accredited Purchasing Practitioner (A.P.P.), based on established professional standards for procurement and purchasing departments. Baxter has also adopted the Institute for Supply Management (ISM) Principles and Standards of Ethical Supply Management Conduct.

Finally, Baxter has established additional initiatives to manage supplier environmental performance, including the global supplier environment, health and safety (EHS) questionnaire and supplier EHS workshops. See page 29 for more detail.

## Supplier Diversity

Baxter strives to develop mutually beneficial relationships with small and diverse suppliers, embracing the important role they play in communities where Baxter employees live and work. Baxter recognizes the importance of moving toward a supplier base that better reflects the demographics of its customer base. This is important to its customers and in line with Baxter's sustainability objectives that stress social contributions.

Baxter has been a corporate sponsor of the National Minority Supplier Development Council (NMSDC) since 1987, and the company participated in a vendor fair in 2005 in concert with the Council's Chicago chapter to promote supplier diversity. Baxter's efforts to facilitate diverse supplier procurement include an online database that enables small and diverse businesses to share their capabilities with Baxter employees responsible for supplier selection. More than 1,300 suppliers have submitted profiles in the database, which is expected to increase spending with small and diverse suppliers.

### 2005 Supplier Diversity Performance

In 2005, Baxter spent approximately \$454 million with small businesses in the United States and Puerto Rico, which represented approximately 27 percent of Baxter's total supplier spending of \$1.7 billion in those countries during the year. In 2004, spending with small businesses in those countries was \$445 million of a \$1.5 billion base, or 29 percent.

In 2005, spending with minority-owned firms was more than \$36 million, 2 percent of total spending. Spending with women-owned businesses was approximately \$68 million, or 4 percent of total spending. Veteran-owned, service-disabled and HUBZone-certified businesses comprised the remainder of Baxter's diverse supplier spending with approximately \$13 million, \$2 million and \$2 million, respectively. Total spending increased in each category compared to 2004 except minority-owned business enterprises,

#### Supply Chain Milestones:

**2001** Published Baxter's first Global Business Practice Standards for Suppliers.

**2003** Launched "EthicsKit," an ethics program development toolkit for suppliers, and posted on Baxter's external website.

primarily due to changes in the diversity status of several of Baxter's suppliers as well as standard fluctuations in spending patterns.

### Baxter Supplier Diversity Spending<sup>1</sup>

(in millions)

	2003	2004	2005
Small Businesses	\$435	\$445	\$454
Minority-Owned Business Enterprises (MBE)	\$46	\$44	\$36
Women-Owned Business Enterprises (WBE)	\$39	\$35	\$68

<sup>1</sup> United States and Puerto Rico. Fiscal year basis (October 1 through September 30). 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 business-certified and HUBZone-certified. Puerto Rican facilities classified supplier base in accordance with guidelines set by U.S. Small Business Administration.

## Greening the Supply Chain

Baxter recognizes that environmental impacts related to its business extend beyond its direct operations and into its supply chain. Although it has limited control over these impacts, it works to influence them through various programs.

In 2002, Baxter launched two EHS supply-chain management initiatives in the United States: a supplier EHS questionnaire and a series of supplier EHS workshops.

### Supplier EHS Questionnaire

Baxter uses its supplier EHS questionnaire to gather information about supplier environmental programs and performance and to educate suppliers about Baxter's expectations. Baxter evaluates key companies that provide raw materials, components or products for resale or use in manufacturing. Respondents disclose information about their EHS policies, products, packaging and packaging components. Additionally, Baxter uses the questionnaire to assess respondent waste programs. The company plans to update the questionnaire in 2006.

Since Baxter launched the questionnaire in 2002, it has been completed by 94 suppliers representing 20 percent of Baxter's key suppliers. Additional suppliers filled out questionnaires distributed through individual Baxter facilities.

Baxter extended the questionnaire to high-priority European suppliers in 2003. Questionnaire data will help Baxter evaluate supplier compliance to European Directives, such as the Restriction of Hazardous Substances, and similar emerging regulations in other parts of the world. Baxter also will use this information to shape its product-stewardship strategies.



*For decades, Baxter has relied on its global supply chain to provide products efficiently to patients in need.*

### Supplier EHS Workshops

From 2002 through 2004, Baxter held four sustainable-development workshops to help educate suppliers and to improve the global supplier EHS questionnaire response rate. In 2005, Baxter discontinued these workshops to focus on activities with the Green Suppliers Network, a collaboration of industry, the U.S. Environmental Protection Agency and the U.S. Department of Commerce's Manufacturing Extension Partnership (MEP). During the first half of 2005, Baxter recruited suppliers to participate in the Green Suppliers Network, holding invitational meetings with eight key Midwestern suppliers.

By March 2006, five suppliers within the healthcare sector had completed the Green Suppliers Network review process, four recruited by Baxter. The review process identified the opportunity for these suppliers to reduce water use by 5.7 million liters, waste generation by 91 metric tons and energy by 189 gigajoules per year. Potential annual cost savings are estimated to exceed \$8 million. Most projects, such as the one California-based Medegen Medical Manufacturing Services undertook, have been implemented. Three other Baxter suppliers plan to participate and their reviews are underway. Baxter is encouraging more suppliers to join.

*See page 16 for more information about Baxter's programs in related areas.*



**For additional information:**  
[www.baxter.com/supply\\_chain](http://www.baxter.com/supply_chain)

*In 2005, Baxter donated more than \$17 million worth of critical healthcare products to recipients in more than 50 countries, including Ethiopia. Photo courtesy of AmeriCares.*



# COMMUNITY SUPPORT

With 64 manufacturing plants and more than 150 other facilities worldwide, Baxter and its employees are part of communities large and small, in more than 100 countries.

Improving lives through social investments in communities where Baxter employees live and work, and in other geographies that face critical needs, is a natural extension of the company's goal to save and sustain people's lives.

In 2005, total giving by Baxter and The Baxter International Foundation exceeded \$35 million, including product donations, cash contributions and foundation grants (see map). This amount is equivalent to approximately 3.7 percent of Baxter's profits for the year.

Baxter's community support programs fall into three main categories:

- Access to healthcare (see page 32)
- Critical community needs (see page 34)
- Employee involvement (see page 34)

*Baxter's 2005 charitable giving included \$4.3 million in support of disaster relief efforts worldwide. The Baxter International Foundation committed \$2.3 million in grants to disaster relief, in addition to \$822,000 in employee contributions and matching gifts from Baxter. The company also donated more than \$1 million of needed Baxter products to disaster victims. See the online report to read more about Baxter and its foundation's support following recent disasters, including Hurricane Katrina in the United States.*

## Baxter and The Baxter International Foundation Charitable Giving<sup>1</sup>

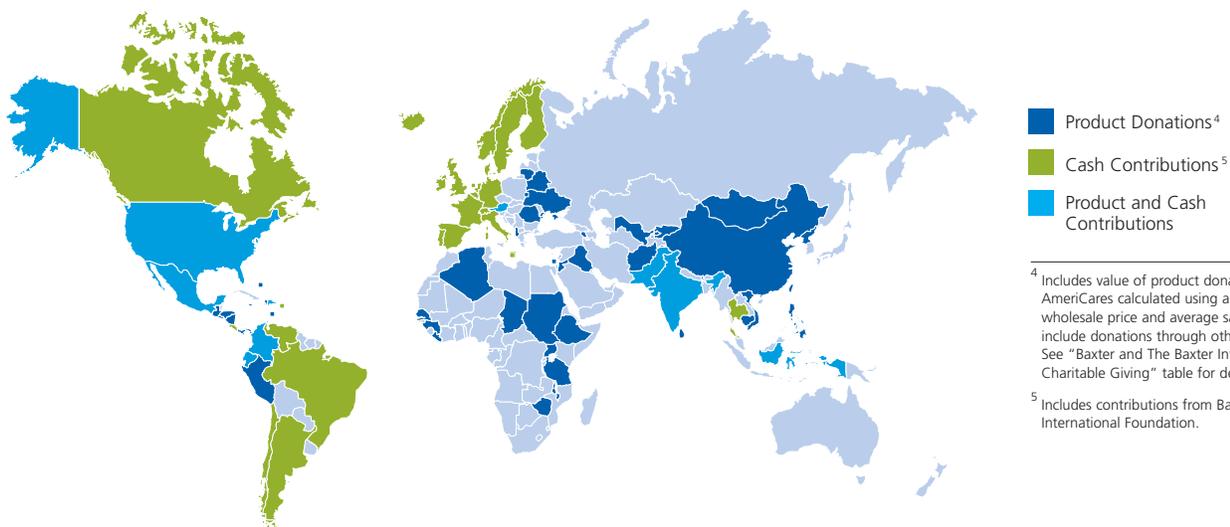
	2002	2003	2004	2005
<b>Product Donations<sup>2</sup></b>				
AmeriCares	\$2,230,000	\$5,740,000	\$7,650,000	\$16,720,000
Other Aid Organizations	n/a	n/a	\$220,000	\$1,110,000
<b>Subtotal</b>	<b>\$2,230,000</b>	<b>\$5,740,000</b>	<b>\$7,870,000</b>	<b>\$17,820,000</b>
<b>Business and Facility Cash Contributions</b>				
U.S.	\$880,000	\$1,970,000	\$2,940,000	\$6,400,000
Non-U.S.	n/a	\$3,130,000	\$1,630,000	\$7,610,000
<b>Subtotal</b>	<b>\$880,000</b>	<b>\$5,100,000</b>	<b>\$4,570,000</b>	<b>\$14,010,000</b>
<b>The Baxter International Foundation Contributions</b>				
U.S. Grants	\$1,220,000	\$1,020,000	\$630,000	\$1,350,000
Non-U.S. Grants	\$1,190,000	\$1,290,000	\$670,000	\$1,120,000
Matching Gifts & Dollars for Doers	\$660,000	\$720,000	\$680,000	\$680,000
Prize Programs	\$270,000	\$290,000	\$280,000	\$180,000
Scholarship Program	\$340,000	\$340,000	\$320,000	\$270,000
<b>Subtotal</b>	<b>\$3,680,000</b>	<b>\$3,650,000</b>	<b>\$2,580,000</b>	<b>\$3,590,000<sup>3</sup></b>
<b>Total Charitable Giving</b>	<b>\$6,790,000</b>	<b>\$14,490,000</b>	<b>\$15,020,000</b>	<b>\$35,420,000</b>
<b>Contributions as % of Profits</b>	<b>0.66%</b>	<b>1.60%</b>	<b>3.92%</b>	<b>3.70%</b>

<sup>1</sup> Some subtotals vary slightly from sum of items in category, due to rounding.

<sup>2</sup> Value of product donations for 2002-2004 is average wholesale price (equals catalogue list price). Value for 2005 is a combination of average wholesale price and average sales price. Variations in Baxter's annual product donations are due to fluctuations in community needs, the regulatory environment, manufacturing processes and marketing and sales initiatives. The company identifies opportunities to donate and responds to community requests as appropriate.

<sup>3</sup> Does not include additional grants approved in 2005 for future payment.

## Overview of Baxter Global Community Support in 2005



<sup>4</sup> Includes value of product donations through AmeriCares calculated using a combination of average wholesale price and average sales price. Does not include donations through other aid organizations. See "Baxter and The Baxter International Foundation Charitable Giving" table for detail.

<sup>5</sup> Includes contributions from Baxter and The Baxter International Foundation.

## Access to Healthcare

In recent years, many medical breakthroughs have significantly improved healthcare for people with life-threatening diseases and other medical conditions. Without access to these therapies, however, millions of people – particularly in developing countries – cannot benefit from these advancements.

Many factors prevent access to quality and cost-effective healthcare, including poor infrastructure, political instability, lack of education, poverty, and inadequate availability and affordability of medical products. Addressing these issues requires collaboration among governments, non-governmental organizations, academia, corporations and others.

Baxter's role today includes using its technological expertise to create and market products and services that address these unmet medical needs. For example, thousands of people with end-stage renal disease, or irreversible kidney failure, currently go untreated because of inadequate healthcare resources, particularly in developing countries. One solution Baxter has made available to many of these individuals is peritoneal dialysis, an ambulatory therapy that, unlike more conventional hemodialysis, does not require an extensive infrastructure of clinics, offering potential cost benefits as well as an improved way of life for patients (see case study in online report).

Baxter also helps address healthcare needs worldwide through product donations. Baxter donated more than \$17 million worth of critical healthcare products to recipients in more than 50 countries in 2005, primarily through the international disaster-relief and humanitarian aid organization AmeriCares (see page 31).

>> continued on page 34

*In 2005, more than 60 percent of Baxter's charitable giving supported projects focused on increasing access to healthcare.*



*Farmworker Health Services, Inc. (FHSI) is a national non-profit healthcare organization dedicated to improving the quality of life of migrant and seasonal farm worker families. Supported by a grant from The Baxter International Foundation, FHSI developed a health education and outreach services program to increase preventative care for farm worker children in the largely agricultural town of Oxnard, California, United States. Among others, the program included lessons on health, nutrition and dental hygiene.*

## STAKEHOLDER VIEW

### **Why do you believe corporate citizenship is an important issue for corporations, specifically for Baxter?**

As we make progress in improving people's health, we continue to face complex challenges in promoting healthcare equity, efficiency, and quality, both in the United States and abroad. No one sector alone can meet these challenges, and every sector benefits when gains are made. This is why corporate citizenship is crucial. Corporate action and leadership bring unique talent and resources to the table, promoting economic and social health that allow people and business to thrive.

*Community Support Milestones:*

**1944** Opened temporary plants to meet increased demand during World War II, with Baxter intravenous solutions and blood-collection products the only ones to meet specifications for use by the U.S. Armed Forces.

### **How would you describe Baxter's work and performance in this area?**

Baxter has made a major commitment to addressing some of the toughest healthcare issues across the globe. Its foundation has focused its grant-making on improving access to healthcare for those most in need. It sets an example of corporate citizenship and social responsibility by the issues it picks, the organizations it funds, and the services it helps to support.

Lauren LeRoy  
President  
Grantmakers in Health

## CASE STUDY

### Hemophilia Support Around the World

According to the World Federation of Hemophilia (WFH), more than 400,000 people worldwide suffer from hemophilia A, a genetic disorder characterized by insufficient amounts of Factor VIII, which is necessary for blood to clot effectively. Access to quality care, including trained healthcare professionals, is a key factor in extending life expectancy and quality of life for people with this condition. Baxter's approach to addressing hemophilia is broad. In addition to developing and providing leading hemophilia therapies, Baxter supports patients through various initiatives worldwide, as illustrated in the table below.



Student Dan Jolley uses Baxter's ADVATE recombinant Factor VIII concentrate to prevent severe internal bleeding episodes caused by hemophilia.

#### Baxter Programs and Services for the Hemophilia Community

Name	Description	Availability
<b>Product Programs</b>		
Donations	In 2005, Baxter's BioScience business donated Factor VIII therapy to support 260 patients served by the Pakistan Hemophilia Patients Welfare Society (PHPWS), and 1,000 vials of therapy (more than 470,000 units) to WFH for distribution to patients in six countries.	Worldwide
Factor Assist	Program allows patients prescribed a Baxter product to continue receiving therapy without charge in the event of a lapse in insurance. Since the program's inception in 1992, nearly 2.4 million units of Baxter hemophilia therapies have been dispensed.	United States
Factor Plus	Program allows uninsured patients who lack financial resources to obtain medically necessary hemophilia therapy at no cost. Since the program's inception in 1992, nearly 40 million units of Baxter hemophilia therapies have been dispensed.	United States
<b>Professional Education and Development</b>		
WFH Global Alliance for Progress (GAP)	Ten-year program to improve hemophilia diagnosis and treatment in up to 30 developing countries. A founding sponsor and major contributor, Baxter has committed \$1.2 million since 2003.	Worldwide
Taiwan Hemophilia Care and Research Center (HCRC)	Developed by Baxter in 2003 in partnership with the Tri-Service General Hospital in Taipei, the center provides care to more than 100 hemophilia patients countrywide. It also serves as a training center for hemophilia clinicians from Taiwan and other Asian countries, and participates in hemophilia research funded by Baxter.	Asia
Baxter-Association of Hemophilia Clinic Directors of Canada (AHDC) Research Partnership Fund	Five-year, \$2.5 million research fund is a partnership program between Baxter and the AHDC to advance knowledge through population-based hemophilia research.	Canada
National Hemophilia Foundation Clinical Fellowship Program in Bleeding Disorders Research	Grant provides tuition reimbursement, medical school loan assistance and hands-on training in clinical care for bleeding disorders, as well as clinical research projects at leading hemophilia treatment centers.	United States
<b>Patient Education and Support</b>		
Patient and caregiver hemophilia management educational kits	Kits cover diagnosis, home and self-infusion tips, sports and exercise, transitioning into adolescence and adulthood, traveling and reimbursement information.	Worldwide
Passport to Well-Being	Developed in collaboration with the Canadian Hemophilia Society, this program helps people with bleeding disorders develop knowledge, skills and strategies to maximize their quality of life. Modules include <i>Bleeding Disorders Charting/Recordkeeping, Fitness and Health, Home Treatment and Managing Pain</i> .	Canada
Treatment of Hemophilia Workshop	In 2005, Baxter partnered with the Government of Karnataka and the Karnataka Hemophilia Society to sponsor a one-day workshop at St. John's Hospital in Bangalore to raise hemophilia awareness and provide counseling to patients and their families. One hundred and twenty physicians and laboratory technicians covered various aspects of hemophilia management and treatment.	India
AdvoyCare	Electronic therapy and data management tool allows patients to record bleed and infusion details and easily and securely transfer records to healthcare professionals via the Internet or AdvoyMobile, a handheld system.	Select Countries
Camp SuperFly	Annual competition launched in 2005 supports hemophilia summer camp programs. Members of hemophilia chapters compete in physical activities and mental challenges for grant dollars to improve existing camps, start new camps and increase camp attendance. In 2005, more than 25 chapters and 800 participants competed.	United States

See the online report for a full list of Baxter programs and services for the hemophilia community.



Through the international disaster-relief and humanitarian-aid organization AmeriCares, Baxter donated product in 2005 to The Sovereign Order of Malta in Nicaragua to provide curative and preventative health services to several organizations in need, including Hogar Tierra de Yahve, a local orphanage.

>> continued from page 32

For example, in 2005, Baxter and AmeriCares partnered with The Sovereign Order of Malta in Nicaragua to support several organizations in need, including the 173-bed Masaya Hospital. One of the largest hospitals in the country, Masaya at times struggles to gain access to basic medical supplies, particularly high-demand anesthesia products often in short supply in the region. In October 2005, the

hospital experienced a severe shortage of Propofol (an intravenous anesthetic used in surgery) and could only perform surgery on patients in critical and emergency situations. Baxter responded to this need by donating 2,000 vials of Propofol so that care to more than 300 patients daily at Masaya Hospital was no longer interrupted.

*Baxter partners with governments and companies worldwide to develop and produce vaccines and other therapeutics to protect against bio-terrorism and infectious diseases. To learn more, see case study on page 5.*

The Baxter International Foundation, the company's charitable organization, provides another means for those in need to access quality healthcare. The foundation primarily targets its grants to address the healthcare needs of children, the disadvantaged, developing nations and countries or communities in crisis. In 2005, the foundation approved \$4.2 million in new grants for payment in 2005 and beyond, to 69 organizations in 19 countries.

For example, in 2005 the foundation awarded \$45,000 to Instituto Mexicano de Investigación de Familia y Población (IMIFAP) to improve the health of low-income women in Monterrey, Mexico. IMIFAP, founded in 1985 in Mexico City, promotes disease prevention and reproductive health education for women and children throughout Latin America. The organization's interactive workshops and educational materials help participants make informed health decisions, which the World Health Organization recognizes as essential to preventing many public health problems.

IMIFAP has developed approximately 40 educational programs and nearly 200 health and disease-prevention guides, reaching 16 million women, children and adolescents through local educators and health promoters. The foundation's grant helped IMIFAP launch workshops on breast and cervical cancer prevention, reproductive health and family planning and personal hygiene.

*For more detail about foundation grants, see the online report.*

## Critical Community Needs

In addition to increasing access to healthcare, communities worldwide have other critical needs such as reducing medication errors and increasing patient safety, improving education, enhancing transportation, offering youth services and protecting the environment. To help address these needs, Baxter's business units, departments and manufacturing facilities contributed \$14 million in 2005 to targeted organizations and causes worldwide, with slightly more than half of that outside the United States.

Baxter's business units and departments also make in-kind donations – such as the use of facilities or equipment – to selected organizations. Business units and departments may also form partnerships with local nonprofit organizations, participate in local business associations or capitalize on employee talent and expertise to benefit the community.

## Employee Involvement

Baxter encourages employees to volunteer time and contribute personal resources to improve lives in communities worldwide.

Employee involvement takes many forms, such as donating blood or volunteering at a local blood drive, serving at a hospital or food pantry, or joining a local nonprofit board or committee. Baxter supports team-building exercises that serve community needs, such as community center clean-up days or home improvement projects for

needy families. The company's internal volunteerism website allows employees to track volunteering and community activities.

In the United States, The Baxter International Foundation provides grants to qualified organizations where company employees volunteer through its Dollars for Doers program. Past recipients include hospitals and hospices, historical societies, emergency shelters, volunteer fire departments, substance-abuse prevention services and youth service organizations. In 2005, more than 75 Dollars for Doers recipients received a total of about \$30,000.

Baxter employees also contribute financial resources to worthy causes. The Baxter International Foundation Matching Gift program matches employee donations of \$25 or more, up to \$5,000, to nonprofit, tax-exempt U.S. hospitals and healthcare agencies, schools and cultural organizations. The program matches gifts of \$100 to \$500 two-for-one. In 2005, the foundation matched qualifying employee donations to contribute a total of \$647,000 to organizations in need.



**For additional information:**  
[www.baxter.com/community](http://www.baxter.com/community)

## CASE STUDY

### Providing Assistance to Children in Need

Several employees at Baxter's Madrid, Spain, office volunteer at Ireland's Barretstown Camp, founded in 1994. Barretstown offers programs for children diagnosed with cancer and other serious illnesses. The programs, also open to the children's families, help rebuild the children's confidence, self-esteem, trust and courage in a safe, fun and supportive environment. More than 10,000 children and their families from 22 European countries have participated in Barretstown's programs since 1994. The Baxter International Foundation has supported Barretstown since its founding, and in 2005 the foundation awarded \$187,000 over three years to support outreach and enable 60 children from Central and Eastern Europe to attend the camp. The grant will also facilitate information exchange about childhood cancer research and treatment between doctors in those regions, who may attend the camp, and their colleagues across Europe.

In 2005, the foundation also supported other programs for children in Brazil, France, Germany, Malta, Mexico, Puerto Rico, Spain and the United States for various needs, including access to basic health and dental care, grief and mental health counseling, proper nutrition promotion and physical and speech therapy.

### Institute for Healthcare Improvement 100,000 Lives Campaign

In December 2004, the Institute for Healthcare Improvement (IHI) announced the 100,000 Lives Campaign, a national initiative to save 100,000 lives in U.S. hospitals over an 18-month period. Seeing the IHI campaign as an important parallel to its own emphasis on patient safety, Baxter was one of the first healthcare industry participants with its unrestricted donation of \$200,000 to the campaign in December 2005 and commitment to ongoing collaboration. As of June 2006, more than 3,000 hospitals enrolled in the campaign, representing an estimated 75 percent of U.S.

hospital beds. Based on data submitted by participating hospitals, the campaign participants have prevented an estimated 122,300 avoidable deaths and instilled hospital practices that will improve care and save many more lives in the coming years. See the online report for more information about the 100,000 Lives Campaign.

"The momentum the 100,000 Lives Campaign has built over its first 18 months depends now, as it will in the future, on the commitment of hospitals, partner organizations and companies, such as Baxter, who share our vision of improving the healthcare system through the adoption of consistent, proven interventions."

Donald M. Berwick, MD  
President and CEO  
Institute for Healthcare Improvement



Ireland's Barretstown Camp offers programs for children diagnosed with cancer and other serious illnesses to help rebuild their self-esteem and confidence. The Baxter International Foundation has supported the camp since its founding in 1994, and Baxter employees volunteer as counselors or interpreters at the camp each year.

**2002** Defined focus of The Baxter International Foundation as increasing access to healthcare, particularly for the disadvantaged and underserved in and near communities where Baxter employees live and work.

# ECONOMIC IMPACTS

Baxter's direct and indirect economic impacts on its stakeholders are an important aspect of the company's sustainability performance.

## Overview

Direct impacts can be described by financial transactions, such as revenue received from customers, wages and benefits provided to employees or tax payments made to governments. Some but not all of these appear in traditional financial statements. Indirect impacts, which are more difficult to quantify, include productivity gained and money saved through customer use of Baxter's products and job creation outside of Baxter due to the company's spending.

## Baxter's Financial Performance

Baxter's broader economic impacts depend on its ongoing strong financial performance. During 2005, the company increased its revenue, net earnings and margins. Cash flow from operations totaled over \$1.5 billion, an increase of \$170 million compared to 2004. Debt decreased by almost \$1 billion, while the company introduced numerous products worldwide and raised its investments in research and development and sales and marketing. Baxter's shareholder return, including stock price and cash dividends declared, increased 10.7 percent during the year, compared to 6.5 percent for the S&P Health Care Index.

*For a detailed description of the company's financial performance, see Baxter's 2005 Annual Report.*

## Direct Impacts

Baxter's direct impacts are described by payments Baxter makes to and receives from stakeholder groups during the course of business. These include the following:

- Customers and patients buy Baxter's products and services;
- Baxter pays suppliers for product inputs, as well as other goods and services;
- Employees receive wages and benefits in exchange for their contributions;
- Investors provide Baxter capital in exchange for interest on loans, dividends and possible gains in share value (see page 37);
- Governments receive tax payments from Baxter in exchange for providing various services and granting the right to conduct business; and
- Communities receive tax payments, as well as cash and product donations and community involvement of local employees (in some locations).

The table on page 37 summarizes these transactions.



*Baxter volunteers, Robert L. Parkinson, Jr., chairman and chief executive officer (left), and James M. Gatling, corporate vice president, global manufacturing operations, help construct a home as part of Baxter's partnership with the Lake County Chapter of Habitat for Humanity in Illinois, United States.*

## Economic Impacts Milestones:

**1951** Initial Baxter public stock offering.

**1959** Formally established an international division to sell Baxter products around the world. Today, more than half of Baxter sales come from non-U.S. markets.

## Economic Value Generated and Distributed

(in millions)

Component	2002	2003	2004	2005
<b>Economic Value Generated</b>				
Customers				
Revenues	\$8,099	\$8,904	\$9,509	\$9,849
Net Income	\$771	\$866	\$388	\$956
<b>Economic Value Distributed</b>				
Suppliers				
Payments to Suppliers	n/a	n/a	n/a	\$4,000
Employees				
Total Compensation and Benefits	n/a	\$2,317	\$2,522	\$2,594
Investors				
Interest, Net	\$51	\$87	\$99	\$118
Common Stock Cash Dividends	\$349	\$346	\$361	\$359
Governments				
Income Tax Expense/Benefit (U.S.)	\$174	\$58	(\$102)	\$232
Income Tax Expense (International)	\$186	\$164	\$149	\$254
Communities				
Cash Donations <sup>1</sup>	\$4.6	\$8.8	\$7.2	\$17.6
Product Donations	\$2.2	\$5.7	\$7.9	\$17.8
Baxter (retained/reinvested)				
Capital Expenses	\$852	\$792	\$558	\$444
R&D Expenses	\$501	\$553	\$517	\$533

<sup>1</sup> Baxter and The Baxter International Foundation.

## Indirect Impacts

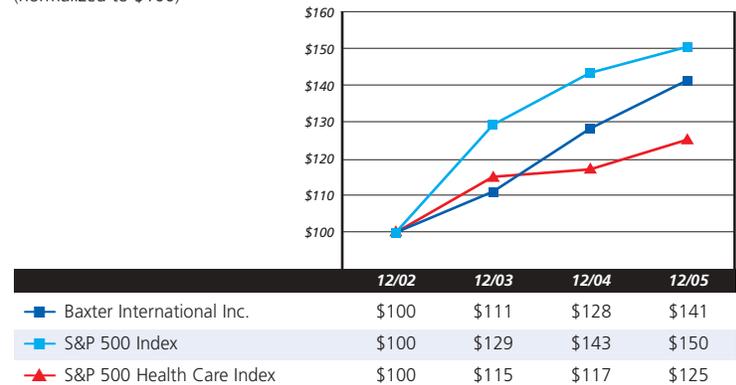
Although difficult to measure precisely, Baxter's main indirect economic impact is through its products. By using Baxter products, many patients are able to extend and improve the quality of their lives, increase productivity and potentially avert further health expenses by addressing medical conditions.

For example, Baxter sponsored several studies in Argentina, Brazil and Mexico to assess the comparative impact of open and closed intravenous (IV) systems on rates of central venous catheter-associated bloodstream infection (BSI). *Open* systems consist of any IV solution container that requires the use of a vented set or filter allowing outside air to enter the container to properly drain, such as glass bottles, semi-rigid containers and burettes, which presents the opportunity for contaminants to enter the system and the patient. *Closed* systems are collapsible plastic IV bag solutions that do not require external venting to empty. Converting to closed systems decreased bloodstream infection rates 54 percent to 73 percent depending on the market, and mortality declined by 91 percent. The total cost of care was reduced by 83 percent, taking into account acquisition cost for the closed system.

Another category of indirect impacts is referred to as the multiplier effect – the impact that company spending has on the broader economy, for example through creating jobs in the supply chain and supporting services such as air travel or hospitality. Baxter does not currently have quantitative data in this area, but believes these impacts are significant given the company's size and scope.

## Baxter Share Performance

(normalized to \$100)



For additional information:  
[www.baxter.com/economic](http://www.baxter.com/economic)

## STAKEHOLDER VIEW

### Why do you believe that sustainability is an important issue for corporations, specifically for Baxter?

Innovest believes companies that manage environmental, social and governance risks most effectively tend to deliver better risk-adjusted financial performance than their sector peers. Moreover, all three issues are likely to have an even greater impact on companies' competitiveness and financial performance in the future. Baxter is exposed to a large number of these risks through diverse operations in a number of countries with differing legislative regimes. However, operations that include manufacturing, R&D and sales, do present opportunities for sustainable development, which are both intrinsically profitable and have demonstrably positive effects on stakeholders.

### How would you describe Baxter's work and performance in this area?

Baxter benefits from its historic focus on sustainability, a concept that remains highly prioritized by the CEO. The company continues to reassess and reshape its attention to sustainability issues that become more apparent with growth. Reporting is in-depth and wide-ranging, highlighting the strategic strengths stakeholders are looking for. Despite adverse publicity from recent product recall and litigation, Innovest rates Baxter very highly and expects the company to outperform sector peers as a result of management foresight.

Adam Savitz  
Analyst  
Innovest Strategic Value Advisors

1961 Baxter listed on New York Stock Exchange.

1971 Baxter joined Fortune 500.

2006 Announced investment of \$60 million to expand manufacturing capacity in China.

# SUSTAINABILITY REPORTING

While Baxter views sustainability as much more than the preparation of a yearly report, the reporting aspect of sustainability is essential in many ways.

An increasing number of Baxter's internal and external stakeholders want to know about Baxter's goals, programs, activities and performance in social, economic and environmental areas. The yearly reporting process not only enables the company to demonstrate progress over time, it helps to foster the company's commitment to continual improvement and a disciplined approach to further advancing sustainability programs and enhancing the level of disclosure.

Baxter prepared its first internal environmental report in 1991, released its first public environmental report in 1992 and published its first sustainability report in 1999. The company has produced a sustainability report every year since, and is committed to annual reporting. This 2005 Sustainability Report is also available online with certain expanded sections (e.g., see online Environment, Health and Safety section).

This report is part of Baxter's broader sustainability communications program, which includes ongoing outreach through media channels, targeted communications to stakeholder groups (see case study on page 4), presentations at global conferences, employee publications, among others.

## External Reporting Standards

Baxter recognizes the importance of external sustainability reporting standards. The company was one of the first to pilot the Global Reporting Initiative (GRI) Guidelines in 1999, and continues to align its online and print reports to the 2002 Guidelines. This report includes a detailed GRI Index online. Baxter has also considered the draft GRI G3 Guidelines in developing this report, and the

company follows the Good EHS Reporting Principles, developed with the assistance of Ceres and others.

*Please see the online report to learn more about the draft GRI G3 Guidelines and the Good EHS Reporting Principles.*

## Feedback on Baxter's Sustainability Reporting

Continual improvement is a fundamental aspect of the Baxter sustainability reporting process. To ensure it delivers stakeholders the most relevant and comprehensive information, Baxter has solicited feedback on its sustainability reporting from numerous experts in the field, including SustainAbility, a strategy consultant/think tank and the U.S.-based environmental organization Ceres and its select coalition members. These organizations cited several areas of strength, including the following:

- Clear CEO commitment to sustainability and need for integration into business;
- Detailed description of corporate governance and business practices, including Regional Business Practice Committees;
- Excellent coverage of EHS management systems, including description of organizational structure and discussion of goals-setting;
- Strong coverage of performance in energy, climate change and injury rates; and
- Comprehensive environmental financial statement.

Feedback also included numerous opportunities for improvement. The following table includes several of those comments and describes changes made to this report as a result.

## Baxter Sustainability Reports



### Sustainability Reporting Milestones:

- 1992** Published Baxter's first public environmental report.
- 1994** Developed formal environmental reporting principles and verification process.

- 1998** Incorporated Good Environmental, Health and Safety Reporting Principles into EHS report.

## Feedback on Baxter's Sustainability Reporting

Feedback	Response
<b>Structure/Accessibility</b>	
Web report is difficult to navigate and boundaries are unclear.	Redesigned and simplified Web structure, and strengthened connection between Web and print report.
Web report is text-heavy.	Revised online report to increase accessibility; added photos and graphical elements to improve look and feel of pages, and converted some text sections into graphics for accessibility.
<b>Content</b>	
CEO letter could better emphasize leading sustainability challenges.	Increased focus in CEO letter.
Report should elaborate on how recent organizational changes impact sustainability.	Addressed in multiple sections, including Governance and Business Practices, Employees and Environment, Health and Safety.
Report does not clearly describe Baxter's sustainability vision and strategy to unify broad range of content.	Added Baxter's Approach section.
Report does not systematically describe sustainability issues identification and prioritization processes and outcomes.	Added section in Baxter's Approach.
Stakeholder contributions are overly positive, which decreases credibility.	Added Stakeholder Views to report, structured to encourage balanced input.
Would be helpful to provide more sustainability context to each section.	Added brief introductions describing context.
Report does not provide a systematic view on the sustainability impacts of Baxter's products.	Added Product Responsibility section, describing programs to address major social and environmental impacts at each stage of the product life cycle.
Product safety could be discussed in greater detail.	Included Ensuring Patient Safety section and case study about COLLEAGUE infusion pump.
Report does not sufficiently describe relationship between sustainability and supply chain.	Added Supply Chain as a distinct section, with program and performance detail.
<b>Performance Data</b>	
Scope of report is unclear.	Clearly defined scope in About this Report section.
Business Practices section describes policy, but does not provide performance data.	Added data about inquiries raised through Business Practices Helpline and Certificate of Integrity and Compliance.
Report does not provide sufficient detail on sustainability impacts.	Added regional breakdown to numerous graphs, in the EHS section and others.
In EHS section, graphs showing percentage reduction in use as increasing bar graphs are confusing.	Reformatted graphs for clarity.
Report lacks coverage of economic issues and performance data.	Added Economic Impacts section, which describes range of direct and indirect impacts and provides performance data as available.



For additional information:  
[www.baxter.com/reporting](http://www.baxter.com/reporting)

**1999** Published Baxter's first sustainability report covering the *triple bottom line* of social, economic and environmental issues.

**1999** Piloted Global Reporting Initiative Guidelines.

# SUMMARY DATA TABLE

Please see relevant report sections for more extensive performance data and graphs.

Section and Indicator	2002	2003	2004	2005
<b>Company Profile</b>				
Sales (in millions)	\$8,099	\$8,904	\$9,509	\$9,849
Net Income (in millions)	\$771	\$866	\$388	\$956
Baxter Share Price (end of stated year)	\$28.00	\$30.52	\$34.54	\$37.65
R&D Expenditures (in millions)	\$501	\$553	\$517	\$533
<b>Governance and Business Practices</b>				
Business Practices Helpline and COIC <sup>1</sup> Inquiries (total)	n/a	362	309	274
<b>Employees</b>				
Baxter Global Workforce	55,000	51,300	48,300	46,900
Total Compensation and Benefits (in millions)	n/a	\$2,317	\$2,522	\$2,594
<b>Corporate Officer Diversity</b>				
Ethnic Diversity (% non-white of total)	n/a	16%	7%	14%
Gender Diversity (% female of total)	n/a	11%	20%	21%
<b>Gender Diversity at Baxter (% female globally)</b>				
Vice President and Above	n/a	20.1%	20.1%	19.6%
Supervisor to Director	n/a	37.2%	38.4%	38.2%
Non-Manager	n/a	57.6%	57.3%	57.0%
Total	n/a	54.6%	54.6%	54.1%
<b>Environment, Health and Safety</b>				
<b>Environment</b>				
Process-Related CFCs and Toxic Air Emissions (% reduction) <sup>2</sup>	80%	84%	82%	85%
SO <sub>x</sub> Emissions (% reduction) <sup>2</sup>	26%	24%	27%	30%
NO <sub>x</sub> Emissions (% reduction) <sup>2</sup>	18%	16%	22%	27%
Energy Usage and Related GHG Emissions from Baxter Operations (% reduction) <sup>2</sup>	7%	16%	22%	27%
Total GHG Emissions from Baxter Operations (% reduction) <sup>2</sup>	26%	30%	35%	39%
Cumulative Packaging Eliminated (metric tons since 1995)	6,979	8,171	9,138	9,761
Non-hazardous Waste (% reduction) <sup>2</sup>	7%	18%	31%	40%
Regulated Waste (% reduction) <sup>2</sup>	7%	18%	31%	30%
Water Usage (% reduction) <sup>2</sup>	9%	15%	23%	25%
BOD <sub>5</sub> <sup>3</sup> (biochemical oxygen demand) (metric tons)	35.5	32.6	26.6	28.7
COD <sup>3</sup> (chemical oxygen demand) (metric tons)	128.6	131.6	109.6	118.4
TSS <sup>3</sup> (total suspended solids) (metric tons)	46.6	49.9	48.2	53.3
Notices of Violation (NOVs)	20	23	16	17
Environmental Fines (\$)	\$11,250	\$33,500	\$31,462	\$11,825
<b>2005 Environmental Financial Statement</b>				
Total Environmental Costs (in millions)	\$22.0	\$22.0	\$21.8	\$21.7
Total Environmental Income, Savings and Cost Avoidance in Stated Year (in millions)	\$53.6	\$54.2	\$70.2	\$85.8
<b>Occupational Health and Safety</b>				
Recordable Case Rate <sup>4,5</sup>	2.50	1.93	1.60	1.52
Days Lost Rate <sup>4,5</sup>	14.14	10.46	11.37	7.08
Restricted Days Rate <sup>4,5</sup>	24.69	24.95	18.74	22.80
Cases with Days Lost Rate <sup>4,5</sup>	0.75	0.56	0.45	0.30
Employee/Contractor Serious Injuries (total number)	5/0	4/1	3/0	9/0
Employee/Contractor Fatalities (total number)	2/1	0/0	0/0	2/2
Worldwide Workers' Compensation Estimate (in millions)	\$22.4	\$21.0	\$22.4	\$20.6
Health and Safety Citations Settled	4	0	4	1
Health and Safety Fines (\$)	\$3,995	\$0	\$6,886 <sup>6</sup>	\$0
<b>Product Responsibility</b>				
U.S. FDA Warning Letters for Advertising and Promotion	0	0	2	0
<b>Supply Chain</b>				
Payments to Suppliers (in millions)	n/a	n/a	n/a	\$4,000
<b>Supplier Diversity</b>				
Payments to Small Businesses (in millions) <sup>7</sup>	n/a	\$435	\$445	\$454
Payments to Minority-Owned Business Enterprises (in millions) <sup>7</sup>	n/a	\$46	\$44	\$36
Payments to Women-Owned Business Enterprises (in millions) <sup>7</sup>	n/a	\$39	\$35	\$68
<b>Community Support</b>				
Cash Donations (in millions) <sup>8</sup>	\$4.6	\$8.8	\$7.2	\$17.6
Product Donations (in millions)	\$2.2	\$5.7	\$7.9	\$17.8

<sup>1</sup> COIC stands for Certificate of Integrity and Compliance.

<sup>2</sup> Percent reduction per unit of production value compared to 1996.

<sup>3</sup> Estimated total water pollutant levels for treated wastewater discharging directly into waterways. When actual performance data were not available, estimates were developed based on performance at similar facilities.

<sup>4</sup> All rates based on 100 full-time employees (FTE) working one year. 100 FTEs equals 200,000 work hours. Baxter applies U.S. Occupational Safety and Health Administration recordkeeping practices worldwide.

<sup>5</sup> Recordable cases – Work-related injuries or illnesses requiring medical attention beyond first-aid, including cases with days lost.

Days lost – Number of days lost due to work-related injuries and illnesses.

Restricted days – The number of days an employee or supervised contractor is unable to work full duty due to a work-related injury or illness. The date of injury and date of return to full duty are not counted as restricted days.

Cases with days lost – Work-related injuries or illnesses that cause an employee to lose at least one full day after the date of the incident.

<sup>6</sup> In 2004, Baxter settled a citation with the U.S. Nuclear Regulatory Commission and paid a fine of \$31,200.

<sup>7</sup> United States and Puerto Rico. Fiscal year basis (10/1 through 9/30). 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 business-certified and HUBZone-certified. Puerto Rican facilities classified supplier base in accordance with guidelines set by U.S. Small Business Administration.

<sup>8</sup> Baxter and The Baxter International Foundation.

## About this Report

- The performance data in this report is calendar year 2005, unless stated otherwise. Some case studies and program descriptions include information from 2006.
- This report covers Baxter's global operations, including subsidiaries, unless stated otherwise.
- All currency in this report is in U.S. dollars, unless stated otherwise.
- Any significant restatements of data compared to prior years are noted in the section where they appear.
- For more information about this report, please contact the *Center for One Baxter* at 1-800-422-9837 or 1-847-948-4770, or by e-mail at [onebaxter@baxter.com](mailto:onebaxter@baxter.com).

## Feedback

Continual improvement of Baxter's sustainability programs and reporting depends in part on stakeholder feedback. Please provide us with your comments through our online survey at [www.baxter.com/input](http://www.baxter.com/input). We look forward to your input.



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