Sustainability at Baxter

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

Baxter’s competitive advantage and strengthened position in the market are reinforced by the implementation of a comprehensive Global Supplier Sustainability Program, which ensures goals are met, efficiencies managed and results measured. Specific Global Supplier Sustainability initiatives within this strategy include: a Sustainable Supply Chain Program, a Material Compliance Program, a C-TPAT Program and a Water Security Program. Baxter also drives a sustainable supply chain through a variety of activities including:

- **Managing Supplier Performance** - Establishing Baxter’s expectations for and ensuring supplier commitment to sustainability;
- **Global Sustainable Supply Chain** - Promoting practices that enhance supplier environmental performance;
- **Product Transport and Packaging** - Optimizing logistics and improving packaging to minimize related environmental impacts (included in the Product Responsibility section);
- **Supplier Diversity** - Maintaining a supplier base that reflects the diversity of Baxter’s markets and the communities in which the company operates; and
• **Customers** - Managing a safe, secure and reliable supply chain to ensure patient safety and meet customer needs, and decreasing environmental impacts and cost through e-commerce.

Read more about transparency in Baxter’s supply chain through the company’s disclosure statement in response to the California Transparency in Supply Chains Act.
Managing Supplier Performance

Approximately 35,000 suppliers in more than 100 countries provide the goods, services and raw materials required by Baxter’s operations worldwide. In 2011, Baxter’s total supplier spending was approximately $5.7 billion. About 26% of this was on “direct” supplies - raw materials and components used in Baxter products. Baxter buys most of its direct supplies from companies located near its operations. All other supplies are considered “indirect” - goods and services that support other aspects of the company’s operations.

Supplier Standards

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

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

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

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

Baxter fosters and maintains a culture of compliance with applicable laws, rules and regulations, and the highest standards of ethics and business conduct with respect to forced labor and human trafficking and slavery. The company’s commitment is extended to its relationships with suppliers. Specifically, Baxter does not support, encourage or endorse any form of forced labor or human trafficking and slavery in our operations or in our supplier networks. The company takes a number of steps to ensure suppliers are operating in an ethical manner and not engaged with these practices.

Annual Supplier Sustainability Survey

Baxter conducted its third annual survey of 100 select suppliers in 2011 to evaluate their performance against the company’s sustainability criteria (see table). Baxter uses survey responses to learn more about suppliers’ sustainability programs and identify
opportunities for best practice sharing and collaboration designed to improve the performance of both Baxter and its suppliers. Suppliers’ responses do not affect whether Baxter will continue to work with them.

Baxter identifies 100 suppliers each year to survey based on spend, the supplier’s importance to business continuity, and their carbon footprint. In 2011, these suppliers represented approximately 18% of Baxter’s global supplier spend. This group includes suppliers from each of Baxter’s regions and all of its major commodity groups and purchasing categories. In 2011, 84% of the invited suppliers completed the survey.

While Baxter aims to keep the participant list consistent for comparability year over year, certain suppliers are added or removed from the survey set due to changes in business needs, contractual needs or other reasons. Percentage changes from year to year in some categories may be due partly to this variation.

Forty-three percent of the 84 respondents in the 2011 survey were rated “sustainable” based on Baxter’s criteria, compared to 44% of 77 respondents in 2010.

<table>
<thead>
<tr>
<th>Baxter Annual Supplier Sustainability Survey Summary Results</th>
<th>% Sustainable*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Category</strong></td>
<td>2009</td>
</tr>
<tr>
<td>Environmental / Sustainability Program</td>
<td>34%</td>
</tr>
<tr>
<td><em>Example Criteria: Measures and reports environmental information</em></td>
<td></td>
</tr>
<tr>
<td>Protection of Human Rights</td>
<td>(added in 2010)</td>
</tr>
<tr>
<td><em>Example Criteria: Has goal and programs to prevent and reduce work-related injuries</em></td>
<td></td>
</tr>
<tr>
<td>Reductions in Carbon Footprint</td>
<td>46%</td>
</tr>
<tr>
<td><em>Example Criteria: Has a goal and program to reduce GHG emissions</em></td>
<td></td>
</tr>
<tr>
<td>Reductions in Natural Resource Use</td>
<td>61%</td>
</tr>
<tr>
<td><em>Example Criteria: Has a goal and activities to reduce waste generation</em></td>
<td></td>
</tr>
<tr>
<td>Enhanced Product Stewardship</td>
<td>24%</td>
</tr>
<tr>
<td><em>Example Criteria: Uses a product stewardship/life cycle approach</em></td>
<td></td>
</tr>
<tr>
<td>Percentage of Responding Suppliers Considered “Sustainable” Overall</td>
<td>34%</td>
</tr>
</tbody>
</table>

*Suppliers are considered sustainable in a category when responding positively (“yes” or “in progress”) to 90% of the questions in that category. In 2011, Baxter changed the terminology of the overall rating from “green” to “sustainable” to more accurately reflect the criteria.

Recognizing Supplier Sustainability Efforts Globally

Since 2009, Baxter has documented and recognized supplier and employee environmental initiatives through its e-Impact program. Baxter employees submit descriptions of current or planned projects to collaborate with suppliers and reduce Baxter’s and the supplier’s environmental impacts. To recognize successful projects, Baxter leaders in Purchasing and Supplier Management and Environment, Health and Safety award both the supplier and Baxter employees with electronic certificates.
Baxter increased focus on its e-Impact program in 2011 to help drive global supplier engagement with the company’s sustainability initiatives. As a result, employees submitted more than 100 examples of projects to reduce environmental impact in 10 countries. Of these, 41 initiatives were successfully completed in 2011, with the combined benefits summarized below. Combined, these 41 projects resulted in approximately 15,000 metric tons of CO2e emissions reduction, which is equivalent to the amount of electricity used by 2,300 U.S. homes during a year or removing 2,400 cars from the road for that same period of time.\(^1\)

<table>
<thead>
<tr>
<th>Combined Results of Successful e-Impact Projects</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>e-Impact Project Ideas Submitted</td>
<td>5</td>
<td>107</td>
</tr>
<tr>
<td>e-Impact Projects Successfully Completed</td>
<td>5</td>
<td>41</td>
</tr>
<tr>
<td>Cost Savings</td>
<td>$231,000</td>
<td>$3,100,000</td>
</tr>
<tr>
<td>CO2e Emissions Reduction</td>
<td>162 metric tons</td>
<td>15,000 metric tons</td>
</tr>
</tbody>
</table>

For additional information and examples of projects recognized through Baxter’s e-Impact program, see Case Study: Baxter Grows e-Impact Program Globally. Past case studies are also available with examples from 2010 and 2009.

\(^1\) Figures calculated using the Greenhouse Gas Equivalencies Calculator from the United States Environmental Protection Agency: [http://www.epa.gov/cleanenergy/energy-resources/calculator.html](http://www.epa.gov/cleanenergy/energy-resources/calculator.html).
Global Sustainable Supply Chain

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

Global Supplier Sustainability Program

Through Baxter's Global Supplier Sustainability Program, the company integrates sustainable practices into its procurement policies and procedures. The program focuses on:

- **Sustainable supply chain** - Procuring products and services that make a positive contribution to society and the environment by embracing ethical, environmental and social principles (see below);
- **Material compliance** - Working with suppliers to meet the growing number of regulations worldwide related to product materials (see below);
- **Water Security Program** - Providing a framework for better understanding the possible impact water scarcity may have on Baxter’s supply chain (see below); and
- **C-TPAT (Customs-Trade Partnership Against Terrorism) Program** - Collaborating with governments and other businesses to strengthen international supply chains and U.S. border security (see below).

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

Purchasing teams and individuals globally chose a performance goal for 2011 tied to the company’s sustainability initiatives, based on the unique needs of his or her country. For example, each manager in Baxter’s corporate headquarters focused on submitting stories for the e-Impact program to encourage collaboration with suppliers.

Sustainable Procurement

One of Baxter’s 2015 sustainability goals is to incorporate sustainable principles into its purchasing program. Baxter and its suppliers both benefit from these efforts.

Since 2009, Baxter has integrated 20 sustainability criteria into its purchasing procedures to provide its procurement organization a framework to evaluate suppliers’ sustainability initiatives. These criteria fall into five categories that align with Baxter’s own sustainability efforts, including a category added in 2010 to evaluate suppliers’ protection of human rights. Baxter conducts an annual
survey of 100 select suppliers to evaluate their performance against these criteria. In 2011, Baxter incorporated additional questions into this survey related to human rights.

RFPs and Supplier Agreements

Baxter considers cost, quality, environmental criteria and other factors when selecting and evaluating its suppliers to reduce the company’s environmental impact while maintaining continuity of supply and managing costs. To support these efforts, Baxter incorporates language related to sustainability in Request for Proposal (RFP) and supplier contract templates to reiterate Baxter’s commitment to sustainability and assess each supplier’s ability to support Baxter’s sustainability goals and conduct their business activities consistent with Baxter’s established standards for its suppliers. This language is now included in these documents in Australia, Brazil, Canada, Chile, China, Colombia, Mexico, New Zealand and the United States.

Baxter’s updated RFPs ask suppliers to provide:

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

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

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

Product Material Regulatory Compliance

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

Baxter began contacting suppliers in September 2010 as part of the company’s Material Compliance Project. This initiative ensures that materials used in Baxter’s products comply with a wide range of environmental regulations in Europe, individual U.S. states, and other countries worldwide (e.g., Australia, Canada, China, Japan and South Korea) while maintaining high-quality standards and satisfying customer requirements.
Baxter stores data collected from suppliers in a database that interfaces with other company and supplier information systems, to allow Baxter to better understand, manage and optimize product environmental performance and meet customer needs while facilitating regulatory compliance. In 2012, Baxter plans to work with a service provider to survey the company’s suppliers for additional substances of very high concern.

See Materials Use and Materials Restrictions for more information about Baxter’s programs in related areas.

**Water Security Program**

Water scarcity is a growing problem that affects governments, businesses, and individuals in many parts of the world. Baxter’s water security program, launched in 2010, provides a framework to help the company better understand the possible impact water scarcity may have on Baxter’s supply chain and its impact in local communities. The program helps Baxter identify potential risks and opportunities and act responsibly on this issue while enabling the company to maintain continuity of supply and manage related costs.

In 2011, Baxter surveyed suppliers in water-stressed areas to determine their level of knowledge regarding water scarcity. The survey also asked suppliers if they have programs to address this issue and identified potential areas for Baxter to collaborate with suppliers to mitigate possible water-related risks.

Read about Baxter’s additional efforts related to Water and Wastewater.

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

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

Tier III is the highest level an importer can achieve in the C-TPAT program. Currently, only approximately 3% of the more than 10,000 program participants have achieved this status. Baxter’s internal C-TPAT steering committee remains committed to monitoring and enhancing its supply chain practices and implementing process improvements as needed.
Supplier Diversity

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

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

In 2011, Baxter conducted its first Supplier Diversity Round Table event. The company invited a few suppliers of varying sizes and industries to Baxter’s corporate headquarters to discuss how Baxter might advance its supplier diversity program. As a result of this event, Baxter identified opportunities to strengthen its communication between Baxter and suppliers to promote idea sharing. The company held a second Supplier Diversity Round Table during the first part of 2012, and Baxter is considering which opportunities identified during the meeting it can implement moving forward.

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

2011 Supplier Diversity Performance

In 2011, Baxter spent approximately $388 million with small businesses in the United States and Puerto Rico, which was approximately 15% of Baxter’s total supplier spending of $2.6 billion in those markets during the year. The company spent approximately $87.5 million with women-owned businesses and nearly $36 million with minority-owned firms in the United States and Puerto Rico. Veteran-owned, service-disabled veteran-owned, small disadvantaged and HUBZone-certified businesses represented approximately $8 million, $1.5 million, $5.8 million and $1.6 million of Baxter’s spending, respectively.

<table>
<thead>
<tr>
<th>Baxter Supplier Diversity Spending (Dollars in Millions)*</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small Businesses</td>
<td>$399</td>
<td>$457</td>
<td>$484</td>
<td>$491</td>
<td>$388</td>
</tr>
<tr>
<td>Women-Owned Businesses</td>
<td>95</td>
<td>88</td>
<td>80</td>
<td>97</td>
<td>87.5</td>
</tr>
<tr>
<td>Minority-Owned Businesses</td>
<td>23</td>
<td>24</td>
<td>20</td>
<td>34</td>
<td>36</td>
</tr>
</tbody>
</table>

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

Baxter’s supply chain extends from producers of raw materials to end users of the company’s products. Maintaining a safe, secure and reliable supply chain is essential for ensuring patient safety. Baxter’s supply chain must function without interruption even when natural disasters and other unexpected crises occur. Baxter also works to ensure that it transports its products to customers in a reliable and environmentally responsible way. See Product Integrity for information about GS1 standards.

Increasing Efficiency Through eCommerce

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

Electronic ordering, invoicing, payment, advanced-ship notices, distributor transactions and inquiries help Baxter to streamline customer transactions and reduce paper use and costs. More than 83%, excluding home patient orders, of order lines are handled electronically in the United States.
Case Study: Baxter’s e-Impact Program Grows Globally

Baxter increased focus on its e-Impact program in 2011 to help drive engagement globally on the company’s sustainability initiatives with its suppliers and vendors. As a result, during the year employees submitted more than 100 examples of projects to reduce environmental impact in 10 countries. This is up from 5 examples submitted from the United States alone in 2010.

Since 2009, Baxter’s e-Impact program has recognized environmental initiatives launched in collaboration with the company’s suppliers. Baxter employees are invited to submit examples of current and planned projects that will reduce environmental impact, and can view each other’s submissions for ideas they may consider locally. If a project is successfully completed, Baxter leaders in Purchasing and Supplier Management and Environment, Health and Safety recognize both the supplier and the Baxter employee with a certificate. Baxter recognized 24 suppliers and vendors through its e-Impact program in 2011.

For example, in Shanghai, China, Baxter collaborated with one of its plastics suppliers to implement an environmental controls project to reduce energy and water usage at the company’s compounding plant. The project saved approximately 6,200 kWh of energy and 74 cubic meters of water on projects related to Baxter in 2011.

In Mexico City, Mexico, Baxter contracted with one of its corrugate suppliers to sell back cardboard scrap. Baxter estimates this recycling effort will reduce greenhouse gas (GHG) emissions by 1,400 metric tons carbon dioxide equivalent (CO₂e) annually.

Baxter employees in Canada worked with three local pallet suppliers to build a pallet recovery program. All materials that cannot be reused are processed into woodchips that are used as boiler fuel or to create particle board. In 2011, more than 2,300 pallets were recovered, diverting 42 metric tons of waste from landfill.

Forty-one projects submitted in 2011 through the e-Impact program were successfully completed during the year. Combined, these reduced GHG emissions by approximately 15,000 metric tons CO₂e, equivalent to the amount of electricity used by 2,300 U.S. homes during a year or removing 2,400 cars from the road for that same period of time.¹

Case Study: Baxter’s Sales Car Fleet in the United States Becomes More Fuel Efficient

As part of Baxter’s priority to drive a sustainable supply chain, the company is working to reduce the environmental impact of its car fleet. In the United States, through 2011 Baxter has made changes that reduced greenhouse gas (GHG) emissions per kilometer driven by 4.1%, compared to 2007. This is mainly due to shifting additional vehicles from less-efficient six cylinder engine to four cylinder engines in 2011.

In 2011, GHG emissions from Baxter’s U.S. car fleet equaled 9,900 metric tons carbon dioxide equivalent (CO₂e), 5.9% more than in 2007. This is mainly due to the annual fluctuation in number of vehicles and miles, with 5.2% more vehicles driving 10.5% more miles today than in 2007.

Four cylinder cars make up nearly 80% of Baxter’s U.S. car fleet. The company expects to transition the remainder of the fleet to four cylinder automobiles by the end of 2012, excluding service facility vehicles, which will remain six cylinder due to size and transport requirements. When possible, Baxter tries to use flex fuel.

Baxter’s effort to improve fuel efficiency is also impacted by driving behavior, so in 2011 Baxter partnered with its fleet vendor to enroll Baxter’s U.S. drivers in the EcoWheels Challenge. This program promotes environmentally responsible driving habits, such as reducing idling time and accelerating gradually. Approximately one-third of Baxter’s U.S. drivers pledged to follow the voluntary program, and the company saw fuel efficiency increase for its drivers overall by approximately 2.8% during the challenge.