

2007 Sustainability Report

sustainability.baxter.com

Our
Priorities.
Our
Progress.



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about the cover In 2007, Baxter donated more than \$31 million in products to help people in 53 countries. Many of these products were donated through AmeriCares, one of Baxter's humanitarian-aid and disaster-relief partners. Baxter donations have helped refugees from the Darfur region of Sudan. *Photo courtesy of AmeriCares.*

Company Profile

MORE ONLINE:

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

Baxter International Inc. develops, manufactures and markets products that save and sustain lives. As a global, diversified healthcare company, Baxter applies a unique combination of expertise in medical devices, pharmaceuticals and biotechnology to create products that advance patient care worldwide.

Baxter manufactures products in 26 countries and sells them in more than 100, with more than half its sales coming from outside the United States. In 2007, Baxter sales totaled approximately \$11.3 billion globally. At year-end 2007, Baxter employed approximately 46,500 people worldwide. While no single company competes with Baxter in all of its businesses, Baxter faces competition in each of its segments from international and domestic healthcare companies of all sizes. Investment in research and development to create new innovative products is essential to Baxter's growth.

Baxter operates in three business segments:

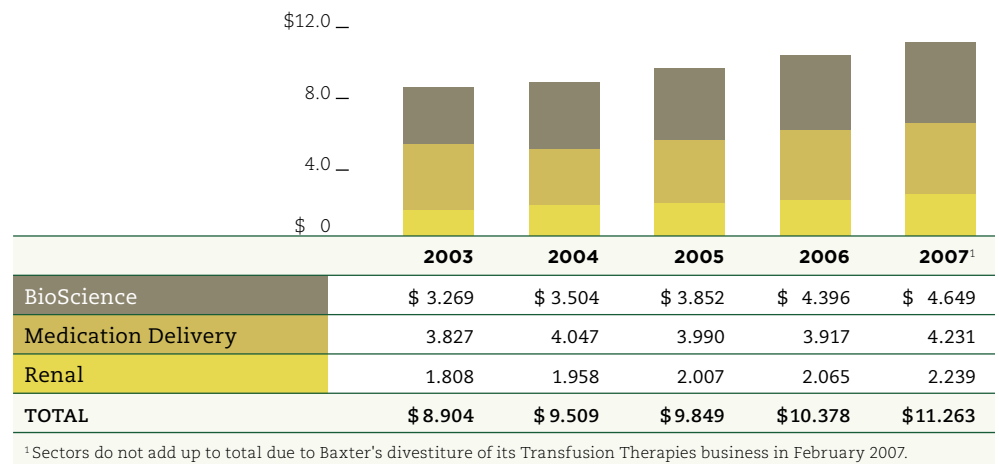
The **BIOSCIENCE** business is a leading manufacturer of recombinant and plasma-based proteins to treat hemophilia and other bleeding disorders; plasma-based therapies to treat immune deficiencies, alpha 1-antitrypsin deficiency, burns and shock, and other chronic and acute blood-related conditions; products for regenerative medicine, such as biosurgery products and technology used in adult stem-cell therapies; and certain vaccines.

The **MEDICATION DELIVERY** business manufactures products used in the delivery of fluids and drugs to patients. These include intravenous (IV) solutions and administration sets, premixed drugs and drug-reconstitution systems, pre-filled vials and syringes for injectable drugs, IV nutrition products, infusion pumps, inhalation anesthetics, and products and services related to drug formulation and enhanced packaging technologies.

The **RENAL** business provides products to treat end-stage renal disease, or irreversible kidney failure. It is a leading manufacturer of products for peritoneal dialysis (PD), a home therapy Baxter introduced 30 years ago. Products include PD solutions and automated cyclers that provide therapy overnight. The business also distributes products for hemodialysis, which generally takes place in a hospital or clinic.

SALES BY BUSINESS

(DOLLARS IN BILLIONS)



From the Chairman and CEO



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

Part of being a great company is being a responsible corporate citizen. At Baxter, we use the term “sustainability” to describe our long-term approach to balancing our business priorities with our social, economic and environmental responsibilities. These efforts align with and support the company’s higher purpose of saving and sustaining lives.

As a recognized innovator and leader in healthcare, Baxter is responsible for many medical breakthroughs that society takes for granted today. The company has played a leading role in the development of modern intravenous (IV) therapy, hemophilia treatment, kidney dialysis and other life-saving therapies.

Baxter’s unique combination of expertise in medical devices, pharmaceuticals and biotechnology sets us apart from others in the healthcare industry. I believe the critical nature of our work extends naturally to sustainability, where the goal is sustaining all life on the planet.

A CRITICAL CHALLENGE

We are privileged to work in an industry where the work we do benefits so many. Of course, what makes our business so rewarding also presents our greatest challenge: ensuring the safety and efficacy of our products, which are used millions of times a day by patients worldwide, each time to treat a critical, life-threatening condition.

When you’re in a business like ours, the stakes are high. Product quality is paramount. We are committed to the highest quality standards attainable to protect the health and safety of patients wherever we do business. It’s a challenge and responsibility we accept as a global leader in healthcare.

In the Product Responsibility section of this report, you will read about a situation that unfolded during the first half of 2008 regarding heparin, a commonly used generic blood thinner that Baxter manufactures. The challenge for us is, how can we learn from this to prevent similar occurrences in the future? How can we provide better oversight of vendors, and of vendors to vendors, in a complex global supply chain? It is an opportunity for us to improve our practices based on our learnings and to share those learnings with industry.

SUSTAINABILITY HIGHLIGHTS

- › In 2007, we established nine sustainability priorities to focus our efforts in areas where Baxter can have the greatest impact. To provide strategic direction and help us make progress in these areas, in 2008 we added long-term, measurable goals for each sustainability priority. We present these goals in this report and will continue to update you on our performance in the future.

“When you’re in a business like ours, the stakes are high. Product quality is paramount. We are committed to the highest quality standards attainable to protect the health and safety of patients wherever we do business. It’s a challenge and responsibility we accept as a global leader in healthcare.”

- › The pace of innovation is accelerating at Baxter. In this report, Baxter Chief Scientific Officer Norbert Riedel, Ph.D., discusses several promising areas. These include adult stem cell therapies for coronary and peripheral artery disease, alternatives to IV infusion for critical fluids and drugs, and an automated home dialysis system designed specifically for developing markets.
- › In 2007, we made progress toward our water usage, energy usage and greenhouse gas emissions goals, although advancement toward our total waste reduction goal was slowed in part by production changes in our operations. Our manufacturing facility in Costa Rica became the country’s first to be recognized as “carbon neutral,” joining other Baxter sites, including our corporate headquarters.
- › We extended our commitment to employee wellness by launching BeWell@Baxter, which offers an expansive array of programs and resources to help our 46,500 employees and their families worldwide stay well. We recognize that a healthy, productive workforce is vital to our business.
- › Responding to stakeholder input, we have provided a more robust Public Policy section in this year’s report. It includes examples of how we are working with governments around the world to increase patient access to Baxter’s life-saving therapies, as well as data regarding political contributions and lobbying expenses.
- › Finally, in the area of corporate giving, combined contributions by Baxter and The Baxter International Foundation – the philanthropic arm of the company – totaled nearly \$55 million in 2007. This includes more than \$31 million in product donations to organizations in 53 countries for disaster relief and humanitarian aid.

WORKING TOWARD A SUSTAINABLE FUTURE

No global corporation can afford not to act responsibly in today’s marketplace. Baxter’s approach to sustainability reflects the quality of our management, our people and our company culture. It also reflects the responsibility and accountability we must demonstrate to remain a global leader in our industry.

We also see sustainability as a way to attract and retain talent and make Baxter a rewarding place to work and develop. Ultimately, we believe our efforts in sustainability enhance shareholder value by making Baxter a more competitive company in an increasingly challenging business environment.

Our efforts to bring life-saving therapies to countries where many people still go untreated for conditions such as hemophilia, kidney disease and others are not altruistic. It’s our business. But the goal is similar to other elements of sustainability – to save and sustain lives. It is this higher purpose that binds everyone at Baxter together as a company and as global citizens.



May 2008

Sustainability at Baxter

MORE ONLINE:

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

Baxter views sustainability as a long-term strategic approach to balancing business opportunities with social, economic and environmental responsibilities. The company's sustainability efforts support Baxter's mission to apply innovative science in the development of products and therapies that save and sustain patients' lives.

Baxter's Approach

Sustainability is inherently broad. Baxter's efforts cover a wide range of areas, as reflected by the company's sustainability priorities and the structure and contents of this report. Baxter's Sustainability Steering Committee leads the company's efforts to integrate sustainability into its long-term strategic planning as well as its daily activities. The committee's role is to:

- › Assess the opportunities and challenges associated with sustainability;
- › Increase knowledge of sustainability concepts and benchmark with other companies;
- › Define and track progress on sustainability priorities, drive organizational accountability and recognize accomplishments;
- › Establish performance targets and help implement sustainability initiatives;
- › Report status to and engage senior management on appropriate actions and direction; and
- › Provide a sounding board for stakeholder inquiries and recommend necessary actions.

The committee's executive sponsor is Baxter's corporate vice president, Global Manufacturing Operations. Baxter's vice president of Environment, Health and Safety, and vice president, Corporate Communications, co-chair the committee. Each senior member of the committee sponsors one of Baxter's sustainability priorities and is accountable for developing and reporting progress against goals in that area.

Sustainability Priorities

Although committed to addressing the broad range of sustainability issues, Baxter recognizes the importance of setting clear priorities to focus its efforts and direct its initiatives. In 2007, the Sustainability Steering Committee defined nine priorities that fall into three broad categories: Our People, Our Operations and Products, and Our World (see *graphic*). These priorities reflect issues of key concern to Baxter and its stakeholders and areas where the company is uniquely positioned to have a positive impact.

In 2008, Baxter established measurable performance goals for each priority. The company's chief executive officer and its Operations Committee endorsed these priorities and goals. Baxter anticipates that this framework will remain central to the company's sustainability efforts, and looks forward to reporting progress in the future.

BAXTER SUSTAINABILITY PRIORITIES AND GOALS

The following table outlines Baxter's sustainability priorities and goals, and notes where related information can be found in this report.

PRIORITIES	2015 GOALS (UNLESS STATED OTHERWISE)	RELATED CONTENT
OUR PEOPLE		
Baxter will promote a safe and healthy workplace	<ul style="list-style-type: none"> › Demonstrate commitment to an injury-free workplace and employee health by achieving performance within the top 20% of industry peers. 	page 17 or sustainability.baxter.com/EHS
Baxter will promote a diverse and inclusive workplace	<ul style="list-style-type: none"> › Create and sustain an inclusive culture where diverse ideas, backgrounds, experiences and perspectives are respected and valued. 	page 12 or sustainability.baxter.com/employees
Baxter will promote ethical conduct and legal compliance	<ul style="list-style-type: none"> › Promote industrywide ethical sales and marketing practices globally. 	page 7 or sustainability.baxter.com/governance_ethics_and_compliance
OUR OPERATIONS & PRODUCTS		
Baxter will drive a green supply chain	<ul style="list-style-type: none"> › Reduce the carbon footprint of Baxter's car fleet by 20% from 2005 baseline. › Incorporate green principles into Baxter's purchasing program with its top 100 suppliers (by spend). 	page 28 or sustainability.baxter.com/supply_chain
Baxter will drive reductions in its carbon footprint	<ul style="list-style-type: none"> › Reduce greenhouse gas emissions 45% indexed to revenue from 2005 baseline. › Increase facility energy usage of renewable power to 20% (of total). 	page 18 or sustainability.baxter.com/EHS
Baxter will drive reductions in its natural resource use	<ul style="list-style-type: none"> › Reduce total waste generation 30% indexed to revenue from 2005 baseline. › Reduce energy usage 30% indexed to revenue from 2005 baseline. › Eliminate 5 million kilograms of packaging material from products sent to customers from 2007 baseline. › Reduce water usage 35% indexed to revenue from 2005 baseline. To help achieve this, by 2010 evaluate potentially vulnerable watersheds associated with Baxter facilities and establish aggressive water conservation goals for high-risk areas. › Implement two projects to help protect vulnerable watersheds and/or provide communities with enhanced access to clean water. 	page 19 or sustainability.baxter.com/EHS
Baxter will drive enhanced product stewardship	<ul style="list-style-type: none"> › Incorporate the following elements as appropriate into Baxter's product stewardship program: sustainable design, takeback and recycling of Baxter's products. 	page 23 or sustainability.baxter.com/product_responsibility
OUR WORLD		
Baxter will strengthen access to healthcare through product donations, strategic sponsorships and product development	<ul style="list-style-type: none"> › Work with donor partners to ensure Baxter products are first on the scene following disasters and tragedies. › By 2010, implement a strategic product donation plan to contribute most needed products to stabilize supply. › Assess needs for critical Baxter products in the least developed and developing economies and establish a product donation goal for these areas. › By year-end 2008, establish a sponsorship council to assess U.S. sponsorships and donations, and develop a strategy to align efforts with public policy priorities to enhance healthcare. › By 2010, implement the sponsorship and donations strategy and establish measurements to assess its impact. › Assign a percentage of Baxter's total giving to healthcare programs. › By 2010, assess existing products for relevance to the "base of the pyramid" (developing and emerging economies) and identify high-impact, economically viable product opportunities. › Increase R&D investment from 2008 to improve access to healthcare for the "base of the pyramid." 	page 32 or sustainability.baxter.com/community_support
Baxter will strengthen the company's commitment to education, especially math and science	<ul style="list-style-type: none"> › Facilitate learning of math and science through biotechnology education for Chicago Public School teachers and students, and partner with other educational organizations to provide similar opportunities in other locations. 	page 34 or sustainability.baxter.com/community_support

Governance, Ethics and Compliance

MORE ONLINE:

[sustainability.baxter.com/
governance_ethics_
and_compliance](http://sustainability.baxter.com/governance_ethics_and_compliance)

Baxter's culture is premised on making decisions with integrity, supported by structures and processes that facilitate acting in compliance with the law. Baxter is committed to strong corporate governance, effective oversight of global operations, and earning stakeholders' trust and respect by living the company's values.

Corporate Governance

Baxter operates under the direction of its board of directors. Twelve independent directors and Baxter's chief executive officer (CEO) comprise the company's board. Baxter's CEO serves as chairman. The board also has an independent lead director, who presides at executive sessions of the board and serves as a liaison for the other independent directors.

Baxter's board has five committees: Audit, Compensation, Finance, Governance and Public Policy. The Public Policy Committee conducts an annual sustainability review across the spectrum of topics discussed in this report and reports on these activities to the full board.

Baxter's corporate governance 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, as well as director qualifications, independence and compensation.



above (left to right) Celina Teh, based in China, is the regional compliance counsel for Asia Pacific; Lori Reber, based in Switzerland, is the regional compliance counsel for Europe; and Maria Leonor Rios, based in Brazil, is the regional compliance counsel for Latin America.

CASE STUDY REGIONAL ETHICS AND COMPLIANCE COUNSEL

During 2007, Baxter bolstered its international focus on ethics and compliance by embedding regional compliance counsel in Asia Pacific, Europe and Latin America. These attorneys counsel business teams on matters involving ethics and compliance, conduct compliance assessments to improve operating and control procedures, identify and lead educational opportunities and share best practices across regions. In addition, these attorneys have re-energized the Regional Compliance Committees by positioning them to help prioritize regional risks. The counsel also serve as sounding boards on the design and implementation of compliance programs and as ambassadors of Baxter's ethics and compliance standards and procedures.

Please see the full report online for a discussion regarding regional compliance counsel roles and responsibilities, and the issues and challenges they face.

"Our stakeholders hold us to high standards. We take our compliance obligations seriously, and we have invested heavily to ensure that we have strong programs on a global basis. Our regional compliance counsel and committees provide a solid platform for proactive and reactive elements of our program."

– David H. Resnicoff, Associate General Counsel/Vice President, Ethics and Compliance

SUSTAINABILITY PRIORITY

Baxter will promote ethical conduct and legal compliance

See page 5 for a summary of Baxter's sustainability priorities

BAXTER ETHICS AND COMPLIANCE HELPLINE:

1-877-BAXTER3

FAX: 1-847-948-2867

WEB: www.baxter.com/compliance

Ethics and Compliance

Baxter manages a range of programs and activities to help employees make good decisions about appropriate behaviors in the markets in which they operate. The company's Ethics and Compliance team also works closely with regional operating and legal teams in Baxter's businesses to ensure that company actions adhere to applicable laws and company policies.

STANDARDS—Baxter's ethics and compliance policies are explained in the company's Global Business Practice Standards, which promote ethical conduct, ensure compliance with applicable laws and serve as a guide for business decision-making. They apply to Baxter's board of directors and all employees, including the chief executive officer, the chief financial officer and other senior officers. These standards, available in 18 languages, cover topics such as protection and use of company assets, accurate recordkeeping, competitive and confidential information, sales and marketing practices, anti-corruption, insider trading, bioethics, conflicts of interest, gifts and international trade compliance. A simplified version of the standards apply to the company's suppliers. *See more information in the full report online.*

CORPORATE RESPONSIBILITY OFFICE—The Corporate Responsibility Office (CRO), composed of six senior executives, communicates Baxter's ethics and compliance standards, provides guidance and oversees training to employees and directors, maintains multiple channels for employees to report concerns and monitors compliance. The CRO, which meets at least every quarter, reports to the board's Public Policy Committee and reports on financial matters to the board's Audit Committee. *See Baxter Ethics and Compliance Structure graphic in the full report online.* Baxter's Regional Ethics and Compliance Committees implement the CRO's charter globally. Committee membership rotates to ensure broad employee exposure and participation. During 2007, Baxter re-energized the regional committees by creating regional counsel roles in Asia Pacific, Europe and Latin America. *See Case Study: Regional Ethics and Compliance Counsel.*

CERTIFICATE OF INTEGRITY AND COMPLIANCE—Each year, Baxter requires mid-level supervisors, sales representatives and other selected employees around the world (almost 25 percent of Baxter's workforce) to reaffirm their commitment to the company's ethics and compliance standards. To do so, these employees must complete and submit a Certificate of Integrity and Compliance (COIC), which is available in 11 languages.

LEGAL AND REGULATORY COMPLIANCE TRAINING—Baxter requires employees worldwide to take Web-based training on legal and regulatory compliance. In 2007, 32,304 employees completed a total of 86,372 modules covering areas such as product complaints, pharmacovigilance, adverse-event reporting procedures, preventing workplace violence, data privacy, healthcare fraud and abuse, trade compliance, requirements for selling to the U.S. government, the Foreign Corrupt Practices Act, antitrust, intellectual property, and Baxter's Global Business Practice Standards. The Ethics and Compliance group also conducted 55 classroom-training sessions around the world in 2007 to educate employees on Baxter's standards.

GUIDANCE AND COMPLIANCE—Managers are responsible for maintaining an environment that enables employees to safely raise and discuss issues. Baxter encourages employees to seek guidance and report concerns through any of 10 formal channels. *See Channels for Employees Seeking Guidance or Raising Issues on Ethics and Compliance Matters graphic in the full report online.*

One such channel is the Baxter Ethics and Compliance Helpline. In 2007, 183 inquiries were received through the Helpline. Additionally, the COIC process identified 51 issues requiring follow-up by Ethics and Compliance staff. Of the 234 inquiries received through these two channels, 150 were related to ethics and compliance. All inquiries received were addressed. *See Ethics and Compliance Helpline and Certificate of Integrity and Compliance Inquiry Topics table in the full report online.*



Employees

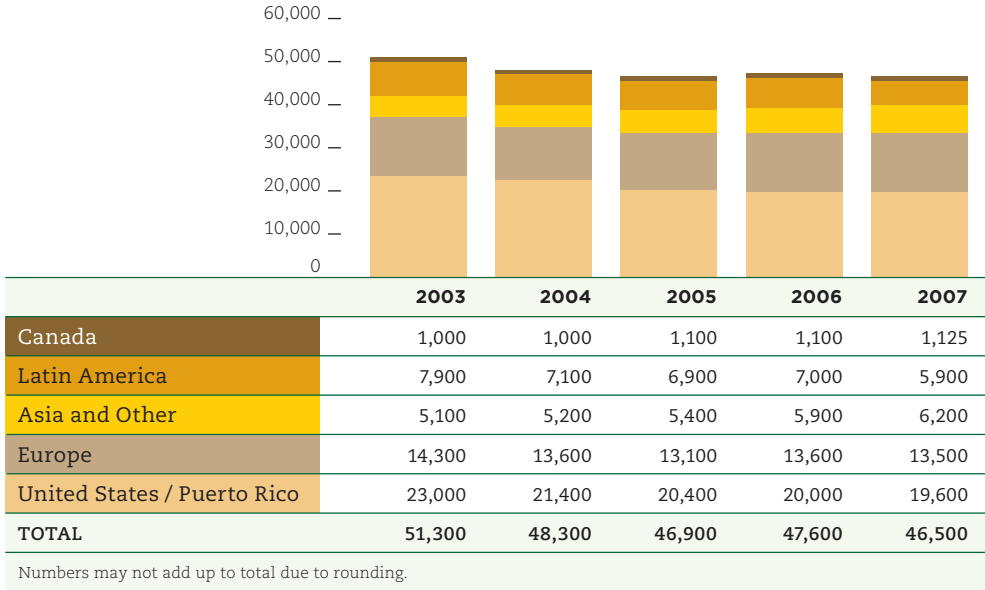
MORE ONLINE:
sustainability.baxter.com/employees

Providing a rewarding place to work and develop for Baxter’s 46,500 employees worldwide is part of the company’s vision and key to its success. To accomplish this, Baxter focuses on building and maintaining its ability to hire the right talent, ensuring talent is aligned with business needs, creating and sustaining a pipeline of future leaders, developing skills and abilities at all levels, providing competitive compensation and benefits, and fostering a diverse and inclusive workplace.

left Martin Purtscher works in Baxter’s research and development center in Orth, Austria, where researchers apply innovative science to the development of new bio-pharmaceutical products for the company’s BioScience business.

Baxter shapes its workplace culture by defining the values, skills and behaviors that employees need to succeed. With common expectations for how they should approach their work every day, Baxter employees know what to expect from one another, and how to achieve results. These Baxter Leadership Expectations apply to every employee, every day and everywhere at Baxter (*see page 10*).

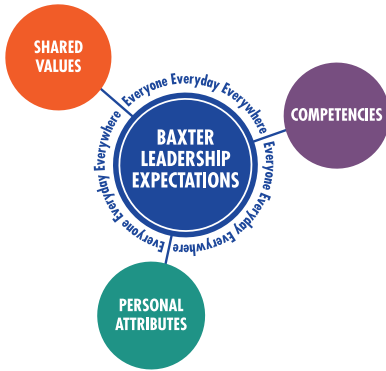
BAXTER GLOBAL WORKFORCE
 (NUMBER OF EMPLOYEES)



Talent Management

To ensure the sustainability of its workforce and to drive a high-performing culture, Baxter focuses on the following areas:

- › Leadership Expectations;
- › Individual and corporate goal alignment;
- › Human capital planning; and
- › Talent assessment and development.



above Baxter Leadership Expectations form the foundation of the company's culture. See the detailed expectations in the full report online.

LEADERSHIP EXPECTATIONS—To drive a high-performing culture, Baxter believes it's important to be clear about its expectations of employees. To achieve this, the company created a framework of Baxter Leadership Expectations, which forms the foundation for the company's culture and includes the following:

- › Shared Values—the beliefs and standards Baxter employees bring to their work;
- › Competencies—the skills and knowledge necessary to achieve goals; and
- › Personal Attributes—the characteristics and behaviors that enable people to be successful at Baxter.

These expectations provide Baxter a framework (see *left*) for hiring, assessing, training and developing employees at all levels. Leadership is expected of all employees at Baxter, regardless of role or level in the organization.

INDIVIDUAL AND CORPORATE GOAL ALIGNMENT—At Baxter, employees and teams align individual and organizational objectives to ensure that everyone is working to achieve company goals. Individuals and teams across the company establish work plans and set specific, measurable targets to help Baxter achieve its objectives. Baxter's global goals focus on six categories: Customer, Financial, Innovation, Operational Excellence, People/Team and Quality/Regulatory/Compliance.

HUMAN CAPITAL PLANNING—Baxter seeks to continuously enhance its current talent needs and plan for those in the future through Baxter's annual organization inventory process. This process helps the company identify the organizational implications of business strategies and plans, and also guides Baxter's succession management process.

TALENT ASSESSMENT AND DEVELOPMENT—Effective management and leadership skills improve business performance. Helping employees develop such skills makes Baxter a rewarding place to work and develop. Baxter's training and development programs provide the skills required to succeed in a competitive and highly regulated global healthcare marketplace.

Baxter continually improves its processes for assessing employee performance. Managers conduct annual performance reviews to evaluate individual performance against goals as well as demonstration of the Leadership Expectations. Individual performance contributes to differentiated awards. The company encourages managers to provide employees with ongoing coaching and feedback throughout the year. Baxter will introduce improvements to this process in 2008 to drive enhanced employee-development and career-planning conversations.

Baxterlearning.com is the company's global learning management system. It is available to all employees and offers courses in nine languages. The system contains 479 eLearning programs on subjects such as company products, management and career development, PC skills, environment, health and safety, pharmacovigilance, project management and many more. As part of their professional development and to meet regulatory requirements, 12,432 employees completed Baxterlearning.com courses in 2007.

Also in 2007, Baxter introduced Management Essentials, a leadership-training curriculum that provides managers and supervisors with the tools and techniques to be effective leaders. The curriculum helps develop and refine skills related to accountability, career and development planning, change management, coaching and feedback, communication, critical thinking and problem solving, facilitation, interviewing, and managing conflict and performance. A total of 1,872 manager- and supervisor-level employees with direct reports took at least one Management Essentials course in 2007, representing approximately 39 percent of such employees in the company.

Compensation and Benefits

Baxter provides its employees with competitive compensation and benefits. The company's global total compensation philosophy is to provide market-based pay while rewarding employees for individual and business performance.

Baxter's total compensation package includes base salary and may include variable pay, such as cash bonuses and stock-based compensation. It also includes market-competitive benefits that vary by country, region and/or role to help employees meet their healthcare, income-protection, financial, retirement and time-off needs. In 2007, Baxter announced an enhanced employee stock purchase plan that offers employees a 15 percent discount below fair market value (compared to the previous 5 percent discount) on the purchase of Baxter stock.

Also, as part of Baxter's commitment to employee health and well-being both on the job and at home, Baxter offers many programs and resources to help employees meet their personal goals and family needs. *See Case Study: BeWell@Baxter in the full report online.*

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 company and individual performance. *See Baxter's 2008 Proxy Statement for more details.*

Measuring Employee Engagement

Baxter regularly conducts companywide surveys to gather feedback from employees about what is going well and where Baxter needs to make improvements to be a high-performing organization. Baxter conducted the most recent survey in early 2007. Previous surveys were conducted in 1999, 2003 and 2005.

Baxter administered the 2007 survey in 16 languages in online and paper formats. More than 38,000 employees completed the survey, representing 85 percent of the organization, compared to 55 percent in 2005.

Overall feedback was positive. The areas of career development and cooperation across Baxter were targeted for improvement. A brief follow-up questionnaire was conducted in late 2007 to gain greater understanding of how to improve in these areas. Additionally, Baxter conducted employee focus groups to develop specific recommendations.

After analyzing thousands of recommendations, Baxter identified several next steps. To improve career development, Baxter is rolling out training programs for managers on career coaching and employee development, online career planning resources for all employees and enhanced internal job-posting and candidate-feedback processes. To enhance cooperation across the company, Baxter is focusing on initiatives related to goal alignment, team building and clarifying Baxter's expectations of all employees. These programs will be implemented in 2008. *See Category Results for 2007 Employee Opinion Survey in the full report online.*



above Christian Quiroga (left) and Juan Pablo Ambar work for Baxter in Argentina. The Baxter team in Argentina won the company's 2007 Chairman's Award in the small-country category for its 2007 financial performance.

SUSTAINABILITY PRIORITY

Baxter will promote a diverse and inclusive workplace

See page 5 for a summary of Baxter's sustainability priorities



above (left to right) Joseph Berko, Rebecca Molanick and Guillermo Carrillo work at Baxter's vaccines facility in Beltsville, Maryland, United States, where the company produces vaccines for bacterial infections such as meningococcal C meningitis.

Global Inclusion

An inclusive organization ensures that company policies, programs, processes and systems support a culture of respect and enable all employees to work together effectively. An organization can have a diverse employee population (for example, in terms of age, gender, sexual orientation, race, ethnicity or religion) and yet not be inclusive.

Baxter believes that an inclusive culture and a diverse workforce can drive innovation; create trusted partnerships with customers, suppliers and community partners; and ultimately, contribute to the success and sustainability of the business.

This belief forms the foundation of Baxter's global inclusion strategy, which is directly linked to one of the company's shared values articulated in the Baxter Leadership Expectations—respect for individuals and the diverse contributions of all.

Baxter's global inclusion strategy focuses on four key areas:

- › Workforce—building a globally diverse organization;
- › Workplace—creating an inclusive culture in which diversity is valued;
- › Communities—building partnerships with community-based organizations that embrace, support and develop diverse talent; and
- › Marketplace—promoting Baxter's commitment to inclusion through its employment brand and supplier partnerships.

GLOBAL INCLUSION COUNCIL

In 2008, Baxter established a Global Inclusion Council that provides thought leadership, guidance and support to enhance Baxter's inclusive culture. Composed of leaders from the company's businesses, regions and functions around the world, the Council's charter is to:

- › Promote and advocate Baxter's inclusion philosophy and initiatives;
- › Identify issues and barriers in the workplace that could impact an inclusive culture;
- › Recommend new ideas or initiatives to accelerate an inclusive culture;
- › Identify opportunities to leverage existing initiatives across the company; and
- › Ensure inclusion initiatives align with Baxter's business priorities.

FAIR OPPORTUNITY FOR ALL EMPLOYEES

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. If an employee has an issue, he or she is encouraged to raise it through one of the channels as fully outlined in the company's Prohibition of Workplace Harassment Policy.

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

SUPPLIER DIVERSITY

Baxter works to develop mutually beneficial relationships with small and diverse suppliers, embracing their importance in many communities. The company plans to continue increasing the diversity of its supplier base to reflect the demographics of Baxter's customers globally. *See Supplier Diversity on page 28 for more information.*

BOARD AND EXECUTIVE LEADERSHIP DIVERSITY

	2003	2004	2005	2006	2007
Ethnic (% non-white of total)					
Board of Directors	16.7%	9.1%	8.3%	8.3%	7.7%
Executive Leadership ¹	18.8%	7.7%	16.7%	13.3%	13.3%
Gender (% female of total)					
Board of Directors	16.7%	18.2%	16.7%	16.7%	15.4%
Executive Leadership ¹	6.3%	15.4%	25.0%	33.3%	33.3%
¹ Executive Leadership figures include Operations Committee members and regional presidents.					

GENDER DIVERSITY AT BAXTER

(% FEMALE GLOBALLY)

	2003	2004	2005	2006	2007
Vice President and Above	20.1%	20.1%	19.6%	19.0%	17.7%
Supervisor/Director	37.2%	38.4%	38.2%	39.1%	47.7% ²
Non-Manager	57.6%	57.3%	57.0%	56.5%	56.4%
Total	54.6%	54.6%	54.1%	53.7%	52.7%
² Beginning in 2007, Baxter re-categorized 10,200 employees formerly designated as Non-Manager to Supervisor/Director. At the time of re-categorization, this figure represented approximately 21 percent of Baxter's employee population. Approximately 52 percent of the re-categorized employees were female.					

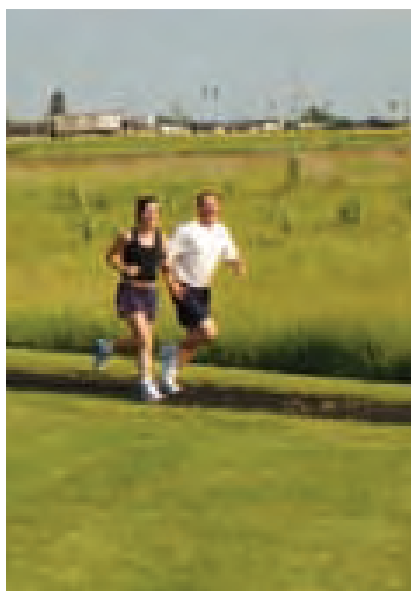
Work/Life

Managers and employees share the responsibility to achieve a healthy blend of work, personal and family life. Due to local circumstances and business needs, Baxter's programs and resources vary throughout the world, but all reflect the company's philosophy of creating an environment that helps employees manage work and personal responsibilities.

While Baxter's U.S. operations offer more work/life programs than other locations, its non-U.S. operations also develop and facilitate work/life programs. While some of the work/life programs and resources listed below are available globally, all are available in the United States:

- › Adoption assistance and reimbursement;
- › Alternative work arrangements, including part-time, compressed week, job sharing, telecommuting and flexible time;
- › Expanded back-up/emergency child and elder care;
- › Dependent-care reimbursement accounts;
- › Educational assistance;
- › Employee assistance and counseling programs;
- › Enhanced elder-care management services;
- › Lactation rooms;
- › Resource and community referrals for family, financial and work issues;
- › National childcare support options, including a 10 percent discount for services from KinderCare childcare learning centers for U.S. employees; and
- › Webinars on topics such as stress management and preventing identity theft.

More than 30 percent of eligible employees used one or more of these programs in 2007. Baxter realizes more than \$1.20 of benefit for every dollar invested in work/life programs through lower absenteeism and enhanced productivity among employees using these resources.



above Employees Amanda Sproull and Rory Musil take advantage of the jogging track that surrounds Baxter's headquarters complex in Deerfield, Illinois, United States.



Environment, Health and Safety

MORE ONLINE:

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

Environment, health and safety (EHS) covers a wide range of issues at Baxter, from ensuring employees a safe and productive workplace to reducing the company's impact on the environment. Baxter's three EHS-related sustainability priorities direct the evolution of the company's program, and promote collaboration with stakeholders inside and outside Baxter to achieve optimum performance.

left Carson Gibson, wastewater treatment plant operator at Baxter's facility in Marion, North Carolina, United States, collects river-water samples downstream from where the facility discharges its treated wastewater.

IMPROVING HEALTH AND SAFETY—Baxter has a long history of focusing on employee health and safety. Building on its record safety performance in recent years, Baxter plans to reach best-in-class, defined as being in the top 20 percent among industry peers, by 2015. *See Case Study: At Vienna Campus, Everyone Owns Safety on page 17.* Baxter extended its commitment to wellness by launching BeWell@Baxter, its global health and wellness initiative. *See Case Study: BeWell@Baxter in the Employees section of the full report online.*

REDUCING CARBON FOOTPRINT—Baxter is extending its approach to addressing climate change beyond reducing energy consumption at its facilities by applying technologies such as cogeneration and increasing the use of renewable energy. In addition, the company is pursuing supply chain initiatives that reduce the carbon footprint of its car fleet and is continuing its involvement in carbon trading programs such as the Chicago Climate Exchange. *See Case Study: Baxter's Facility in Costa Rica Goes Carbon Neutral on page 18.*

REDUCING NATURAL RESOURCE USE—Baxter continues to focus on increasing the efficiency of its natural resource use and reducing waste. The company is facing challenges in meeting its 2010 waste-reduction goal in part due to changes in production. Baxter is reinvigorating its waste-reduction efforts with a focus on reducing plastics waste, which accounted for approximately 31 percent of its non-hazardous waste in 2007. In the area of water, Baxter continues to focus on conservation and plans to pilot a few projects to protect watersheds with high importance to communities. To reduce energy use, Baxter is continuing to implement its "lean energy" program, and is exploring new technologies for global application. *See Case Study: Cogeneration Benefits Turkey, Spain Facilities on page 19.*

VERIFICATION ASSURANCE



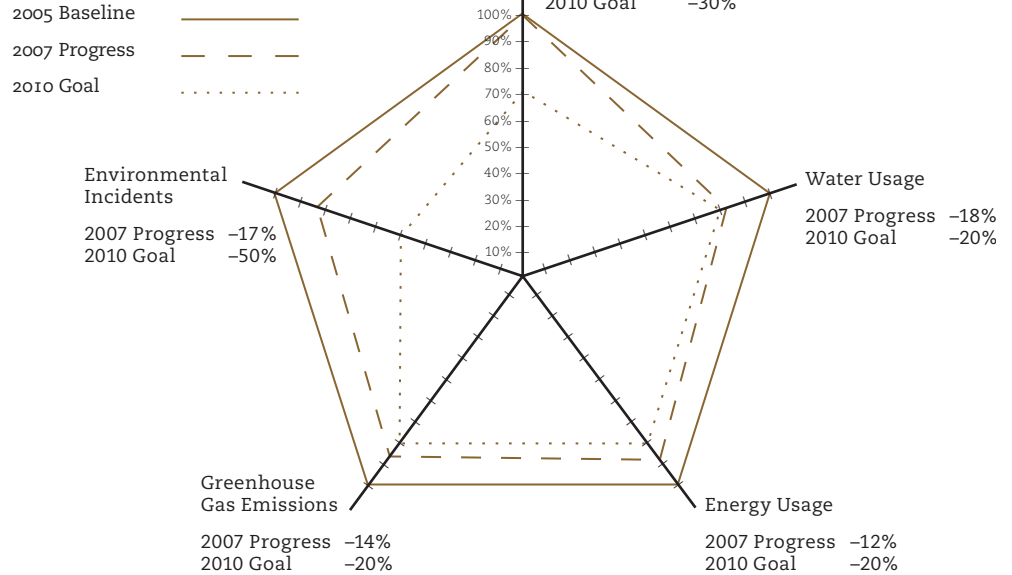
Baxter commissioned ERM Certification and Verification Services (ERM CVS) to perform verification assurance on the EHS and Greening the

Supply Chain data and analysis in Baxter's 2007 Sustainability Report to confirm 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 studies. *See more information in the Sustainability Reporting section online.*

EHS 2007 Year in Review

ENVIRONMENTAL PERFORMANCE AT-A-GLANCE—In 2007, Baxter concluded its second year of progress on its 2010 environmental goals and launched a set of longer-term sustainability goals. *See the complete set on page 5.* As the graph below indicates, Baxter is on target to meet or exceed its water usage, energy usage and greenhouse gas (GHG) emissions goals. However, progress toward the total waste-reduction and environmental incidents-reduction goals slowed due to increased waste generation at Baxter's manufacturing operations in Puerto Rico and a significant number of wastewater exceedances at a single location in Europe.

Progress and goals indexed to revenue, except environmental incidents



HEALTH AND SAFETY PERFORMANCE AT-A-GLANCE—In 2007, Baxter's cases with days lost rate and days lost rate improved while its recordable case rate worsened. Additionally, during the year, 12 employees and one contractor sustained serious occupational injuries requiring surgery or hospitalization. Baxter is enhancing its hazard identification and risk assessment process and is strengthening preventive safety practices companywide.

Indicator	2003	2004	2005	2006	2007	2010 Goal
Cases with Days Lost Rate ^{1,2}	0.56	0.45	0.30	0.31	0.25	0.22 ³
Days Lost Rate ^{1,2}	10.46	11.37	7.08	6.94	5.45	5.00 ⁴
Recordable Case Rate ^{1,2}	1.93	1.60	1.52	1.35	1.41	1.27
Restricted Days Rate ^{1,2}	24.95	18.74	22.80	16.80	15.72	n/a
Employee/Contractor Serious Injuries (total number)	4/1	3/0	9/0	4/0	12/1	n/a
Employee/Contractor Fatalities (total number)	0/0	0/0	2/2	0/1	0/0	n/a
Worldwide Workers' Compensation Est. (dollars in millions)	\$ 21.0	\$ 22.4	\$ 20.6	\$ 15.2	\$ 14.9	n/a

¹ All rates based on 100 full-time employees (FTE) working one year. 100 FTEs working one year equals 200,000 work hours. For tracking purposes, Baxter applies U.S. Occupational Safety and Health Administration recordkeeping practices worldwide.

² 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. Days lost - Number of days lost due to work-related injuries and illnesses. Recordable cases - Work-related injuries or illnesses requiring medical attention beyond first-aid, including cases with days lost. Restricted days - The number of days an employee 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.

³ 2010 goal for cases with days lost rate was modified from 0.23 to a more ambitious rate of 0.22 based on outstanding 2007 safety performance.

⁴ 2010 goal for days lost rate was modified from 6.00 to a more ambitious rate of 5.00 based on outstanding 2007 safety performance that exceeded the target three years early.

Global Requirements and EHS Management Systems

Baxter applies the same EHS policies to all of its facilities worldwide. These global requirements provide the foundation for its EHS program, establishing the minimum standards facilities must meet and maintain.

EXTERNAL STANDARDS—Baxter uses the International Organization for Standardization (ISO) 14001 Environmental Management System Standard to systematically manage the company's environmental programs. All manufacturing, research and development and other large facilities are required to achieve certification. Eighty-seven percent, or 53, of these facilities achieved or maintained certification by the end of 2007. *See Baxter Facilities with ISO 14001 and Nonaccredited OHSAS 18001 Certification map in full report online.* In early 2008, five of the remaining eight facilities achieved certification and the three remaining continue to work toward it.

ISO 14001 certification is optional for other Baxter locations, and six such sites have achieved certification. Fifty-one of Baxter's ISO 14001-certified sites are included in the company's group certification, first established in 1997. Group certification provides Baxter greater consistency in evaluating facilities and implementing its companywide EHS program.

Baxter adopted OHSAS 18001 as its health and safety management system in 2002, and achieved group certification in 2007. At the end of 2007, 22 Baxter locations had achieved certification to this standard.

SUSTAINABILITY PRIORITY

Baxter will promote a safe and healthy workplace

See page 5 for a summary of Baxter's sustainability priorities



CASE STUDY AT VIENNA CAMPUS, EVERYONE OWNS SAFETY

Baxter's manufacturing and R&D campus in Vienna, Austria, exemplifies a strong safety culture with active participation from all employees. The eight-building campus has undergone a gradual shift in safety culture during the course of the last seven years. Today, each of the 2,400-plus employees is personally accountable for safety, and management is ultimately responsible. As a result, performance has dramatically improved since 2000.

The Vienna campus embraces a philosophy that business success is dependent upon safety success. Fundamental to its progress is a shared understanding between the EHS function and operations on the importance of safety and how to achieve it.

"EHS professionals must understand operational needs, and operations must draw on EHS expertise to improve safety," said Werner Trebos, director of facility services, security and EHS in Vienna.

Employees are actively engaged throughout the campus in incident-prevention initiatives, such as risk assessments, ergonomics analyses and preventive safety education and training. Since 2000, the campus has decreased its cases with days lost rate by 98 percent, its days lost rate by 99 percent and its recordable case rate by 86 percent—all while operations and headcount grew significantly. Its performance earned the Vienna campus Baxter's 2005-2006 EHS Excellence Award at the company's 2007 Global EHS Conference. *See more detail about this case study, as well as Baxter's overall approach to employee health and safety, in the full report online.*

left "Employee participation in improving safety is critical," said Manufacturing Technician Dragana Tomic (far right), shown here discussing a safety risk assessment of a microfiltration station in Vienna. "The challenge is implementing many different ideas into one safety solution."

EHS Audits

During an EHS audit, 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. Auditors also evaluate facility performance in areas such as risk reduction, accident prevention and environmental-impact reduction.

In 2007, Baxter's corporate EHS audit team conducted 32 facility audits. Thirteen of these facilities are in North America and the Caribbean, 13 are in Europe, four are in Asia Pacific and two are in Latin America. An additional audit focused on Baxter's compliance with the European Union (EU) Waste Electrical and Electronic Equipment directive and EU packaging and battery legislation.

EHS Compliance

Baxter measures its compliance performance using two standard metrics:

- › Notices of violation (NOV)—A written notice from a government agency that identifies an occurrence of environmental or safety noncompliance.
- › Fines—Fines paid in the calendar year related to environmental compliance issues.

EHS COMPLIANCE SUMMARY

	2003	2004	2005	2006	2007
Environmental Notices of Violation and Fines					
Environmental Notices of Violation (NOVs)	23	16	17	17	10
Wastewater NOVs	19	15	12	16	8
Fines Paid (in dollars)	\$ 33,500	\$ 31,462	\$ 11,825	\$ 1,500	\$ 4,591
Health and Safety Citations and Fines					
Citations Settled	0	5 ¹	1	2	2
Fines Paid (in dollars)	\$0	\$ 38,086 ¹	\$0	\$ 3,240	\$0

¹ The data reported includes a fine of \$31,200 that Baxter paid in connection with a U.S. Nuclear Regulatory Commission (NRC) matter at its Aibonito, Puerto Rico, facility. In early 2008, Baxter finalized another matter with the U.S. NRC that will be included in the next report.

SUSTAINABILITY PRIORITY

Baxter will drive reductions in its carbon footprint

See page 5 for a summary of Baxter's sustainability priorities



CASE STUDY BAXTER'S FACILITY IN COSTA RICA GOES CARBON NEUTRAL

In a Central American country known for its progressive environmental policies, a Baxter manufacturing facility has emerged as an industry leader in reducing its impact on climate change by achieving carbon neutral status in 2007.

The 1,200-employee Cartago facility already had set a course to reduce its GHG emissions by strengthening its energy-conservation programs.

To achieve carbon neutrality, the site purchased verified credits through the Chicago Climate Exchange, the world's first voluntary carbon cap-and-trade system, to offset its estimated 1,500 metric tons of total annual carbon dioxide equivalent (CO₂e) emissions from its operations and fleet.

"Our goal is to minimize our footprint," said Chester Zelaya, plant general manager.

"Maintaining what we have achieved is a big part of our responsibility, along with being sure that we are always looking for ways to improve, continuing to track our energy usage and to develop new programs to help us accomplish our corporate EHS goals."

See more detail about this case study, as well as Baxter's overall approach to addressing climate change, in the full report online.

left Employees at Baxter's Cartago facility participate in the development of a "value stream map," a "lean" tool, for the different types of energy the facility uses, enabling identification of opportunities to reduce energy use.

SUSTAINABILITY PRIORITY

Baxter will drive reductions in its natural resource use

See page 5 for a summary of Baxter's sustainability priorities



CASE STUDY COGENERATION BENEFITS TURKEY, SPAIN FACILITIES

Baxter facilities in Istanbul, Turkey, and Sabiñánigo, Spain, operate cogeneration units, which capture heat created during power generation on-site and apply it to other useful purposes. This increases efficiency and improves energy reliability while reducing cost.

While cogeneration does not reduce the amount of energy used at these facilities, it has the following benefits for Baxter:

- › Reduces GHG emissions related to electricity consumption by as much as 30 percent by minimizing generation and distribution losses experienced by most electrical utilities;
- › Improves power reliability by protecting the facilities from manufacturing interruptions that may occur from local utility outages;
- › Decreases electricity cost (for example, the Istanbul site produces electricity that costs 20-to-50 percent less per kWh than the local utility, depending on the time of day); and
- › Allows the facilities to use the waste heat from electricity generation in other plant operations, further reducing cost.

See more detail about Baxter's overall approach to reducing energy usage in the full report online.

left José Luis Benedé, a maintenance technician at Baxter's Sabiñánigo, Spain, facility, conducts maintenance on the spark plugs of a cogeneration unit engine.

BAXTER 2007 ENVIRONMENTAL FINANCIAL STATEMENT

¹ Total cost numbers are rounded to reflect an appropriate degree of data accuracy.

² Corporate environmental costs comprise environmental costs related to operating corporate environmental programs that report into manufacturing and legal groups. While corporate EHS and certain business unit EHS groups integrated in the third quarter of 2003, business unit program costs remain in the Business Unit/Regional/Facility Environmental Professionals and Programs line, as those environmental costs more directly support facility programs.

³ Cost of carbon offsets includes expenses associated with purchasing renewable energy, carbon credits purchased through the Chicago Climate Exchange (CCX) and the annual CCX membership fee.

⁴ Following completion of the packaging reduction goal in 2005, Baxter no longer tracks program costs or financial savings associated with packaging reduction initiatives at the corporate level.

⁵ Reflects change (positive for decrease and negative for increase) for purchases of raw materials due to changes in material use efficiency and associated generation of waste.

⁶ 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 percentage change in growth to determine the financial values for each stated year. For 2007, the three-year rolling average was 3 percent; for 2006, 2 percent; for 2005, 5 percent; and for 2004, 10 percent. This rolling average helps avoid distortions due to acquisitions/divestitures and delayed environmental effects from production changes.

⁷ To be conservative, the accumulation of reported cost avoidance is terminated after seven years, the approximate duration of many facility conservation and process-improvement projects.

Estimated Environmental Costs, Income, Savings and Cost Avoidance Worldwide¹ (dollars in millions)

Environmental Costs	2007	2006	2005	2004
Basic Program				
Corporate Environmental – General and Shared Business Unit Costs ²	\$ 1.6	\$ 1.4	\$ 1.5	\$ 1.3
Auditor and Attorney Fees	0.4	0.4	0.4	0.4
Energy Professionals and Energy Reduction Programs	1.0	1.0	1.0	1.0
Corporate Environmental – Information Technology	0.3	0.3	0.3	0.3
Business Unit/Regional/Facility Environmental Professionals and Programs	7.4	7.2	6.8	6.5
Pollution Controls – Operation and Maintenance	3.1	3.2	2.9	3.2
Pollution Controls – Depreciation	0.9	0.8	0.7	0.8
Basic Program Total	14.7	14.3	13.6	13.5
Remediation, Waste and Other Response (proactive environmental action will minimize these costs)				
Attorney Fees for Cleanup Claims and Notices of Violation	0.1	0.1	0.1	0.1
Settlements of Government Claims	0.0	0.0	0.0	0.0
Waste Disposal	10.0	7.1	6.1	5.9
Carbon Offsets ³	0.1	0.0	0.0	0.0
Environmental Fees for Packaging ⁴	0.9	0.9	1.1	1.0
Environmental Fees for Electronic Goods and Batteries	0.1	0.1	0.0	0.0
Remediation/Cleanup – On-site	0.5	0.1	0.1	0.1
Remediation/Cleanup – Off-site	0.0	0.3	0.0	0.2
Remediation, Waste and Other Response Total	11.7	8.6	7.4	7.3
Total Environmental Costs	\$ 26.4	\$ 22.9	\$ 21.0	\$ 20.8
Environmental Income, Savings and Cost Avoidance (see Detail on Income, Savings and Cost Avoidance from 2007 Activities online)				
From Initiatives in Stated Year				
Regulated Waste Disposal	\$ (0.7)	\$ 0.3	\$ (0.1)	\$ 0.7
Regulated Materials ⁵	(2.7)	0.8	(0.3)	2.1
Non-hazardous Waste Disposal	(0.8)	0.0	0.3	7.0
Non-hazardous Materials ⁵	(0.8)	(2.5)	5.7	4.8
Recycling (income)	4.8	4.7	4.3	3.0
Energy Conservation	4.1	3.3	6.8	12.0
Water Conservation	0.6	0.6	0.0	1.1
From Initiatives in Stated Year Total⁶	4.4	7.2	16.7	30.7
As a Percentage of Basic Program Costs	30%	51%	123%	227%
Cost Avoidance from Initiatives Started in the Six Years Prior to and Realized in Stated Year ^{6,7}	78.2	83.8	78.7	62.2
Total Environmental Income, Savings and Cost Avoidance in Stated Year	\$ 82.6	\$ 91.0	\$ 95.4	\$ 92.9



Product Responsibility

MORE ONLINE:

[sustainability.baxter.com/
product_responsibility](https://sustainability.baxter.com/product_responsibility)

left Nine-year-old Francisco Valda of Argentina uses Baxter's latest recombinant factor VIII concentrate to help control bleeding episodes caused by hemophilia. In 2007, Argentina became the first country in Latin America to launch this therapy.

Baxter works to address social and environmental issues across the product life cycle, from bioethics and sustainable design during research and development, to efficient use of energy and materials during manufacturing and transport, to responsible product promotion, and finally, repair, refurbishment and recycling at the end of the product's life.

SUSTAINABILITY ISSUES ACROSS THE PRODUCT LIFE CYCLE

	ISSUE	APPROACH	QUALITY AND SAFETY
R&D AND DESIGN	Sustainable Design	Product Sustainability Review › Device Center of Excellence	
	Bioethics	Bioethics Policy and position statements	
	Clinical Trials	Clinical Trials Policy › Various external standards › Independent Ethics Committee/Institutional Review Board	
	Animal Welfare	Various external standards › Developing/using alternatives to animal testing	
MATERIALS USE	Materials Selection/ Restricted Materials	Product Sustainability Review › Supplier screening › European EHS Task Force › Product stewardship database (in development)	
MANUFACTURING	Environmental Impacts Employee Health and Safety	EHS program and goals › ISO 14001 and OHSAS 18001 management systems › Risk assessments › Audits › Rigorous compliance › Proactive reduction of natural resource use	
PRODUCT TRANSPORT AND PACKAGING	Environmental Impacts of Transport	Intermodal transport › Increased capacity utilization › Pallet programs	
	Minimizing Packaging Materials Selection	Packaging initiatives	
PRODUCT USE	Advertising and Promotion	Center of Excellence for Advertising and Promotion	
	Safe Handling and Use	Material Safety Data Sheets › Clinical education	
	Access to Healthcare	Product donations and grants › Strategic sponsorships › Product development	
PRODUCT END-OF-LIFE	Repair and Refurbishment Responsible Disposal	Product take-back, repair and recycling programs › Minimization of customer waste	

Quality and Safety

Baxter's reputation is built on the quality of its products. Baxter's quality systems apply across the product life cycle, including design, development, manufacturing, sterilization, labeling, packaging, handling, distribution and promotion. If Baxter identifies a quality or safety issue with one of its products, it investigates and takes appropriate corrective action, such as notifying customers, correcting the problem, and/or withdrawing the product from the market.

See more information, including Case Study: Reducing Medication Error through New Drug Safety Packaging for High Alert Medications, in the full report online.

In early January 2008, doctors in Baxter's pharmacovigilance group, who routinely monitor safety information related to Baxter products, detected an unusual increase in allergic-type reactions in the United States associated with heparin sodium injection, a commonly used anticoagulant (blood thinner). Baxter subsequently recalled all of its U.S. heparin vial products and identified a contaminant. Following the highly publicized recall, more than a dozen other companies in nearly a dozen countries reported similar heparin contamination issues.



Peter J. Arduini
Corporate Vice President and President of
Baxter's Medication Delivery Business

Q&A WITH PETER ARDUINI HEPARIN CONTAMINATION

What happened with Baxter's heparin?

It appears that a deliberate and sophisticated product tampering took place on a global scale. A contaminant was added to heparin in the raw material stage, long before it reached Baxter or its supplier. That contaminant is linked with allergic-type reactions, including potentially dangerous drops in blood pressure. Patient safety is our number one priority, and we deeply regret the impact this has had on patients.

How did this happen?

We're still not sure. We think it may have been motivated by money—substituting cheaper ingredients into the heparin active pharmaceutical ingredient raw materials that mimic the real thing. This was a fairly sophisticated endeavor because the contaminant was virtually identical to heparin, was designed to evade sophisticated quality tests and to be virtually indistinguishable from the real drug.

What is Baxter doing about it?

Baxter saw the issue first, recalled our product, identified the contaminant and developed the tests that are now in use worldwide to screen for the contaminant. We believe that our actions have helped to avert an even broader and more serious worldwide crisis.

How will Baxter make sure a situation like this doesn't happen again?

We are working with government and industry to analyze and improve upon the current system of heparin production. A fundamental issue is the need for visibility deeper into our supply chain to allow us to better predict emerging risks of the type that occurred here. Also, Baxter has formed a new Threat Analysis Team. The team of scientists will review our entire product portfolio and strive to "think like the bad guys," those who would contaminate or sabotage a product, and determine how to best protect the company and our customers against those threats.

In the meantime, we will not sell another vial of heparin until we have helped to create a system in which quality and safety are secured. And that system must include all steps of the manufacturing process, in all countries around the world. Baxter plans to be an integral part of creating new processes and strengthened regulation that helps secure all heparin, regardless of country of origin or manufacturer.

For more information on the Baxter heparin recall, including a detailed timeline of related events, Congressional testimony from Baxter CEO Bob Parkinson, and video of Parkinson addressing Baxter employees about heparin, visit www.baxter.com.

SUSTAINABILITY PRIORITY

Baxter will drive enhanced product stewardship

See page 5 for a summary of Baxter's sustainability priorities

R&D and Design

PRODUCT SUSTAINABILITY REVIEW (PSR) — PSR is a two-step assessment of the environmental, health and safety, and other sustainability-related impacts of a product throughout its life cycle. The assessment occurs during the early stages of the product development process. An initial screen reveals high-level sustainability risks and opportunities at the product development concept phase. A comprehensive review then identifies improvement opportunities across the life cycle.

Beginning in 2005, Baxter has evaluated all new medical devices (ranging from intravenous solution containers to kidney dialysis machines) reaching the concept stage of development using PSR, and currently has more than 10 devices under review.

BIOETHICS — At Baxter, bioethics issues range from animal welfare and clinical trials to genetically modified organisms. 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 Baxter products. Baxter protects the safety, privacy and dignity of clinical trial participants, as well as the integrity of data obtained from these studies.

In 2006, Baxter adopted a new Clinical Trials policy. It defines the minimum requirements for clinical trials, studies and investigations involving human subjects that are sponsored by Baxter (including but not limited to businesses, regions and functions), that use investigational and/or marketed medicinal products and/or medical devices. The policy applies to all Baxter-sponsored studies worldwide.

Read more about R&D and Design, including the topics described above and animal welfare, in the full report online.

Materials Use

Baxter carefully considers the potential environmental impacts of materials used in its products and packaging. The company focuses both on the amount and the types of materials used, aiming to eliminate hazardous substances wherever possible and maximize product reuse, recycling and service life.

Effectively tracking the materials and chemical substances used in products and manufacturing is complex since a product may contain thousands of components from hundreds of suppliers worldwide. To better meet this challenge, Baxter is developing a new product stewardship database to manage environmental and other information related to all new products.

See more information, including a timeline of Baxter Breakthrough Materials Innovations and Case Study: Materials Restrictions in the full report online.



Norbert G. Riedel, Ph.D.
Corporate Vice President and
Chief Scientific Officer

Q&A WITH NORBERT RIEDEL R&D AT BAXTER

How does research and development at Baxter support sustainability?

Research and development (R&D) is the engine that drives our company's innovation. For Baxter, there is a clear connection to sustainability due to the nature of our products, which help save and improve people's lives.

What are some examples of recent R&D projects?

One clinical trial is to study treating advanced heart disease by injecting the patient's own stem cells into his or her heart to rejuvenate it. We also developed the first needleless intravenous (IV) connector with an antimicrobial coating, which has been shown to kill 99.9 percent of specific microorganisms known to cause hospital-acquired bloodstream infections. We're advancing less invasive methods of delivering critical fluids and drugs to patients. One new delivery method uses a needle injection just below the skin, as opposed to the vein. This technology can increase the absorption and dispersion of fluids and drugs through subcutaneous infusion, offering a potential alternative to IV administration for patients with difficult venous access (DVA). To improve care for kidney failure patients in developing markets, this year Baxter plans to launch a new automated peritoneal dialysis (APD) cyclor. The system, which will be launched first in India, will increase access to overnight dialysis in developing countries. We're also working on a home hemodialysis platform.

How does R&D take into account environmental protection?

We consider the environment throughout the R&D process. For example, we look for parts and components that can be manufactured and disposed of in an environmentally responsible way. And we work closely with manufacturing on issues such as materials selection.

What role does bioethics play?

Our Bioethics Guiding Principles govern our R&D efforts. If issues arise that might lead us to reconsider that policy, as chief scientific officer I work with our chief executive officer to recommend any changes, which we then present to the Public Policy Committee of Baxter's board of directors.

Where does Baxter stand regarding animal testing?

Regulations around the world require animal testing to demonstrate a drug or medical device's safety and efficacy before it can be used in humans. We follow strict requirements for humane treatment and limit animal testing by using computer simulations and other alternative methods when feasible.

How do you foster a culture of innovation within R&D at Baxter?

We provide our scientists with state-of-the-art technology and encourage them to advance their scientific interests and careers through activities such as publishing scientific papers, attending conferences and writing patents. Ultimately, our researchers must have the goal of translating their research into a product that is meaningful to patients and healthcare providers.

See the expanded interview in the full report online.

Manufacturing

Baxter has extensive environment, health and safety (EHS) programs to minimize environmental impacts and ensure employee safety during the manufacture of Baxter's products. Baxter also influences its suppliers' manufacturing practices through its Business Practice Standards for Suppliers and participation in the Green Suppliers Network. See *the Environment, Health and Safety and Supply Chain sections in the full report online for more detail.*

Product Transport and Packaging

Baxter works to reduce the energy usage and environmental impact of transporting vast amounts of raw materials and more than 100 million cases of finished products each year throughout the company's global supply chain. This includes using "intermodal transport" to shift toward more energy efficient modes such as rail; increasing capacity utilization; implementing pallet efficiency programs and switching to plastic slip sheets when feasible; and improving packaging environmental performance through materials reduction and substitution. See *more information in the full report online.*

Product Use

Baxter's Center of Excellence for Advertising and Promotion manages the company's compliance with promotional regulations companywide. Baxter's advertising and promotion standards for all business groups in the United States incorporate best practices from inside and outside the company. The company uses a centralized process to ensure that marketing materials for distribution in Europe are accurate, appropriate and comply with the International Federation of Pharmaceutical Manufacturers Association (IFPMA) Code of Pharmaceutical Marketing Practices.

If a company is not in compliance with advertising and promotion regulations, the U.S. Food and Drug Administration (FDA) may initiate enforcement actions such as an untitled letter, the least serious, or a warning letter, an elevated enforcement action. In 2007, as in 2003, 2005 and 2006, Baxter did not receive any untitled or warning letters. In 2004, the company received two warning letters. Comparable information is not commonly available outside the United States. See *more information in the full report online.*

Product End-of-Life

Many of the electronic medical products Baxter sells, such as intravenous infusion pumps, are well suited to repair and refurbishment after the original customer has finished using them. In Europe in 2007, Baxter conducted about 38,300 maintenance events and repairs on products (an increase of 9 percent from 2006) with a cumulative weight of approximately 1,600 metric tons (an increase of 7 percent from 2006). In the United States, Baxter refurbished approximately 18,300 renal machines, blood collection devices and nutrition compounding machines in 2007, a decrease of 20 percent compared to 2006.

Baxter has now introduced even more comprehensive product take-back in Europe, in line with European Union Waste Electrical and Electronic Equipment (WEEE) Directive obligations. Baxter is in full compliance in all EU member states where the regulations have been adopted, and in 2008 the company launched its Producer Responsibility in Europe website to provide customers information about recycling Baxter products covered by the WEEE Directive in each of 18 countries.

See more information, including about how Baxter helps customers and end-users recycle products, in the full report online.



above Susan Craig (right), a Baxter clinical education consultant, helps Roberta Vanzati of Milan, Italy, prepare and administer total parenteral nutrition therapy to daughter Beatrice, who must receive 85 percent of her nutrients intravenously due to short bowel syndrome.



Supply Chain

MORE ONLINE:

[sustainability.baxter.com/
supply_chain](https://sustainability.baxter.com/supply_chain)

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

left Renal Home Delivery Specialist Robert Davis delivers peritoneal dialysis supplies to a home patient in Chicago, Illinois, United States.

Baxter addresses a variety of sustainability issues throughout its supply chain, including establishing Baxter’s expectations for and ensuring ethical supplier conduct; maintaining a diverse supplier base; encouraging practices that enhance supplier environmental performance; optimizing logistics to minimize related environmental impacts (*see page 25*); and working to ensure patient safety and meeting customer and patient needs.

Managing Supplier Performance

Approximately 50,000 suppliers in more than 100 countries provide the goods, services and raw materials required for Baxter’s operations worldwide. In 2007, Baxter spent approximately \$4.1 billion on supplies.

SUPPLIER STANDARDS

Baxter’s Supplier Quality Standard and Business Practice Standards for Suppliers provide the framework for supplier selection and management. These standards offer a consistent supplier-evaluation approach and define policies and expectations for ethical behavior when doing business with Baxter.

The Supplier Quality Standard specifically addresses sustainability issues, including indentured and child labor, employment standards, waste and energy reduction, and ethics. Baxter’s Business Practice Standards for Suppliers, available in six languages, also covers child labor, as well as the management of confidential information, intellectual property, gifts and entertainment, anti-corruption, conflicts of interest, trade compliance, fair employment opportunities, and environment, health and safety. Baxter expects suppliers to comply with both sets of standards as well as all laws governing purchasing, and may terminate the contracts of suppliers that do not. Baxter also asks key suppliers to provide emergency response plans describing how they will continue to provide vital supplies in the event of a catastrophe or business interruption.

Supplier Diversity

Baxter tries to develop mutually beneficial relationships with small and diverse suppliers, and plans to continue expanding the diversity of its supplier base. Planned activities for 2008 include internally promoting information resources to identify potential small and diverse suppliers, attending more external outreach events, educating Baxter purchasing personnel on Baxter's supplier diversity initiatives, inviting guest speakers from peer companies to share best practices, and reviewing current spending to identify opportunities to increase purchasing from small and diverse suppliers.

2007 SUPPLIER DIVERSITY PERFORMANCE

In 2007, Baxter spent \$399 million with small businesses in the United States and Puerto Rico, which was approximately 16 percent of Baxter's total supplier spending of \$2.5 billion in those markets. The company spent \$95 million with women-owned businesses and \$23 million with minority-owned firms. Veteran-owned, service-disabled veteran-owned, small disadvantaged and HUBZone-certified businesses represented approximately \$10 million, \$3 million, \$7 million and \$2 million, respectively. The decrease in spending with small and minority-owned suppliers in 2007 resulted from a business-unit divestiture and the reclassification of some suppliers.

BAXTER SUPPLIER DIVERSITY SPENDING¹

(DOLLARS IN MILLIONS)

	2003	2004	2005	2006	2007
Small Businesses	\$435	\$445	\$454	\$504	\$399
Minority-Owned Businesses	46	44	36	40	23
Women-Owned Businesses	39	35	68	95	95

¹ 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 and HUBZone-certified businesses.

SUSTAINABILITY PRIORITY

Baxter will drive a green supply chain

See page 5 for a summary of Baxter's sustainability priorities

Greening the Supply Chain

Baxter recognizes that environmental impacts related to its business extend beyond its direct operations and into its supply chain. Although the company has limited control over these impacts, it is improving its systems to track supplier environmental information and collaborating with those suppliers to improve their performance. For example, one of Baxter's 2015 goals is to incorporate green principles into its purchasing program with its top 100 suppliers (by spend).

MANAGING SUPPLIER INFORMATION

Baxter is developing a product stewardship database to better manage environmental and other information related to all new products. This will include information about product materials content, which will help Baxter evaluate supplier compliance to the European Union Restriction of Hazardous Substances (RoHS) Directive, the impending Registration, Evaluation and Authorisation of Chemicals (REACH) legislation and similar emerging regulations related to product materials in other parts of the world. In 2008, Baxter is developing a global scorecard for suppliers. Building on existing scorecards that Baxter already uses at the plant level, this will include criteria related to supplier sustainability programs.

BUILDING SUPPLIER CAPABILITIES

Baxter has a long history of strong environmental performance within its own operations (see *the Environment, Health and Safety* section). The company considers its key suppliers an extension of its business and is committed to building partnerships to share knowledge and help improve supplier environmental performance. This can save suppliers money and reduce waste while improving the environmental impact of Baxter's products.

right Xu Bo is an employee at Baxter's Suzhou, China, manufacturing facility, where the company produces tubing sets and containers for intravenous and peritoneal dialysis solutions.



Since 2005, Baxter has been a member of the Green Suppliers Network (GSN), a collaboration of industry, the U.S. Environmental Protection Agency and the U.S. Department of Commerce. The GSN works with large manufacturers such as Baxter to engage their suppliers in low-cost technical reviews to identify strategies for improving processes and using materials more efficiently.

Participating suppliers have realized significant benefits. For example, LeHigh Press Puerto Rico¹, which manufactures package inserts and labels, identified opportunities ranging from improving on-time delivery to increasing energy efficiency, and developed process maps and plans to implement those changes. The effort has produced substantial savings for LeHigh Press, including improved material handling (saving \$27,000 annually), enhanced material utilization (\$53,000), reduced waste generation (\$47,000) and other opportunities adding up to more than \$200,000 a year.

Through working with LeHigh Press and other suppliers, Baxter has learned the importance of finding the right partners within a supplier organization and developing metrics to enable participants to understand potential benefits and opportunities.

See more information about this initiative in the full report online.

Customers

Baxter's supply chain extends from producers of raw materials to end users of Baxter's products and must function without interruption even when unexpected crises occur. For example, when severe weather threatens a Baxter facility, the company may relocate its customer service representatives so they can continue serving patients and customers.

INCREASING EFFICIENCY THROUGH E-COMMERCE

Baxter offers customers the eServices Center, a Web portal for order placement, inquiries and shipment tracking. Customers can find approximately 80 percent of Baxter's products in the company's on-line catalog, which is available in 14 countries. Baxter supports electronic data interchange (EDI) as well as transactions processed through the Global Healthcare Exchange. The exchange, owned by Baxter and other manufacturers, group purchasing organizations (GPOs) and distributors, enables healthcare providers to transact with multiple vendors through one connection. Electronic ordering, invoicing, payment and other transactions reduce costs. In the United States, nearly 75 percent of customer order lines are handled electronically. Baxter eliminated more than 700,000 paper invoices by using e-commerce in 2007.

¹ This example is based on content from *Target Magazine* with permission from the Association for Manufacturing Excellence (AME), 2008.



Community Support

MORE ONLINE:

[sustainability.baxter.com/
community_support](https://sustainability.baxter.com/community_support)

left Many people in the New Seemapuri community in East Delhi, India, live in extreme poverty and unhygienic conditions. In 2007, a grant from The Baxter International Foundation helped establish the Chronic Care Foundation of India to conduct health fairs and increase access to healthcare for this population.

Baxter and its employees worldwide support their local communities through product donations, financial contributions, employee volunteerism and other initiatives. These efforts exemplify a sense of purpose about improving people's lives.

Baxter's community-focused programs fall into three main categories: access to healthcare, critical community needs and employee involvement. During 2007, total giving by Baxter and The Baxter International Foundation approached \$55 million, including product donations, cash contributions and foundation grants. The company has contributed more than \$120 million over the last three years.

BAXTER AND THE BAXTER INTERNATIONAL FOUNDATION CHARITABLE GIVING¹

(DOLLARS IN MILLIONS)

	2003	2004	2005	2006	2007
Product Donations²					
Products	\$ 5.74	\$ 7.87	\$17.82	\$14.85	\$28.86
Patient Assistance Programs ³	See note ³	See note ³	See note ³	See note ³	2.23
Subtotal	\$ 5.74	\$ 7.87	\$17.82	\$14.85	\$31.09
Business and Facility Cash Contributions					
Within U.S.	\$ 1.97	\$ 2.94	\$ 6.40	\$ 9.14	\$ 9.26
Outside U.S.	3.13	1.63	7.61	7.36	11.16
Subtotal	\$ 5.10	\$ 4.57	\$14.01	\$16.50	\$20.42
The Baxter International Foundation Contributions⁴					
Within U.S.	\$ 1.02	\$ 0.63	\$ 1.35	\$ 1.29	\$ 1.10
Outside U.S.	1.29	0.67	1.12	1.86	0.84
Matching Gifts & Dollars for Doers	0.72	0.68	0.68	0.60	0.70
Prize Programs	0.29	0.28	0.18	0.19	0.21
Scholarship Program	0.34	0.32	0.27	0.28	0.26
Subtotal	\$ 3.65	\$ 2.58	\$ 3.59	\$ 4.22	\$ 3.09
Total Charitable Giving	\$14.49	\$15.02	\$35.42	\$35.57	\$54.60

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

² Variations in Baxter's annual product donations are due to fluctuations in community needs, the regulatory environment, manufacturing processes and marketing. The company identifies opportunities to donate and responds to community requests as appropriate.

³ Baxter BioScience offers a range of assistance programs for patients with specific chronic illnesses that are treated with certain Baxter therapies. Baxter Insurance Assistance helps to bridge the gap when a patient faces a loss or lapse in insurance coverage and provide temporary support for financially disadvantaged patients who have no health insurance. Data for these programs was not reported until 2007.

⁴ Does not include additional grants approved in 2007 for future payment.

SUSTAINABILITY PRIORITY

Baxter will strengthen access to healthcare through product donations, strategic sponsorships and product development

See page 5 for a summary of Baxter's sustainability priorities

Access to Healthcare

Many medical breakthroughs have improved the lives of people with serious medical conditions. Without access to these therapies, however, patients cannot realize these benefits. This is a particular problem in developing countries, where poor infrastructure, political instability, poverty, lack of education, restrictive regulatory frameworks, and inadequate availability and affordability of medical products are among the factors that can limit access. Addressing these issues requires cooperation among governments, non-governmental organizations, corporations, medical professionals and others. Baxter's approach to improving access to healthcare reflects the complexity of these issues.

PRODUCT DONATIONS AND GRANTS

In 2007, Baxter donated more than \$31 million in products to help people in 53 countries (see map). Beginning in 2007, Baxter included patient assistance program donations in its overall product donation totals to align with comprehensive reporting and benchmarking data. Also in 2007, The Baxter International Foundation made grants totaling \$3.1 million to 68 organizations in 18 countries, largely to improve the quality and accessibility of healthcare for the disadvantaged and underserved in communities where Baxter employees live and work.

Baxter's Community Relations team manages the donations process, guided by Baxter's Global Product Donation Policy, which covers such areas as regulatory requirements, licensing, expiration and dating, accounting and tax laws, and export requirements. The team works with supply chain managers and others in the company to match available inventory to current need. Baxter works with two primary relief organizations: AmeriCares, an international disaster-relief and humanitarian-aid organization that airlifts critical shipments to areas suffering from natural disasters or political strife; and Direct Relief International, a non-profit, non-sectarian humanitarian-assistance organization focused on providing medical assistance to people victimized by poverty, disaster and civil unrest.

In 2007, Baxter donations included intravenous (IV) solutions and other products to the Jabe Hospital and Rohero Emergency Clinic in Burundi, which serves more than 1,300 outpatients each month in one of the poorest communities in the capital city of Bujumbura; the St. Francis of Assisi Clinic in Managua, Nicaragua, a small urban clinic that treats about 100 patients a day; the only pediatric hospital in El Salvador to help fight dengue fever; and to support refugees from the Darfur region of Sudan.

Grants from The Baxter International Foundation support an array of programs. In 2007, these included speech therapy for children, physical rehabilitation services, mental health services for low-income youth, clinical services for women who are homeless or victims of domestic violence, and improved access to healthcare for children, the uninsured and the elderly.



above In Romania, two-year-old Roxanna received a Baxter anti-coagulant medication through AmeriCares, one of Baxter's humanitarian-aid and disaster-relief partners, enabling her to survive a life-saving surgical procedure. *Photo courtesy of AmeriCares.*

STRATEGIC SPONSORSHIPS

Baxter also seeks to increase healthcare access by targeting sponsorship opportunities across its business units, functions and regions. For example, Baxter's BioScience business is the founding sponsor of the Global Alliance for Progress (GAP) in hemophilia, a program launched by the World Federation of Hemophilia to improve diagnosis and treatment in developing countries. Since the project launched in 2003, 41,395 new patients with bleeding disorders have been diagnosed globally, including 31,189 with hemophilia.

PRODUCT DEVELOPMENT

Baxter recognizes that innovation has a critical role to play in increasing access to healthcare for those at the "base of the pyramid" in developing and emerging economies. The company plans to increase its R&D investments in this area. For example, in many developing countries, people with end-stage renal disease, or kidney failure, currently go untreated. Baxter is the world's leading provider of products for peritoneal dialysis (PD), a self-administered therapy that, unlike hemodialysis (HD), does not require an infrastructure of hospitals or clinics. Baxter's PD products and services offer potential cost benefits as well as an improved quality of life for many patients.

Baxter plans to launch a new automated peritoneal dialysis (APD) machine particularly suited to the infrastructure limitations of developing markets. The technology will be introduced initially in India and will include features tailored to local needs, such as a power source that accommodates electrical power fluctuations that may occur in less developed areas. APD administers therapy overnight, enabling patients to work during the day, which can make the therapy more affordable. *See more information in the full report online.*

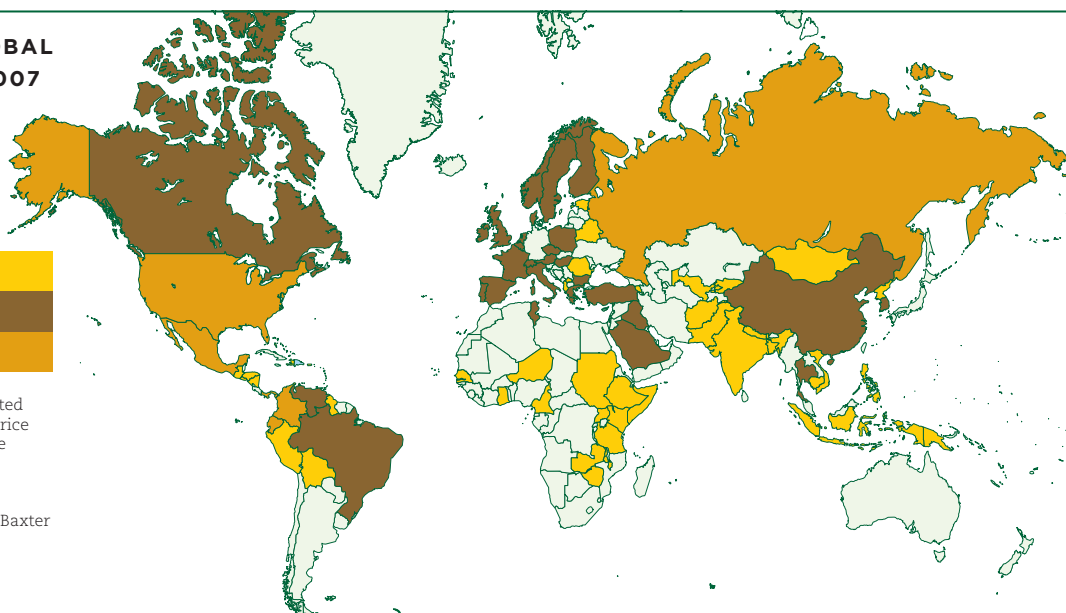
Baxter technology also is playing a role in pandemic preparedness. The company's vero-cell technology can produce influenza vaccine more quickly than traditional production methods, enabling the company to rapidly produce large quantities of vaccine in the event of a pandemic. *See more information in the full report online.*

OVERVIEW OF BAXTER GLOBAL COMMUNITY SUPPORT IN 2007

Product Donations¹

Cash Contributions²

Product and Cash Contributions



¹ Includes value of product donations calculated using a combination of average wholesale price and average sales price. See "Baxter and The Baxter International Foundation Charitable Giving" table on page 31 for detail.

² Includes contributions from Baxter and The Baxter International Foundation.

right Baxter employees Kathy Wang and Peter He volunteered in Project Hope, teaching school children about the world outside China.



SUSTAINABILITY PRIORITY

Baxter will strengthen the company's commitment to education, especially math and science

See page 5 for a summary of Baxter's sustainability priorities

CASE STUDY SUPPORTING MATH AND SCIENCE EDUCATION

In the past 10 years, studies have shown U.S. students falling behind in math and science. To address this issue, Baxter will focus more resources on improving math and science education.

Baxter has traditionally supported education worldwide through programs such as The Baxter International Foundation's employee Matching Gift and Dollars for Doers programs, and through volunteer efforts by facilities and employees. In 2007, Baxter employees devoted nearly 18,000 volunteer hours in support of education worldwide. Activities included participating in classroom projects, fundraising, serving on college and university boards, and financial contributions to educational institutions. The company also participated in the Illinois Biotechnology Industry Organization's Teacher Training Program to help integrate biotechnology lessons into secondary school classrooms.

Building on this foundation, Baxter is developing a broader program focused on biotechnology education for low-income high school students in Chicago public schools and beyond. Through a variety of mechanisms, the program will attempt to bring biotechnology to life for students, enabling them to embrace science and pursue careers in biotechnology-related fields.

“Employees drive Baxter's volunteerism efforts and support a range of causes about which they feel strongly.”

ALICE CAMPBELL

Senior Director, Baxter Community Relations and Work/Life Initiatives

Critical Community Needs

Communities worldwide have diverse needs beyond access to healthcare. These include reducing medication errors and increasing patient safety, enhancing transportation, offering youth services, protecting the environment and improving education. To help address these needs, Baxter's business units, departments and manufacturing facilities contributed \$20.4 million in 2007 to targeted organizations and causes worldwide, with more than 50 percent donated outside the United States.

Baxter's business units and departments also make in-kind donations—such as the use of facilities or equipment—to select organizations, partner with local nonprofit organizations and business groups, and support employees who donate their talent and expertise to the community. Baxter sites determine appropriate areas of focus to best meet local needs.

Employee Involvement

Baxter encourages employees to contribute time and resources to their communities worldwide. Employee involvement takes many forms, including donating blood or volunteering at a local blood drive, serving at a hospital or food pantry, or joining a local nonprofit board or committee.

In the United States, The Baxter International Foundation provides grants to qualified organizations when Baxter employees volunteer through the Dollars for Doers program. Past recipients include hospitals and hospices, humane societies, historical societies, emergency shelters, volunteer fire departments, substance-abuse prevention services and youth service organizations.

The foundation's Matching Gifts 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 2007, the foundation matched more than 2,000 qualifying employee donations to contribute more than \$670,000 to organizations in need.



above Carlos Mojica of Baxter's facility in Round Lake, Illinois, United States, donates food to a local food pantry, part of Baxter's Global Service Project through which employees volunteered more than 200,000 hours to support worthy causes in their communities.

CASE STUDY GLOBAL SERVICE PROJECT

Baxter announced its most ambitious volunteerism effort ever, the Global Service Project (GSP), in October 2006. The GSP commemorated Baxter's 75th anniversary by encouraging employees around the globe to attain a companywide goal of 156,000 hours of volunteer time—equivalent to 75 years worth of community service. By October 2007, employees surpassed the goal, completing 176,000 hours of personal and company-sponsored volunteer work. By February 2008, the total exceeded 205,000 hours. Examples of the many volunteer projects include:

- BRAZIL** Employees taught orphans in São Paulo how to grow vegetables.
- CANADA** Employees joined a 12-hour walk/run in Alliston to fight cancer, raising more than \$120,000.
- CHINA** Employees continued Project Hope, teaching 720 school children in the province of Chongqing about the world outside China.
- GERMANY** Employees renovated a youth center in Heidelberg to provide teens a safe place in times of family crisis.
- UNITED STATES** Bicyclists participated in the California Coastal Ride for Hemophilia near San Diego, raising \$82,000.

To learn more about Baxter's employee volunteerism activities and its new global service recognition program, see the full report online.

Economic Impacts

MORE ONLINE:

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

Baxter's direct and indirect economic impacts on its stakeholders are an important aspect of the company's sustainability performance. Direct impacts can be described by financial transactions, such as revenue received from customers and wages and benefits provided to employees. Indirect impacts include increased productivity and money saved by customers through their 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. The company achieved record sales and earnings in 2007. Worldwide sales increased 9 percent to \$11.3 billion. Sales within the United States totaled over \$4.8 billion, an increase of 5 percent over the prior year, and international sales totaled over \$6.4 billion, increasing 11 percent as compared to the prior year. Net income totaled \$1.7 billion, an increase of 22 percent over the prior year. Baxter's strengthening financial position enabled it to increase research and development spending by 24 percent during the year, reaching \$760 million, a record level for the company. Over the last three years, total shareholder return increased 75 percent. *For a detailed description of the company's financial performance, see Baxter's 2007 Annual Report.*

Direct Impacts

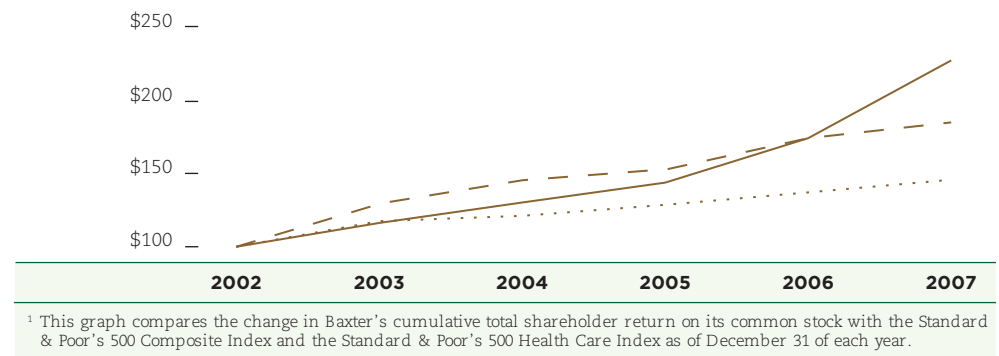
Baxter's direct impacts are described by payments Baxter makes to and receives from stakeholder groups during the course of business. For example:

- › Customers buy Baxter's products;
- › Baxter pays suppliers for raw materials and other goods and services;
- › Employees receive wages and benefits in exchange for their contributions;
- › Investors provide Baxter capital in exchange for dividends and possible gains in share value (*see graph*); and
- › Communities may receive tax payments, as well as cash and product donations and volunteerism efforts of local employees (in some locations).

BAXTER SHARE PERFORMANCE¹

(NORMALIZED TO \$100)

Baxter
S&P 500
S&P 500
Health Care



The following table summarizes these transactions.

ECONOMIC VALUE GENERATED AND DISTRIBUTED

(DOLLARS IN MILLIONS)

		2003	2004	2005	2006	2007
Economic Value Generated						
	Revenues	\$ 8,904	\$ 9,509	\$ 9,849	\$10,378	\$11,263
	Net Income	866	388	956	1,397	1,707
Economic Value Distributed						
Suppliers	Payments to Suppliers (approximate)	n/a	n/a	\$ 4,000	\$ 4,100	\$ 4,100
Investors	Share Repurchases	714	18	0	737	1,855
	Common Stock Cash Dividends	346	361	359	364	704
Governments	Income Tax Expense (U.S.)	58	(102)	232	30	228
	Income Tax Expense (international)	164	149	254	318	179
Communities	Cash Donations ¹	8.8	7.2	17.6	20.7	23.5
	Product Donations	5.7	7.9	17.8	14.9	31.1
Baxter (reinvested)	Capital Expenditures	792	558	444	526	692
	R&D Expenses	553	517	533	614	760

¹ 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 extend and improve the quality of their lives and potentially avert further health expenses, which may also reduce broader healthcare system costs. Baxter conducts economic research and works to provide governments, healthcare organizations and patients the information needed to make the best possible decisions about treatment.

For example, Baxter is the world's leading developer, manufacturer and marketer of peritoneal dialysis (PD) products and services for end-stage renal disease, or kidney failure. PD is a self-administered therapy that, unlike hemodialysis (HD), does not require an extensive infrastructure of hospitals or clinics. Recent studies² submitted for publication in health economics and healthcare journals conclude that in-home PD therapy is less expensive than HD delivered in clinics, both in developed and developing economies. *See more information in the Community Support section in the full report online.*

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. For example, Baxter paid its suppliers approximately \$4.1 billion in 2007, which those suppliers then used for purposes such as paying their suppliers, providing their employees with wages and benefits, paying taxes, and other purposes.

² "Reimbursement and Economic Factors Influencing Dialysis Modality Choice Around the World," Paul M. Just, Frank Th. De Charro, Elizabeth A. Tschosik, Les L. Noe, Samir K. Bhattacharyya, and "Economic Evaluations of Dialysis Treatment Modalities," Paul M. Just, Miguel C. Riella, Elizabeth A. Tschosik, Les L. Noe, Samir K. Bhattacharyya, Frank Th. De Charro.

Public Policy

MORE ONLINE:

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

Many legislative issues affect Baxter's business – reimbursement, tax, trade and a variety of regulatory concerns. Baxter's Government Affairs and Public Policy (GAPP) teams work with lawmakers, governments and policymakers to support patient access to Baxter's life-saving therapies, increase understanding of the benefits of those therapies, address barriers to care and explore possible solutions.

Following is a sampling of GAPP activity in 2007 around the world:

BRAZIL — Many hospital-acquired bloodstream infections are caused by use of “open” versus “closed” IV systems. Baxter, which introduced the first closed, flexible IV container system, worked with Brazilian regulatory authorities to set quality standards for conversion to closed systems in the country.

EUROPE — Baxter worked with the European Parliament on preparedness planning to protect citizens against bio-terrorism and infectious disease threats. Baxter officials highlighted the company's expertise in providing critical products for use in medical emergencies, including development and production of cell culture-based avian flu vaccine.

UNITED STATES — Baxter met with members of Congress in support of the Kidney Disease Educational Benefits Act, which would provide Medicare reimbursement for pre-end-stage renal disease education for patients with chronic kidney disease.

VIETNAM — Baxter participated in a trade mission led by the U.S. Secretary of Commerce focused on increasing opportunities in the Vietnamese market for global companies.

POLITICAL CONTRIBUTIONS AND LOBBYING EXPENSES

Every country has different laws about taking part in the political process, and Baxter respects local political customs. Whenever the company advocates its position to government authorities, or offers support for any political purpose, it obeys the law.

In the United States, Baxter contributed \$19,250 to state candidates in 2007. U.S. law does not allow companies to make contributions to federal candidates. Baxter also contributed \$40,000 to two 501(c)(4) organizations that do not make political contributions and \$72,000 to five 527 organizations during 2007.

Baxter's Political Action Committee, BAXPAC, allows U.S. employees to make voluntary individual contributions to support U.S. congressional and state candidates who champion and protect the legislative interests of Baxter, its employees and its patients. The BAXPAC made \$106,700 in contributions in 2007.

In 2007, Baxter spent \$2,240,000 on federal lobbying-related activities in the United States to promote policies that support the company's objectives. Baxter adheres to all federal, state and local laws to ensure compliance with any guidelines in this area.

See more information about Baxter's public policy activities in the full report online.



above (left to right) Peritoneal dialysis patients Rev. Richard Kailbasa, Cecilia Santana, William “Nick” Nicholas and Betty Cherry in Washington, D.C., United States, where they met with legislators about the Kidney Disease Educational Benefits Act that would provide Medicare coverage for pre-dialysis education for patients with chronic kidney disease.

Sustainability Reporting

MORE ONLINE:

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

Baxter believes in sharing information about its sustainability priorities, goals, initiatives and performance. This report is an entry point for stakeholder engagement and illustrates Baxter's commitment to good governance and transparency.

Baxter 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 *2007 Sustainability Report* is available in three versions: this print version, a comprehensive Web version and a highlights brochure, available in several languages.

This report aligns with the Global Reporting Initiative (GRI) G3 Guidelines. *To view Baxter's detailed GRI Index and to learn how Baxter addresses GRI Reporting Principles and the Good EHS Reporting Principles, see the full report online.*

FEEDBACK ON 2006 REPORT

Continual improvement is a fundamental aspect of Baxter's sustainability reporting process. To ensure it delivers stakeholders the most relevant information, Baxter has solicited feedback on its *2006 Sustainability Report* from SustainAbility, a strategy consultant/think tank; Ceres, a U.S.-based environmental organization, and its select coalition members; and ERM Certification and Verification Services, Baxter's main environment, health and safety (EHS) auditing and certification body, for the EHS section in particular.

These organizations cited several areas of strength, including the following: Baxter's sustainability priorities are well-articulated; the CEO letter effectively communicates top management's commitment to sustainability; the report demonstrates Baxter's adherence to strong reporting principles, including transparency about report scope and data provided; the report links sustainability and business value; and the report provides strong context for some data by describing indicator relevance, historical background and industry benchmarks.

Feedback also included opportunities for improvement. The following table includes some of those comments and describes changes to the report or the reporting process.

Feedback	Response
The report is not transparent about political contributions or public policy positions and activity.	Expanded Public Policy section includes descriptions of Baxter's public policy positions and activity on several issues, as well as data on lobbying expenses, corporate political contributions and BAXPAC, Baxter's political action committee (see page 38).
It would be helpful to provide further information about Baxter's plans to reduce the company's carbon footprint, including the role for renewable energy.	Baxter's approach to addressing climate change is broad, including reducing energy consumption at its facilities, applying technologies such as cogeneration (see <i>Case Study: Cogeneration Benefits Turkey, Spain Facilities</i> on page 19), increasing the use of renewable energy and purchasing offsets (see <i>Case Study: Baxter's Facility in Costa Rica Goes Carbon Neutral</i> on page 18). Baxter introduced several 2015 sustainability goals in this area (see page 5).
There is a need for more transparency on the company's stakeholder engagement process.	As part of the review by ERM Certification and Verification Services of the EHS section of this report, Baxter summarized and described how it addressed stakeholder feedback for that section of the 2006 Sustainability Report.
It would be beneficial to establish goals in areas outside EHS.	Introduced goals for each of Baxter's sustainability priorities, summarized in table format (see page 5) and in an interactive tool online.

Summary Data Table

Please see relevant report sections in the full report online for more extensive performance data and graphs.

¹ COIC stands for Certificate of Integrity and Compliance.

² Executive Leadership figures include Operations Committee members and regional presidents.

³ Beginning in 2007, Baxter re-categorized 10,200 employees formerly designated as Non-Manager to Supervisor/Director. At the time of re-categorization, this figure represented approximately 21 percent of Baxter's employee population. Approximately 52 percent of the re-categorized employees were female.

⁴ Includes purchased greenhouse gas (GHG) emissions offsets. GHG emissions from Baxter operations exclude emissions associated with material and product delivery and employee commuting and travel. An independent entity engaged by the Chicago Climate Exchange (CCX) as well as ERM CVS verified Baxter's GHG emissions, which were also reviewed by U.S. EPA Climate Leaders.

⁵ 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.

⁶ All rates based on 100 full-time employees (FTE) working one year. One hundred FTEs working one year equals 200,000 work hours. For tracking purposes, Baxter applies U.S. Occupational Safety and Health Administration recordkeeping practices worldwide.

⁷ 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. Days lost – Number of days lost due to work-related injuries and illnesses. Recordable cases – Work-related injuries or illnesses requiring medical attention beyond first-aid, including cases with days lost. Restricted days – The number of days an employee 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.

⁸ In 2004, Baxter settled a citation with the U.S. Nuclear Regulatory Commission and paid a fine of \$31,200.

⁹ 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 and HUBZone-certified businesses.

¹⁰ Baxter and The Baxter International Foundation.

¹¹ Variations in Baxter's annual product donations are due to fluctuations in community needs, the regulatory environment, manufacturing processes and marketing. The company identifies opportunities to donate and responds to community requests as appropriate.

SECTION AND INDICATOR	2003	2004	2005	2006	2007
Company Profile					
Sales (dollars in millions)	\$ 8,904	\$ 9,509	\$ 9,849	\$ 10,378	\$ 11,263
Net Income (dollars in millions)	866	388	956	1,397	1,707
Baxter Share Price (in dollars; end of stated year)	30.52	34.54	37.65	46.39	58.05
R&D Expenses (dollars in millions)	553	517	533	614	760
Governance, Ethics and Compliance					
Ethics and Compliance Helpline and COIC ¹ Inquiries (total)	362	309	274	341	234
Employees					
Baxter Global Workforce	51,300	48,300	46,900	47,600	46,500
Executive Leadership Diversity²					
Ethnic Diversity (% non-white of total)	18.8%	7.7%	16.7%	13.3%	13.3%
Gender Diversity (% female of total)	6.3%	15.4%	25.0%	33.3%	33.3%
Gender Diversity at Baxter (% female globally)					
Vice President and Above	20.1%	20.1%	19.6%	19.0%	17.7%
Supervisor/Director	37.2%	38.4%	38.2%	39.1%	47.7% ³
Non-Manager	57.6%	57.3%	57.0%	56.5%	56.4%
Total	54.6%	54.6%	54.1%	53.7%	52.7%
Environment, Health and Safety					
Environment					
Process-Related CFC and Toxic Air Emissions (metric tons)	29	34	30	33	31
SOx Emissions (metric tons)	562	570	589	610	618
NOx Emissions (metric tons)	480	474	466	463	460
Energy Usage from Baxter Operations (trillions of joules)	9,186	9,062	9,032	8,990	9,070
Net GHG Emissions from Baxter Operations (thousand metric tons CO ₂ e) ⁴	764	757	759	753	746
Non-hazardous Waste (metric tons)	62,000	57,000	53,000	57,000	60,000
Regulated Waste (metric tons)	3,690	3,550	3,820	3,620	4,620
Water Usage (thousand cubic meters)	14,297	13,701	14,344	13,800	13,442
BOD ₅ ⁵ (biochemical oxygen demand) Discharges (metric tons)	33	27	28	29	30
COD ⁵ (chemical oxygen demand) Discharges (metric tons)	132	110	116	126	139
TSS ⁵ (total suspended solids) Discharges (metric tons)	50	48	47	51	55
Notices of Violation (NOVs)	23	16	17	17	10
Environmental Fines Paid (in dollars)	\$ 33,500	\$ 31,462	\$ 11,825	\$ 1,500	\$ 4,591
2007 Environmental Financial Statement					
Total Environmental Costs (dollars in millions)	n/a	\$ 20.8	\$ 21.0	\$ 22.9	\$ 26.4
Total Environmental Income, Savings and Cost Avoidance in Stated Year (dollars in millions)	n/a	92.9	95.4	91.0	82.6
Occupational Health and Safety					
Cases with Days Lost Rate ^{6, 7}	0.56	0.45	0.30	0.31	0.25
Days Lost Rate ^{6, 7}	10.46	11.37	7.08	6.94	5.45
Recordable Case Rate ^{6, 7}	1.93	1.60	1.52	1.35	1.41
Restricted Days Rate ^{6, 7}	24.95	18.74	22.80	16.80	15.72
Employee/Contractor Serious Injuries (total number)	4/1	3/0	9/0	4/0	12/1
Employee/Contractor Fatalities (total number)	0/0	0/0	2/2	0/1	0/0
Worldwide Workers' Compensation Estimate (dollars in millions)	\$ 21.0	\$ 22.4	\$ 20.6	\$ 15.2	\$ 14.9
Health and Safety Citations Settled	0	5 ⁸	1	2	2
Health and Safety Fines Paid (in dollars)	\$ 0	\$ 38,086 ⁸	\$ 0	\$ 3,240	\$ 0
Product Responsibility					
U.S. FDA Warning Letters for Advertising and Promotion	0	2	0	0	0
Supply Chain					
Payments to Suppliers (approximate, dollars in millions)	n/a	n/a	\$ 4,000	\$ 4,100	\$ 4,100
Supplier Diversity					
Payments to Small Businesses (dollars in millions) ⁹	\$ 435	\$ 445	\$ 454	\$ 504	\$ 399
Payments to Minority-Owned Businesses (dollars in millions) ⁹	46	44	36	40	23
Payments to Women-Owned Businesses (dollars in millions) ⁹	39	35	68	95	95
Community Support					
Cash Donations (dollars in millions) ¹⁰	\$ 8.75	\$ 7.15	\$ 17.60	\$ 20.72	\$ 23.51
Product Donations (dollars in millions) ¹¹	5.74	7.87	17.82	14.85	31.09

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Baxter International Inc.
One Baxter Parkway
Deerfield, Illinois 60015

www.baxter.com

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