Governance, Ethics and Compliance

As a global healthcare company operating in more than 100 countries, Baxter is committed to effective corporate governance, adherence to the law, and a culture of ethics and compliance throughout the organization.

In 1995, Baxter became one of the first companies to adopt formal corporate governance guidelines. These address the operation of Baxter’s Board of Directors and board committees, which in turn govern the management of the company and represent shareholder interests. At Baxter, re-examining the company’s practices and setting new standards is ongoing. Today’s corporate governance guidelines reflect this evolution.

Baxter’s Ethics and Compliance team works closely with operating and legal teams based regionally in Baxter’s businesses to ensure that the company’s activities adhere to applicable laws and to company policies. The organization offers numerous channels to educate and counsel employees as well as confidential avenues to report alleged violations of law and policy. It investigates these items promptly and reports to senior management as appropriate.

This section covers the following topics:

- Corporate Governance
- Codes and Standards
- Ethics and Compliance Structure and Programs
- Communication and Guidance

Employee Perspective

“Business ethics was one of the major reasons why I decided to join Baxter more than 10 years ago.”

Alexander, Business Unit Manager, Greece

Corporate Governance

Baxter is operated under the direction of the company’s board of directors. In 2013, 12 independent directors and Baxter’s chief executive officer (CEO) comprised the company’s 13-person board.

Baxter’s CEO serves as the chairman of the board, and the board also annually appoints an independent lead director, who presides at executive sessions of the board and serves as a liaison between the other independent directors and the chairman. The lead director also reviews meeting agendas, works with the chairman to facilitate timely and appropriate information flow to the board, and serves as the contact person for interested parties to communicate directly with the independent members of the board.
Baxter's CEO serves as the chairman of the board, and the board also annually appoints an independent lead director, who presides at executive sessions of the board and serves as a liaison between the other independent directors and the chairman. The lead director also reviews meeting agendas, works with the chairman to facilitate timely and appropriate information flow to the board, and serves as the contact person for interested parties to communicate directly with the independent members of the board.

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

Baxter’s board has six committees: Audit, Compensation, Corporate Governance, Finance, Public Policy, and Science and Technology. Each is made up of independent directors and has the authority to obtain advice or assistance from outside experts, as the committee deems appropriate. Click on each link to view more detail, including a list of current members.

The board meets in executive session at each regularly scheduled meeting. During 2013, the board held 9 meetings. All directors attended 75% or more of the meetings of the board and board committees on which they served. Average attendance was approximately 96%. View more information on the board's activities and responsibilities.

The board considers candidates for director recommended by shareholders, board members, management and an independent search firm retained by the board to help identify and evaluate potential director nominees. The board evaluates all candidates in the same manner regardless of the source of recommendation, and selects directors on the basis of talent and experience. The selection process takes into account diversity of background, including gender, race, ethnic or geographic origin, age and experience (in fields such as business, government and education as well as healthcare, science and technology). A nominee’s ability to meet the independence criteria established by the New York Stock Exchange is also a factor in the selection process.

Executive Compensation

Baxter’s executive compensation program is designed to recognize company and individual performance, drive the long-term financial performance of the company (and in doing so, encourage innovation and appropriate levels of risk-taking), and reflect the value of each officer’s position in the market and within the company. The objective of the program is to compensate Baxter’s executives in a manner that is consistent with these principles, aligns the interests of management and shareholders, and drives sustained and superior performance relative to the company’s peers. The program is also designed to be competitive with companies with which Baxter competes for executive talent in order to attract, retain and motivate high-performing executives.

In line with Baxter’s pay-for-performance philosophy, executives are compensated based on a range of financial and individual performance goals. The goals set for Baxter’s executive officers in 2013 reflected the diversity of the company’s business and the wide range of responsibilities attributed to each of these officers. For example, Mr. Parkinson had over 50 performance goals for 2013 covering the following areas: financial performance; organizational development and human resources; corporate strategy and business development; quality and regulatory; operational excellence; board relations and governance; constituent relations (including with respect to sustainability matters); leadership; and innovation and R&D.

See Baxter’s 2014 Proxy Statement for more detail on executive compensation.

Stock Ownership Guidelines for Executive Officers and Board Members

To further align the interests of directors and management with shareholders, Baxter requires its executive officers and directors to own Baxter stock. Baxter’s CEO is required to achieve ownership of Baxter common stock valued at six times annual base salary. Each of the other executive officers is required to achieve ownership of Baxter common stock valued at four times annual base salary within five years of becoming an executive officer. Each director is to hold Baxter common stock equal to five times annual cash retainer after five years of board service.

Communicating with the Board of Directors

Interested parties may communicate directly with any of Baxter’s directors by emailing boardofdirectors@baxter.com or writing a letter to Baxter Director c/o Corporate Secretary, Baxter International Inc., One Baxter Parkway, Deerfield, Illinois 60015. Baxter’s Corporate Secretary will forward communications directly to the lead director, unless a different director is specified.

For More Information

To read more about Baxter’s approach to corporate governance, please see the corporate governance section of Baxter’s website.

© Copyright 2014 Baxter International Inc. All Rights Reserved
Codes and Standards

Baxter’s Ethics and Compliance codes and standards encompass the company’s relationships with employees, suppliers, healthcare professionals, medical institutions and patient organizations.

Code of Conduct

Baxter’s Code of Conduct defines the core principles that govern employee behavior at Baxter and how the company conducts its business. The Code applies to Baxter’s Board of Directors and all of its employees, including the company’s chief executive officer and other senior management. It builds on Baxter’s long-standing commitment to leadership in ethical business practices, covering topics such as protection and use of company assets, accurate recordkeeping, competitive and confidential information, sales and marketing practices, anticorruption, insider trading, bioethics, conflicts of interest, gifts and trade compliance. The Code’s user-friendly format includes questions and answers, decision guides and lists of additional resources available to employees to help maintain a culture of integrity throughout Baxter. The Code is available in 23 languages, including Swedish which was added in 2013.

New Baxter employees receive Code of Conduct training within the first three months of employment. Baxter’s corporate policies support the Code by defining the company’s intentions, setting behavioral expectations and requiring certain actions. A comprehensive intranet site provides employees with additional information on corporate policies.

Baxter’s Code of Conduct reflects evolving regulations and stakeholder expectations regarding industry practices. It extends to the company’s relationships with suppliers, healthcare professionals, medical institutions and patient organizations globally. The Code includes Baxter’s Global Anticorruption Policy, which covers how the company’s employees, contractors, agents and third parties conduct themselves with government officials.

The Code requires prompt reporting of suspected misconduct and outlines the consequences of failure to comply with applicable laws or Baxter’s policies and procedures. The company provides ongoing training and a Code of Conduct intranet site to keep employees informed about Baxter’s ethics and compliance policies, topic-specific training and other tools and resources.

Human Rights

Baxter respects and is committed to fostering human rights, dignity and the diverse contributions of all. The company approved its Human Rights Policy in 2012. Baxter’s philosophy and policy in this area are further supported by the company’s Leadership Expectations, Code of Conduct, sustainability program, supplier codes and agreements (see below), and other global policies. Refer to the company’s California Transparency in Supply Chains Act of 2010 statement.

Standards for Baxter Suppliers

To conduct business with Baxter, suppliers must have their own code of conduct that aligns with Baxter’s standards or they must agree to abide by the company’s Ethics and Compliance Standards for Baxter Suppliers. These standards, translated into 19 languages, define policies and set common expectations about ethical behavior when doing business with Baxter (see Supplier Standards for more information). Baxter’s Supplier Quality and Purchasing and Supplier Management groups evaluate and approve all key suppliers before any materials, components, products or services may be purchased. Additionally, Baxter’s Supplier Quality Standard and Ethics and Compliance Standards for Baxter Suppliers specifically address sustainability issues, including indentured and child labor, employment standards, waste and energy reduction, and ethics.

Other Professional Codes of Ethics

Baxter has adopted additional professional and industry codes of ethics. These standards define how all professionals and those in a given industry should conduct themselves. Baxter has adopted the following codes:

- Advamed Code of Ethics on Interactions with Health Care Professionals;
- Ethics & Compliance Officer Association (ECOA) Standards of Conduct for Business Ethics and Compliance Professionals;
- European Federation of Pharmaceutical Industries and Associations (EFPIA) Code of Practice on Relationships with Patient Organizations and Code of Practice on Promotion of Medicines to, and Interactions with, Healthcare Professionals;
- Institute for Supply Management (ISM) Principles and Standards of Ethical Supply Management Conduct;
- Professional Society of Engineers Code of Ethics for Engineers;
- Regulatory Affairs Professionals (RAPS) Code of Ethics for Regulatory Affairs Professionals; and
- Society for Corporate Compliance and Ethics (SCCE) Code of Ethics for Compliance and Ethics Professionals.

© Copyright 2014 Baxter International Inc. All Rights Reserved
Additionally, the company works with non-governmental organizations and trade associations to enhance Ethics and Compliance (E&C) standards around the world. This includes work with:

- The European Federation of Pharmaceutical Industries and Associations, sharing the company’s perspective on interactions with the medical community and disclosing such interactions to promote transparency.
- Eucomed on the development of a general E&C program.
- The China Association of Enterprises with Foreign Investment R&D-based Pharmaceutical Association Committee (RDPAC) on an industry-wide ethical sales and marketing code.
- The China Council of Advanced Medical Technology Association (AdvaMed), participating as part of a task force to develop an industry code of conduct for the China operations of member companies of AdvaMed.
- The Mexican Association of Innovative Medical Devices Industries (AMID), updating AMID’s Code of Interactions with Healthcare Professionals to ensure the highest international and local ethics standards. Baxter also supported AMID by creating a harmonized training that endorses standards and criteria agreed upon by the medical device industry.

Employee Perspective

“Integrity means staying strong and not giving in to unethical demands of doctors who expect economic benefits in exchange for prescribing our products. Both the team and I strongly believe that we can achieve high performance with integrity.”

Junho, District Sales Manager, Seoul, Korea

Ethics and Compliance Structure and Programs

Baxter designed and updates its ethics and compliance structure and programs regularly to reflect the needs of a diversified and complex global healthcare company. The company manages programs and activities to help employees make good decisions about appropriate behaviors in the markets where Baxter operates.

Corporate Responsibility Office

The Corporate Responsibility Office (CRO), established by Baxter’s Board of Directors in 1993 and composed of seven senior executives, is responsible for communicating the company's ethics and compliance standards, providing guidance and overseeing training to employees and directors, maintaining multiple channels for employees to report concerns, and monitoring compliance. The CRO, which meets at least every quarter, reports to the board's Public Policy Committee and reports on financial matters to the board's Audit Committee (see graphic). Baxter was one of the first companies to establish a direct reporting relationship between its CRO and its board, ensuring ethics and compliance oversight at the highest level.

Baxter’s Regional Ethics and Compliance Committees implement the CRO's charter globally and enhance corporate understanding of local cultures, values and behavioral norms. The company also has dedicated compliance and legal resources in each region outside the United States, and has similar governance structures for its BioScience and Medical Products businesses.

Certificate of Integrity and Compliance

Each year, Baxter requires executives, managers, sales representatives and other selected employees around the world to reaffirm their commitment to the company’s ethics and compliance standards by completing and submitting a Certificate of Integrity and Compliance (COIC). The COIC also serves as a reporting document that measures the integration of ethical business practices throughout Baxter. In 2013, more than 16,000 employees who have manager or greater-level responsibilities completed the COIC, which is available in 16 languages.
Legal and Regulatory Compliance Training

Baxter requires employees worldwide to take Web-based training on legal and regulatory compliance. In 2013, 43,100 employees completed more than 128,600 e-Learning courses covering areas such as product complaints, pharmacovigilance, adverse-event reporting procedures, workplace violence prevention, data privacy, trade compliance, requirements for selling to the U.S. government, the Foreign Corrupt Practices Act, antitrust, intellectual property, and Baxter’s ethics and compliance standards. Baxter’s Legal department and Ethics and Compliance group also conducted hundreds of classroom sessions around the world in 2013 to train employees globally on the company’s ethics and compliance standards and supporting policies.

Baxter continued to implement its risk-based anticorruption education program to provide awareness-level training to most employees, and more advanced training to employees who regularly interact with government officials and healthcare professionals. During the year, Baxter conducted anticorruption training sessions for employees in a variety of roles, including Sales, Marketing, Medical Affairs and Finance.

Baxter also expanded its Compliance Fitness training program in 2013. The program, initially launched in Asia Pacific, was enhanced and implemented in targeted sub-regions within Europe, Latin America and the United States. Compliance Fitness is an interactive program in which employees work in teams to identify and provide solutions to real-world compliance case studies that are tailored to each market. The programs are designed to drive discussion, to enhance leaders’ issue spotting and critical thinking skills to identify and address compliance issues in their markets, and to raise questions or concerns when appropriate.

See Product Use for detail about advertising and promotion.

Relationships with Healthcare Professionals and Government Officials

Governments are seeking ways to reduce spending on healthcare while maintaining current or improved levels of healthcare delivery. At the same time, healthcare companies face the perception that their marketing programs and R&D and production costs are significant factors in increasing healthcare costs. In this context, Baxter understands the importance of reporting transparently on its relationships with healthcare professionals. This includes the continued implementation of anticorruption programs that work to ensure that those relationships and related payments are for necessary and genuine services. As a company dedicated to making a meaningful difference in patients’ lives, Baxter’s integrity in this area is paramount.

Baxter launched its Global Policy on Interactions with the Medical Community and Government Officials and is implementing a phased roll-out of a centralized technology platform linking all of the company’s related interactions worldwide to enhance user experience, and internal and external reporting.

Baxter also enhanced its U.S. Contributions Management Program to review and process contribution requests from non-profit and for-profit healthcare organizations (HCOs). These may include charity events, awards, patient educational events, and annual education meetings. A cross-functional Baxter team reviews HCO requests monthly. In 2013, the company received and processed more than 700 HCO requests and approved more than $11 million in contributions.

Physician Payment Disclosure/Sunshine Act

The Physician Payments “Sunshine” Act, signed into law in 2010 as part of the Affordable Care Act, requires companies including Baxter that operate in the United States and manufacture covered drugs, devices, biologics and medical supplies to track and report certain payments and transfers of value provided to physicians and teaching hospitals. As of August 2013, manufacturers are required to collect information about payments such as consulting fees, travel and lodging, meals, education grants and royalties. The first aggregate summary report of this information was due to the Centers for Medicare and Medicaid Services (CMS) on March 31, 2014. The detailed report was due to CMS in June. Baxter has developed a robust program designed to address all applicable requirements and to help meet stakeholder expectations and transparency requirements.

International Anticorruption Activities

During 2013, Baxter’s Ethics and Compliance team, working closely with other groups and functions in the company, continued to advance its anticorruption program. This includes periodic assessments and monitoring of Baxter’s global operations with regard to key corruption risks. The company conducted 11 compliance assessments in 2013 utilizing Corporate Audit and Ethics and Compliance resources.

In some cases, external counsel and external auditors were used. The audits took place in four countries in EMEA, two countries in Latin America, three countries in Asia Pacific and two in North America. Assessment results have shown continued progress in awareness, understanding and implementation of Baxter’s anticorruption programs.
In addition to compliance assessments, the company conducted compliance self-monitoring in 27 countries, including 11 in Asia Pacific, 13 in EMEA and three in Latin America. The Ethics and Compliance team coordinated the monitoring and it was led by area internal controls and country-level finance personnel. The U.S. businesses also performed compliance self-monitoring quarterly. In addition, Corporate Audit performed limited compliance transactional and controls testing in 10 countries globally.

Also in 2013, Baxter continued global execution of its International Anticorruption Third Party Policy, with emphasis on review of and due diligence regarding business partners who interface with government officials and agencies in activities such as the approval, registration, promotion and sales of Baxter’s products and therapies.

This multifaceted program includes a robust process to conduct due diligence on relevant business partners, as well as to train them on anticorruption laws and Baxter’s standards and expectations. The success of the third party program relies on extensive, ongoing collaboration between Baxter’s Ethics and Compliance, Legal and business teams, as well as with the company’s business partners.

Baxter is committed to establishing and improving industry codes of conduct and enhancing ethical behavior across the healthcare industry.

**Trade Compliance**

In 2013, Baxter updated its Trade Compliance policy and continued working with its global Trade Compliance Council to help guide the program. The company continues to identify and train a network of trade compliance officers globally, tasked with spotting and handling related issues in their countries and functions, and seeking advice from their designated expert as warranted. Baxter also continues to enhance tools and processes to screen for and address related risks involving its products and business transactions. Additionally, the company expanded training through in-person sessions and translated its Export Control and Economic Sanctions trade compliance e-learning course into Arabic, German and Spanish, and continues to roll out the e-learning course to a broader population. The course raises awareness about global export controls and economic sanctions, regulations and related company policies. The course also focuses on Baxter’s procedures, as well as employees’ responsibility to ensure compliance in this area.

**Data Privacy and Security**

In the course of business, consumers, patients, healthcare professionals, employees and others share personal information with Baxter. Baxter’s global privacy policy defines the company’s privacy standards and guides the company’s global operations to follow similar controls for protecting personal and patient health information. All Baxter employees are required to complete an online training course on the policy.

Baxter’s Global Privacy Office addresses three major areas of privacy: patient personal and health information; employee personal information; and personal information managed by the company’s service providers. Its main role is to maintain governance and oversee privacy compliance.

Baxter’s Global Privacy Program is comprised of U.S. Health Insurance Portability and Accountability Act (HIPAA) Privacy Compliance, European Union Data Protection Compliance and Global Data Transfer programs. In 2013, Baxter's Global Privacy Office completed the HIPAA privacy assessment program in the U.S. Additionally, the organization also conducted activities to maintain compliance with the European Union Data Protection Directive. In 2014, the Global Privacy Office plans to launch an EU privacy assessment program to re-evaluate privacy controls in accordance with the new privacy rules in EU and it will continue to focus on maintaining the HIPAA Privacy compliance program in the U.S.

Information security is a closely related area of focus. Baxter's Information Technology (IT) Risk Governance Board meets quarterly to ensure appropriate accountability, priority and decision-making in response to identified IT risks. A separate cross-functional Information Governance Council oversees the management of business risk related to security, privacy and legal information.

Baxter’s Information Protection Program, which includes global policies, organizational awareness mechanisms and compliance systems, enforces appropriate use and protection of the company’s information and technology. In 2013, Baxter expanded the program globally, engaging hundreds of employees responsible for protecting sensitive Baxter information. The company also implemented new measures to guard against cyber attacks and data loss by employing advanced threat detection technologies at critical junctures within Baxter’s network. This further strengthened the company’s security capabilities and supports its commitment to protect the best interests of customers, employees, management and other stakeholders.

**Employee Perspective**

“Most importantly, compliance assures our patients that the therapy their healthcare professional has chosen is the best option and is free of any interest or conflicting bias.”

Mauricio, Finance Director, Mexico
Communication and Guidance

Open communication is central to Baxter’s commitment to integrity. The company offers numerous channels to educate and counsel employees as well as confidential avenues to report suspected violations of law and policy (see graphic), which it investigates promptly and reports to senior management as appropriate. Managers are responsible for maintaining an environment that enables employees to safely raise and discuss issues. In this way, Baxter prevents incidents from occurring and addresses issues when they do arise.

One such channel is the Baxter Ethics and Compliance Helpline, an independent telephone and Web resource available to employees and their families, suppliers, customers and other Baxter stakeholders to raise issues and open communications about possible company ethics and compliance issues. Callers can report an issue or seek guidance in any one of 150 languages, 24 hours a day, seven days a week, and may choose to remain anonymous. No caller identification features are attached to this line.

Baxter Ethics and Compliance Helpline

**Phone:** 1-877-BAXTER3  
**Fax:** 1-847-948-2867  
**Web**

In 2013, 355 inquiries from 39 countries were logged into the Helpline system and addressed in a prompt, thorough and professional manner. Not all of these inquiries were reports of alleged misconduct or related to compliance.

Baxter encourages employees to use the Helpline, COIC process and other channels to ask questions and seek advice. Items identified through these channels also help Ethics and Compliance personnel to identify key risks, develop appropriate training, enhance policies and procedures, and design and conduct compliance assessments.

Upon receipt of reasonable indications of suspected noncompliance, the Ethics and Compliance department, working with other functions and in coordination with business leaders, will triage and investigate the allegations to gather the facts and take appropriate remedial action where necessary.

**Employee Perspective**

“Building a reputation of integrity takes years, but it takes only a second to lose.”

Mohamed, Area Sales Director, Middle East