
We all have the ability to imagine new possibilities that will improve our world and enrich the lives of those around us. At Baxter, we have the capability to realize some of those dreams and make them a reality. Every day, Baxter helps people live healthier lives, helps healthcare professionals provide better, more effective treatment and helps our employees make a meaningful difference in the communities in which they live.

For more than 70 years, Baxter has drawn together specialists, scientists, and healthcare and business professionals who share a common purpose: to save and enhance lives through innovative healthcare solutions.

Equally important to us is how our company works—the behaviors that we demonstrate, the economic contributions we make and the environmental footprint we leave behind, as well as the values that drive our decision-making each and every day. At Baxter, we believe we have a responsibility to balance the needs of today with those of tomorrow. This means we use financial resources wisely, operating the company in a sound and ethical manner and reinvesting in the long-term growth and success of the company and our communities. This means we conduct our operations in a manner that minimizes the use of natural resources and the impact on the environment. This means we operate in a respectful manner that engages and contributes to the well-being of all stakeholders—including employees, customers, shareholders and communities. By achieving this sustainable balance, we are able to help change lives and help change the world for the better.

About This Report

This report summarizes Baxter's 2004 sustainability activities and performance. For more detailed information on the material presented in this summary or for a greater in-depth look at our sustainability initiatives, please visit our website.

WebLinks: www.baxter.com/sustainability

This report includes data through December 31, 2004, unless otherwise noted.
Dear Baxter Stakeholder,

I have been in my role as Baxter chairman and CEO for just over a year and, in that time, I have focused on four key business priorities:

1. **Rebuilding our senior leadership team;**
2. **Restoring investor credibility in the company;**
3. **Implementing the companywide restructuring program; and**
4. **Re-engineering business and administrative processes.**

One could ask, quite legitimately, what these priorities have to do with sustainability. The answer is: everything. This focus is helping us considerably strengthen our business and places us in a much better position to make a positive impact socially and environmentally.

Enlightened companies are increasingly realizing the interconnection between the business enterprise and society at large. In the coming years, one thing that will differentiate great from good companies is a company’s participation in, and commitment to, broader societal issues – in short, its success across the “triple bottom line” of economic, social and environmental performance.

**Making Progress**

It all starts with people, which is why the first priority has been to rebuild our senior leadership team. Making sure we have the right skill sets to lead us prosperously into the future is critical to sustainability. But as important as experience, education and intellect are, it also is essential that our leaders set the right example and model the right behaviors for the rest of the organization.

In addressing our second priority that focuses on restoring credibility with investors, we are strengthening the quality of our earnings and our balance sheet, and driving greater discipline in capital allocation. We are focused on being realistic in our financial projections and then meeting those targets, quarter after quarter. We also are forthright and transparent when something goes awry. In July 2004, we announced plans to restate our financial results for the years 2001 through 2003 and the first quarter of 2004 due to incorrect revenue recognition and inadequate provisions for bad debts in Brazil during that period. You can read more about this on our sustainability website as well. While the adjustments were not significant to our overall operations, we felt a restatement was the most appropriate action. We were transparent about the reasons and have taken remedial actions to ensure this type of situation does not occur again, in Brazil or elsewhere at Baxter.

The third priority has been to implement the companywide restructuring program to help us reduce cost structure, change how work is done and drive improvements in financial performance. While there was a significant impact to our global workforce, which we discuss in this sustainability summary report, the restructuring will result in a stronger company. This provides us with the financial strength and flexibility to pursue new products, new innovations, new businesses and markets going forward, and ultimately job creation.

We are making great progress on the fourth priority—re-engineering business processes. We have been very focused on improvements to our quality and regulatory systems for both new and existing products. In terms of new products, we are implementing a new product development process that will result in better product quality and products that better meet customer needs. It includes an assessment called a Product Sustainability Review designed in part to minimize the environmental impact of our products throughout their entire lifecycle. We also are re-engineering processes in finance, R&D, and strategic planning.

continued
These ongoing efforts do not immediately translate into improved financial results or accelerated growth, but they do lay the groundwork for future success. We acknowledge room for continued improvement in all these areas.

Making a Difference—Now and in the Future
Perhaps nowhere does our business come together more with our commitment to social responsibility than in the area of increasing access to healthcare. Given our business to provide high quality and effective healthcare options for individuals around the world, we can contribute to increasing access to care in ways that other companies cannot. For example, thousands of people around the world with end-stage renal disease currently go untreated due to inadequate healthcare resources, particularly in developing countries. One possible answer for these patients is peritoneal dialysis (PD), an ambulatory therapy that, unlike more conventional hemodialysis, does not require an infrastructure of clinics, offering potential cost as well as quality-of-life benefits. Through efforts like our PD colleges in Asia, we are working to increase awareness and education about PD in these countries so patients can have access to this life-saving therapy.

Additionally, our sustainability report and website feature our efforts in providing emergency relief to victims of the tsunami in southern Asia in December 2004 and other product donations to meet critical healthcare needs worldwide. Together, Baxter and The Baxter International Foundation contributed approximately $15 million worldwide to communities in need in 2004, much of it focused on increasing access to healthcare for children, the uninsured, the indigent and the elderly.

Increasing access to care is just one of the many ways we have a positive impact on our communities around the world. We are proud of the contributions we make and the recognition we have received for our efforts. For example, the U.S. Environmental Protection Agency recognized Baxter as a Corporate Leader in its Performance Track Program. Our health and safety program had another record-best year in 2004. We were named to Business Ethics magazine’s 100 Best Corporate Citizens list. In addition, we were named by Innovest Strategic Value Advisors to the Global 100 Most Sustainable Corporations in the World.

While this recognition is rewarding, we will not become complacent about other areas where we can do more. Except in the environment, health and safety area, where we set long-term goals and are currently in the process of finalizing 2010 goals, we need to do more in setting strategic priorities with measurable goals for other areas of sustainability. We need to identify and focus on those areas where we can have the greatest impact and establish clear targets. We plan to address this over the next year, and I hope to report back next year with a strategic framework and specific priorities to guide our short- and long-term sustainability efforts.

Sustainability by its very definition implies continuous improvement. It’s about aspiring to be more and do more. This is the basis on which great companies are built.

I am proud to be associated with a company in which people are committed to having a positive impact on society at large. Together, we are making a difference through our foundation work and other charitable giving, representation and support of civic and cultural organizations in the communities we serve, business practices, education, environment, diversity, safety, governance, work/life balance and, of course, the products we make that save lives every day.

Our commitment to all stakeholders is to continue to make Baxter stronger and more competitive as a business while also doing all we can to make the world a better place for future generations.

Robert L. Parkinson, Jr.
Our Profile

Corporate Overview
Baxter International Inc. is a global healthcare company that, through its subsidiaries, assists healthcare professionals and their patients with the treatment of complex medical conditions including hemophilia, immune disorders, kidney disease, cancer, trauma and other conditions. With 2004 sales of $9.5 billion and approximately 48,000 employees, Baxter applies its expertise in medical devices, pharmaceuticals and biotechnology to make a meaningful difference in patients’ lives.

The company operates in three segments: Medication Delivery, which provides a range of intravenous solutions and specialty products that are used in combination for fluid replenishment, general anesthesia, nutrition therapy, pain management, antibiotic therapy and chemotherapy; BioScience, which develops biopharmaceuticals, biosurgery products, vaccines and blood collection, processing and storage products and technologies for transfusion therapies; and Renal, which develops products and provides services to treat end-stage kidney disease.

Baxter’s Global Manufacturing Facilities
A global presence and infrastructure is one of Baxter’s key strengths. In 2004, more than 50 percent of Baxter’s sales and more than half of its workforce were outside the United States. With more than 60 manufacturing facilities located throughout the world, Baxter’s philosophy of manufacturing locally allows the company to better manage production, costs and pricing.

2004 Sales by Business
- BioScience- 37%
- Renal- 20%
- Medication Delivery- 43%

2004 Sales by Region
- U.S.- 47%
- Europe- 29%
- Japan- 4%
- Latin America- 7%
- Asia & Other- 13%

WebLinks: About Baxter
Five-Year Summary of Select Financial Data:
www.baxter.com/five-year
Investor Information:
www.baxter.com/investors
2004 R&D Expenditures:
www.baxter.com/overview
History:
www.baxter.com/history
News Room:
www.baxter.com/news
Awards and Honors:
www.baxter.com/awards
Through change, employees remain committed.
The past year at Baxter can be characterized in two words—change and progress. Even in the midst of naming a new chairman and chief executive officer, a global restructuring effort, a new executive leadership team, new processes and new expectations, Baxter employees have remained committed to meeting customer and patient needs.

Restructuring reduces cost structure, changes how work is done, and drives sustainable improvements in financial performance.
The restructuring program initiated in 2004 will result in the elimination of 4,000 positions, or 8 percent of Baxter’s global workforce. Approximately 50 percent of the positions being eliminated are in the United States and include all three of the company business segments, along with corporate staff. Approximately 60 percent of the targeted positions were eliminated as of December 31, 2004, and the program is on track to be completed by the end of 2005. A key component of the restructuring was to leverage expertise, eliminate redundant work, streamline processes and reduce costs.

New senior leaders selected to ensure the right talent for future business success.
With a combination of internal promotions and recruitment of new executive talent from outside the company, changes were made to 12 of the 16 corporate officer positions, including new leadership in the most senior line management positions.

Leadership development initiative created to drive competencies and help shape Baxter’s culture.
Based on input from more than 20 focus groups across Baxter’s global organization, the company’s senior management team identified a set of “leadership competencies” or behaviors deemed most important for success in different types of leadership roles. In 2005, Baxter will begin to roll out this initiative for executives, directors, managers and others to build these competencies.

Baxter will conduct employee survey in 13 languages.
Consistent with Baxter’s commitment to gathering employee feedback, the company will survey employees in 2005 across a number of areas. Baxter last surveyed all employees in 2003. After conducting the survey annually for two years, Baxter decided in 2004 to move to an 18- to 24-month cycle, allowing more time to assess data and develop and implement action plans.
Supporting the Health of Employees

A number of Baxter facilities are in countries with limited access to healthcare. When employees get ill, they often go to the company doctor, who is authorized to determine appropriate treatment. In countries like China and India, employee health services also include education on healthy lifestyles. At its four plants in China, Baxter provides HIV/AIDS education. Pictured here, employees at Baxter’s Haina, Dominican Republic, facility stretch to help prevent ergonomic injuries.

Baxter’s health and safety program achieves another record-best year in 2004.

Baxter achieved its second consecutive year of record-best performance in three of four areas measured:

- Cases with Days Lost Rate—improved 20 percent from 2003 (per 100 FTE).
- Recordable Case Rate—improved 17 percent from 2003 (per 100 FTE).
- Percentage of facilities that had no Cases with Days Lost—72 percent, representing an 11 percent improvement from 2003.

Baxter attributes this to a companywide focus on preventing accidents. Managers have greater responsibility for safety, which is evidenced by safety-related objectives increasingly appearing in annual performance objectives on which bonuses are based.

Baxter’s 2004 number-of-days-lost rate of 11.37 was unfavorable to the improvement target of 9.97, due to gaps in managing injury and illness cases at facilities in Europe. As a result, the company aggressively deployed a case management program in mid-2004, which improved performance the last half of the year.

While effectively managing injuries and illnesses is important, Baxter recognizes that continuing proactive injury and illness prevention is the only way to bring its program to the next level.

Baxter has rolled out these prevention-based initiatives:

- **Use of health and safety leading indicators, factors that could lead to an accident or illness.** Baxter piloted a facility-based leading indicator project in 2004 and has set a goal aimed at spreading indicator use by year-end 2005.

- **Focus on ergonomic injuries,** which comprise about half of the work-related injuries and illnesses at Baxter. To address this, Baxter has made tools, educational resources and leading indicators available in several languages to assist facilities.

40 Years in Mountain Home

As the largest employer in Mountain Home, Arkansas, Baxter employs approximately 1,150 people at its 56,000-square-meter manufacturing plant in this small town in the northern part of the state. This plant manufactures an array of both finished goods and subassemblies for multiple Baxter business units.

Learn more on our website about the plant’s distinguished record in EHS initiatives, including reducing waste by applying Lean manufacturing tools and waste recycling initiatives. Also learn about employee involvement in the community, the impact of restructuring efforts, and training and development opportunities.
Diversity at Baxter

Minority Representation\(^1\) | 2002 | 2003 | 2004
--- | --- | --- | ---
Board of Directors | 10.0% | 16.7% | 9.1% \(^\dagger\)
Corporate Officers | 14.3% | 16.7% | 6.7% \(^\dagger\)
Managers | 17.9% | 21.6% | 21.1% \(^\dagger\)

\(^1\) U.S. data

Advancement of Women\(^2\) | 2002 | 2003 | 2004
--- | --- | --- | ---
Board of Directors | 20.0% | 16.7% | 18.2% \(^\ddagger\)
Corporate Officers | 9.5% | 11.1% | 20.0% \(^\ddagger\)
Managers | 40.3% | 36.3% | 37.1% \(^\ddagger\)

\(^2\) Global data

Regional Employee Breakdown

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td>26,100</td>
<td>24,000</td>
<td>22,400</td>
</tr>
<tr>
<td>Europe</td>
<td>15,000</td>
<td>14,300</td>
<td>13,600</td>
</tr>
<tr>
<td>Latin America</td>
<td>8,800</td>
<td>7,908</td>
<td>7,100</td>
</tr>
<tr>
<td>Asia/Other</td>
<td>4,400</td>
<td>4,300</td>
<td>4,400</td>
</tr>
<tr>
<td>Japan</td>
<td>900</td>
<td>800</td>
<td>800</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>55,000</strong></td>
<td><strong>51,300(^3)</strong></td>
<td><strong>48,300(^4)</strong></td>
</tr>
</tbody>
</table>

\(^3\) Reflects July 2003 restructuring reductions effective during 2003.

\(^4\) Reflects restructuring reductions effective during 2004.
Global Health and Safety Progress (per 100 employees per year)

<table>
<thead>
<tr>
<th>Year</th>
<th>Recordable Injury Rate</th>
<th>Cases with Lost Days Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>3.17</td>
<td>2.61</td>
</tr>
<tr>
<td>1999</td>
<td>1.28</td>
<td>0.89</td>
</tr>
<tr>
<td>2001</td>
<td>0.80</td>
<td>2.64</td>
</tr>
<tr>
<td>2002</td>
<td>0.75</td>
<td>2.50</td>
</tr>
<tr>
<td>2003</td>
<td>0.56</td>
<td>1.93</td>
</tr>
<tr>
<td>2004</td>
<td>0.45</td>
<td>1.60</td>
</tr>
</tbody>
</table>

Recordable Injury Rate (frequency): reduced 49.5% from 1996
Cases with Lost Days Rate (severity): reduced 64.8% from 1996

Global Work-Related Lost Days (per 100 employees per year)

<table>
<thead>
<tr>
<th>Year</th>
<th>Lost Days Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>28.02</td>
</tr>
<tr>
<td>2001</td>
<td>15.89 (down 43.3%)</td>
</tr>
<tr>
<td>2002</td>
<td>14.14 (down 11%)</td>
</tr>
<tr>
<td>2003</td>
<td>10.46 (down 26%)</td>
</tr>
<tr>
<td>2004</td>
<td>11.37 (up 8.7%)</td>
</tr>
</tbody>
</table>

* 1996 – 2001 data adjusted upwards by 30% to reflect new U.S. recordkeeping rules

Organizational changes add value to EHS initiatives.
The Environment, Health and Safety (EHS) organization at Baxter was able to realize added value from its new structure. Learn more by reading stories on Baxter’s website:
- “Baxter Looks to Lean Tools to Improve Safety Performance”
- “Baxter’s Occupational Health Program: Bringing Value to the Business”

WebLinks: [www.baxter.com/stories_people](http://www.baxter.com/stories_people)
Supporting Our Local and Global Communities

As a global leader, Baxter is working to improve lives in local and global communities, particularly with regard to increasing access to healthcare for underserved populations. The company has a commitment to the long-term, sustainable well-being of the communities where its employees live and work.

In 2004, Baxter and The Baxter International Foundation together contributed approximately $15 million worldwide to communities in need. The overall goal of these financial donations is to maximize, leverage and align Baxter’s charitable giving with the objective of improving lives in local and global communities. Baxter balances its overall charitable giving by focusing on three goals:

- Addressing access to healthcare
- Supporting employee community involvement
- Supporting critical community needs

Baxter has donated product through AmeriCares to Malawi, Africa, since 2002, which has helped provide curative and preventive health services to thousands in all three regions of the country.

Photo courtesy of AmeriCares
2004 Charitable Giving
Total charitable giving: $15 million*

- $7.9 million
  - Product Donations
- $4.5 million
  - Local Business Unit Donations
- $2.6 million
  - The Baxter International Foundation

- $1.9 million
  - Foundation Grants
- $639,000
  - Matching Gifts Program
- $36,700
  - Dollars for Doers Program

* Total charitable giving in 2003 was $14.4 million.

In 2004, The Baxter International Foundation, the company’s philanthropic arm, awarded grants totaling $1.9 million to 50 organizations in 17 countries on four continents. With more than 52 percent of 2004 grants going to organizations outside of the United States (an 11 percent increase over 2003), the company continues to serve as a leader in its commitment to increasing access to healthcare around the globe.

WebLinks: Learn more
Learn more about Baxter’s charitable giving and activities in local and global communities.
www.baxter.com/community
www.baxter.com/stories_community
Product Donations Address Needs Worldwide

Baxter extends a helping hand to communities in need through product donations. In 2004, Baxter donated approximately $7.9 million in vital medical products, primarily through the international disaster relief and humanitarian-aid organization AmeriCares. These products were distributed in more than 40 countries in Asia, Africa, Central and South America, Eastern Europe, the Middle East and the Caribbean that experienced crisis or disaster in 2004. AmeriCares solicits donations of medical products and other supplies from the private sector and coordinates their delivery to where they are needed most. Since Baxter began working with AmeriCares in 1987, the company has donated more than $123 million worth of products to nearly 100 countries.

Last year in the Dominican Republic, Baxter and AmeriCares teamed with AmeriCares’ local partner in that country, The Order of Malta, to meet an urgent need for an anti-

Photo courtesy of AmeriCares
Baxter India: Committed to Sustainability

From helping fight polio and HIV, to providing pure water, to relieving suffering after one of the worst disasters in recorded history, employees of Baxter India’s three plants reach out to their communities with compassion and commitment. The world watched the massive tsunami relief efforts, and Baxter India employees were on the front lines. Southern India, where Baxter has a plant in Alathur, was among the hardest hit regions.

Baxter’s plant, only a few miles from the coast, became a collection and distribution point for emergency supplies. The company canteen prepared meals for people in need, which employees delivered in Baxter trucks, along with clothes, cooking essentials and medical supplies. Employees donated a day’s wage (matched by the company) in support of survivors.

Fresh water is a scarce resource in India, and Baxter stays involved in conservation and purification programs to protect and build supplies. The Alathur plant recycles its treated wastewater, which is then used for irrigation and cleaning, among other purposes. That saves a precious 300 kiloliters of water a day. Efforts in Manesar, another plant location, reduced water usage by 60 kiloliters a day. The Alathur plant also installed a tank of drinking water in a nearby village to supplement local supplies.

Improving Hemophilia Care in Taiwan

In September 2003, the Tri-Service General Hospital in Taipei, a leading national defense medical center and teaching hospital in Taiwan renowned for its patient care and holistic approach to treatment, opened the Hemophilia Care & Research Center. This first-of-its-kind approach to integrated hemophilia care in Taiwan is a joint effort between Baxter and the hospital. It will provide training for hemophilia clinicians from Taiwan and other Asian countries, and enable them to participate in hemophilia research.

Baxter Named a “Caring Company” in Hong Kong

For the third consecutive year, the Hong Kong Council of Social Services awarded Baxter in Hong Kong the “Caring Company Logo.” The designation recognizes Baxter’s “enduring efforts in caring for the community and commitment to corporate citizenship.” Specifically in 2004, 24 Baxter employees in Hong Kong participated in a range of volunteer and community services, from supporting marathons and walkathons to help disabled children, to bringing rice cakes to the elderly during Chinese festivals.
We take corporate governance seriously.
A focus on corporate governance has never been more important than in today’s business environment, where investor and public confidence in companies is no longer based strictly on financial performance or products and services. Rather, confidence increasingly is based on a company’s structure, its board of directors, its policies and guidelines, its culture and the behavior of not only its officers and directors, but also all of its employees.

In 1995, Baxter became one of the first companies to adopt formal corporate governance guidelines, long before corporate America was required to meet today’s new standards. Most of the new rules the government now mandates for U.S.-based companies are practices the company has had in place for years. The company’s guidelines, which are annually renewed and revised as appropriate, address issues such as board size, structure, composition, qualifications, diversity, director term limits, retirement age, strategic planning and succession planning.

Baxter’s board of directors discusses the company’s bylaws and governance practices, changing policies when necessary and pointing out areas where the company needs to improve. The board also compares Baxter’s practices to the criteria used by outside organizations to evaluate corporate performance.

Baxter’s Corporate Responsibility Office (CRO) was created in 1993 by the company’s board of directors to oversee Baxter’s ethical practices. While the CRO reports directly to the board’s Public Policy Committee, it also reports on financial matters directly to the board’s Audit Committee. Baxter was one of the first companies to establish a direct reporting relationship between its CRO and board members. This unique relationship ensures maximum transparency to significant business practice issues. Baxter’s Regional Business Practice Committees (RBPCs) carry out the CRO’s activities in regions of the world where Baxter does business. These RBPCs have rotating membership to ensure exposure and participation by a variety of individuals across the company.
Integrity is central to our business.

Baxter’s CRO led the development of Baxter’s Global Business Practice Standards in 1993, which explain in 18 languages the universal principles that govern employees. Every year, the Public Policy Committee of Baxter’s board of directors requires mid-level managers and above, sales representatives and other selected employees around the world (almost 25 percent of Baxter employees) to reaffirm their commitment to the company’s Global Business Practice Standards by completing and submitting an annual Certificate of Integrity and Compliance. This process helps reinforce the importance of ethics and integrity and assists Baxter in monitoring compliance with its standards. By the end of 2005, all employees with a Baxter e-mail address will be expected to complete online Global Business Practice Standards training.

To read more about the following, please visit:

WebLinks: www.baxter.com/stories_values

In 2004, Baxter restated financial results for 2001-2003 due to incorrect revenue recognition and inadequate provisions for bad debts in Brazil during that period. The company was made aware of this situation by an employee who voluntarily reported the issue through channels established by the CRO and implemented by the Business Practices function.

Expanding the Scope of Business Practice Training. The company is implementing a new e-learning format to train employees about business practices. In 2004, Baxter also required each board member to take the same online training as employees. This approach is relatively unique despite new requirements that companies provide code-of-conduct training for their boards.

Baxter’s business practice officer in Japan and member of Baxter’s Japan Regional Business Practice Committee talks about his role as ethics officer, corporate ethics in Japan and the business practices programs in his region. Despite cultural differences, Baxter’s Global Business Practice Standards are integrated into the everyday business lives of employees worldwide.

Baxter’s vice president of business practices and chair of the Ethics Officer Association shares spotlight at European Business Ethics Conference. Learn about Gretchen Winter’s involvement in a conference attended by more than 120 ethics and compliance practitioners from nine European countries, the United States and Japan, who shared ideas and best practices in implementing an effective business ethics program.

Baxter Updates Bioethics Policy. The Public Policy Committee of Baxter’s board of directors approved a revised bioethics policy and related position statements. Baxter’s bioethics policy provides ethical guidelines that govern how the company conducts its research and development activities.

Evaluating Sustainability of Potential Partners. Learn about Baxter’s due-diligence priorities when engaging in discussions with potential business partners, including environment, health and safety, human resource, finance, legal, regulatory and quality considerations.
As a global company in the healthcare industry, Baxter interacts with many different direct and indirect stakeholders throughout the world. The company’s products are purchased directly by government agencies and healthcare providers, but the indirect customers – patients and their families – are equally important stakeholders. Baxter appreciates the important role that all of the company’s stakeholders play in its continued success and viability, and strives to effectively balance the varied and sometimes conflicting needs and positions of individual stakeholders.

Communication with Stakeholders Key to Effective Threat Management

In Aibonito, Puerto Rico, Baxter operates a gamma radiation unit used to sterilize certain products. In April 2004, two workers doing maintenance on the system left a piece of equipment in the unit, causing it to malfunction. In the course of identifying the problem, the workers re-entered the unit and bypassed certain safety precautions and were exposed to radiation. While the exposure levels were below the annual occupational health limit set by the U.S. Nuclear Regulatory Commission (NRC) and the Occupational Safety and Health Administration (OSHA), the incident could have had tragic consequences.

The incident triggered a number of risk assessment processes. First and foremost, the workers underwent medical evaluations and were moved to different jobs in the plant. The facility notified its employees about what had occurred and reported it to the NRC. The plant then reached out to community leaders and the local media, hosting forums for government officials, community leaders, members of the media and other stakeholders to explain what happened, demonstrate what the sterilizer does and how it works and answer questions.

After the facility received the go-ahead from the NRC to resume operation of the sterilizer, the company continued to investigate the root cause of the incident and to implement corrective and preventive actions. These actions included increased management oversight of that area, improvements to internal safety and security systems and procedures, enhanced training for employees and other measures. Baxter ultimately paid a fine of just over $30,000 in a settlement with the NRC and focused on lessons learned.

While incidents such as this fortunately do not happen every day, the threat of such incidents occurring is always present. That’s why Baxter has a robust “threat management” process, which includes dedicated threat management teams throughout the company who represent different businesses and regions. There are eight teams as well as other individuals from key functions trained in anticipating, preparing for and managing threats to Baxter’s employees, its business, reputation and relationships with key stakeholders.

Baxter and The Green Suppliers Network

In 2003, Baxter spearheaded the participation of the healthcare industry in a public/private initiative called the Green Suppliers Network. The objective is to integrate both “Lean” and “Clean” (see page 16) manufacturing principles into the operations of suppliers common to a particular industry. Baxter’s Purchasing and Supplier Management and Environment, Health and Safety departments are working to promote the program with suppliers.

Baxter Joins Stakeholder Workgroup of Nine Companies and 10 Union Representatives to Study Feasibility of Majority Elections for Corporate Directors

As part of a union/corporate agreement and in exchange for participation in a working group to address trade-union concerns, building trade unions will withdraw majority-voting resolutions at 10 major corporations, including Baxter. Learn more at:

WebLinks: www.issproxy.com/governance/publications/2005archived/032.jsp
## Baxter’s Key Stakeholder Groups

<table>
<thead>
<tr>
<th>Group</th>
<th>Description/Examples</th>
<th>Channels of Dialogue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employees</td>
<td>Approximately 48,000 located in more than 100 countries.</td>
<td>Town hall meetings, surveys, Intranet, webcasts, Business Practices Helpline, Regional Business Practice Committees, Certificate of Integrity, Compliance, Works Councils and facility health and safety committees.</td>
</tr>
<tr>
<td>Communities</td>
<td>Baxter conducts business in more than 100 countries and operates more than 60 manufacturing facilities around the world. See page 3 for more information.</td>
<td>Interactions with local, state and national governments and agencies, participation in community organizations and schools, volunteer efforts, collaboration with international health and aid organizations, service on boards and leadership in local and national organizations.</td>
</tr>
<tr>
<td>Customers</td>
<td>Hospitals/clinics, research labs, blood/plasma collection centers, kidney dialysis centers, rehabilitation centers, nursing homes, healthcare professionals and patients.</td>
<td>Ongoing training and continuing education, membership and participation in professional societies and advisory boards, customer service and clinical helplines, publications and presentations, clinical trials and customer advisory councils.</td>
</tr>
<tr>
<td>Patients and patient-advocacy groups</td>
<td>Patients around the world with hemophilia, kidney disease, immune deficiencies, cancer and other conditions; various groups that focus on patient safety efforts.</td>
<td>Sponsorships, grants and fellowships, fundraising, walks/runs, and patient websites.</td>
</tr>
<tr>
<td>Investors</td>
<td>Approximately 83 percent of Baxter’s investors are institutional and 17 percent are individual investors.</td>
<td>Analyst/investor presentations and meetings, quarterly earnings, webcast/conference calls, annual meeting, road shows, one-on-one meetings, visits to headquarters and news releases.</td>
</tr>
<tr>
<td>Industry organizations</td>
<td>Advamed, Biotechnology Industry Organization, Eucomed, EuropaBio, Plasma Protein Therapeutics Association and numerous physician organizations.</td>
<td>Board and committee meetings, educational campaigns and events, and collaborative lobbying on issues of mutual concern.</td>
</tr>
<tr>
<td>Suppliers</td>
<td>Baxter self-manufactures nearly 90 percent of its products and is dependent on a broad network of suppliers who are considered extensions of our operations.</td>
<td>Supplier quality standards, performance reporting, audits, site visits, environmental and business practice training, Business Practices Helpline, online ethics toolkit and supplier diversity team.</td>
</tr>
<tr>
<td>Government, regulatory, health authorities</td>
<td>Various Ministries of Health and EHS agencies around the world, European Parliament, European Medicines Valuation Agency, Committee for Proprietary Medicinal Products, U.S. FDA, the Drug Enforcement Agency, the Department of Agriculture, the Department of Labor, the Department of Defense, Center for Medicare/Medicaid and Department of Health and Human Services.</td>
<td>Representation on advisory committees, meetings, conferences, joint ventures and partnerships.</td>
</tr>
<tr>
<td>Non-governmental organizations (NGOs)</td>
<td>Ceres, Global Reporting Initiative, World Health Organization, Ethics Officer Association, Boston College Center for Corporate Citizenship, Chicago Climate Exchange, Climate Leaders, Pew Center on Global Climate Change and Hospitals for a Healthy Environment.</td>
<td>Meetings, advisory boards, roundtables, conferences and consultation on policy development.</td>
</tr>
</tbody>
</table>

WebLinks: Learn more

To learn more about how Baxter engages with stakeholders, its affiliations and memberships, supplier diversity and to read more about the information contained in this section, please visit our website.
www.baxter.com/stakeholder
www.baxter.com/stories_stakeholder
Product Stewardship at Baxter

Baxter takes seriously its commitment and responsibility to produce life-enhancing products while limiting their impact on the environment and society. This responsibility continues throughout a product’s lifecycle, from research, development and design, through selection and use of raw materials, manufacturing, packaging, distribution and product use and disposal. Baxter is continually seeking opportunities for improvement and innovation in this area.

Designing Products for Life

When Baxter develops a new product, it is doing so to meet an unmet medical need in the marketplace or to better meet a current need. But there’s a lot more to be considered in product development from a sustainability perspective. What materials will be used, and why? What is the impact of those materials on the environment? Who are the suppliers and what is their sustainability record? How will the product be manufactured, packaged, shipped, stored, used and ultimately disposed of?

In 2005, Baxter began implementing a new product development process (PDP) for all of its medical devices. One element of the PDP requires a thorough assessment of the environmental, health, safety (EHS) and social impacts of a product through its lifecycle before design is completed. This assessment, called a Product Sustainability Review (PSR), is designed to find ways to minimize those impacts in the early stages of product development.

“It’s looking at a new product in the context of its total lifecycle and assessing what the impacts might be, as well as evaluating the design features to maximize their benefits from a sustainability standpoint,” says Baxter EHS Director Rob Currie. “It’s a multifunctional discipline involving the product development team, the engineers, purchasing, manufacturing, EHS and other functions.”

Getting “Lean” at Baxter

Baxter’s manufacturing plants are getting “Lean.” That is, they are dissecting their current processes, identifying where there is waste, and redesigning those processes to eliminate that waste, or anything that does not add value.

The benefits of Lean manufacturing go beyond cost savings. Any time a process can be made simpler, quality and reliability also are likely to improve. Another area where Lean tools are being applied is in the area of environment, health and safety. Baxter’s plant in Marion, North Carolina, applied value stream mapping to improve its medical department and the way accident reports and other employee health issues are handled. Other plants are experimenting with Lean tools to see how they might be applied to improve safety and eco-efficiency, such as energy reduction. Some Baxter “wet” plants – plants that use large amounts of water to produce IV solutions, dialysis solutions and other solution products – are using value stream maps to reduce water usage.

New Rules in Europe Seek to Reduce Environmental Impact of Electronic Products

Environmental standards are getting more stringent all over the world, perhaps nowhere more than in Europe. The European Union has issued nearly a dozen “environmental directives” that set new standards and requirements for companies selling products in Europe. Most significant to Baxter are two directives involving the design of products to minimize hazardous substances and the recycling of electrical and electronic products, which the company is prepared to address. Learn more on our website.

WebLinks: www.baxter.com/stories_product
Factoring Human Nature into the Design of Products

As a healthcare company, Baxter strives to develop products that improve medical care for patients. In this pursuit, the company also considers “human factors” in the design of its products. Are the products easy to use, particularly by the user population for which they are intended? Can they be made easier, safer or more reliable by taking into greater account the specific characteristics, requirements and environments of those who use these products?

“Human factors deal with user psychology – how people think, learn, make decisions and perceive things,” says Marianne Boschelli, lead human factors engineer in Baxter’s Advanced Engineering group in Round Lake, Illinois. “They also involve anthropometrics – differences in physical characteristics and capabilities among people who all must use the same device.”

Baxter has done human factors research for years but has recently stepped up its efforts to incorporate human factors into the development of new products.

“The Joint Commission on the Accreditation of Healthcare Organizations is telling hospitals to make sure the products they purchase are evaluated for ease of use and potential for error. Some hospitals are even hiring human factors experts to help them not only evaluate products for patient safety issues, but to actually help them make purchasing decisions,” says Boschelli.

Baxter Creates Center of Excellence for Regulatory Oversight of Advertising and Promotion

In May 2004, Baxter received two warning letters from the Advertising and Promotional Labeling Branch of the U.S. Food and Drug Administration regarding certain promotional materials. The warning letters precipitated an evaluation of Baxter’s advertising and promotion practices across its businesses, resulting in the creation of a new Center of Excellence for Advertising and Promotion at Baxter. For ongoing regulatory updates, please visit www.baxter.com/regulatoryupdates.

Raising the Bar on Quality

Baxter has a number of initiatives underway to improve the quality of its products and services, including new systems for corrective and preventive action (CAPA), process controls, post-market product surveillance and others.

One area of focus is a new product development process (see page 16). This includes a quality function deployment tool, which increases the amount of attention devoted in the planning stage to understanding customer and patient requirements, and developing criteria to measure effectiveness.

Aggressive targets for product reliability are also being set based on best-in-class standards, and talent management and organization enhancement have been a focus to improve quality.
The company has made great progress on these goals over the last nine years. Baxter made the greatest strides in reducing toxic air emissions from its facilities, a goal that the company achieved in 2001, four years ahead of schedule. Baxter also is well on its way to meeting its packaging goal, having achieved a 19-percent reduction by year-end 2004 against a 20-percent reduction goal by 2005.

Still, more work remains in other areas. The company faces a challenge to meet its 2005 goal of a 30-percent improvement in energy efficiency per unit of production value due to various changes in manufacturing throughout the company. Moreover, to achieve its goal of regulated and non-hazardous waste reduction, Baxter must maintain and even accelerate the momentum gained in 2004. The company is applying Lean manufacturing initiatives to help systematically reduce waste streams in the coming years (see page 16 to learn more).

Baxter’s environment, health and safety performance data is generated from a Web-based information management system called BaxHealth. The company’s global facilities report data through this tool for analysis and inclusion in Baxter’s annual sustainability report.

To learn more about 2004 EHS performance data, goal setting, how EHS has responded to the organizational changes at Baxter, wastewater compliance issues, how Baxter collects and manages its data, among many other topics, please visit our website.

www.baxter.com/environment
www.baxter.com/stories_environment
The Future for Baxter’s Environmental Program
Baxter is taking a strategic approach to developing its proposed next-generation goals through 2010, which include:

- Continued reductions in energy consumption and associated greenhouse gas emissions;
- Continued reductions in waste generation;
- A new goal to reduce water consumption;
- A new environmental incident-reduction goal to target releases to the air, water or land in excess of permit limits, and other spills or releases reportable to the government; and
- A new product stewardship goal aimed at systematically reviewing Baxter’s new products in light of emerging regional environmental regulations.

As part of working toward these goals, Baxter will also further support key initiatives alongside the company’s manufacturing organization, including supply chain environmental efforts and Lean initiatives. Baxter also collaborates with customers and other stakeholders to address environmental concerns.

Management Systems and Audits
Baxter committed to achieve ISO 14001 certification by 2002 for all manufacturing, research and development and other major operations. Certification is optional for all other Baxter locations. Though this commitment has not been fully met, nearly 96 percent, or 56 of the 58 applicable facilities, have obtained or maintained certification to the ISO 14001 standard as of December 31, 2004. Baxter’s audit teams will assess the facilities that are working to achieve ISO 14001 certification in 2005. These teams include internal staff and external auditors. In 2004, approximately 40 percent of Baxter’s major operations were audited, including 35 independent audits covering 33 facilities. Also, a global EHS ISO 14001-certificate assessment was conducted. Of the 33 facilities audited, 12 are located in the United States, Puerto Rico and Canada; 13 are located in Europe, and eight are located in Asia and Latin America.

Environmental Compliance
Baxter continues to face tough environmental compliance challenges related to wastewater at some of its manufacturing facilities, including at its Los Angeles plant and its Marion, North Carolina, plant. The company received 16 environmental notices of violation (NOVs) in 2004, down from the 23 received in 2003. An NOV is a written notice from a government agency that identifies an environmental noncompliance. Fifteen of the violations were related to wastewater and one violation was issued for late payment of groundwater remediation fees.

The 15 violations in 2004 primarily involved exceedances of pH and biochemical oxygen demand, a measure of the amount of oxygen consumed in the biological processes that break down organic matter in water.

Baxter paid $31,462 in environmental fines in 2004:

- $25,104 to resolve the wastewater data reporting practices at its Marion, North Carolina, facility;
- $833 for a wastewater chemical oxygen demand violation at its Singapore facility;
- $350 for exceeding its Cuernavaca, Mexico, facility’s wastewater consumption permit in 2001;
- $175 for failing to pay a government access fee for a bridge that crosses a stream at its Cuernavaca, Mexico, facility; and
- $5,000 for a 2003 air violation at its Los Angeles facility.
**OUR ENVIRONMENT**

**AT A GLANCE**

**Greenhouse Gas Emissions**

*In Million Metric Tons of Carbon Dioxide Equivalents*

<table>
<thead>
<tr>
<th>Year</th>
<th>Energy Emissions</th>
<th>Process Emissions</th>
<th>Overall Emissions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>3.80</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>0.77</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>0.79</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>0.79</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Greenhouse gas emissions from Baxter operations excluding emissions associated with material and product delivery and employee commuting and travel.

**Reduction In Emissions in Carbon Dioxide Equivalents**

<table>
<thead>
<tr>
<th>1996-2004</th>
<th>Absolute</th>
<th>Per Unit of Production Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td>(24%)</td>
<td>22%</td>
</tr>
<tr>
<td>Process</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td>Overall</td>
<td>(4%)</td>
<td>35%</td>
</tr>
</tbody>
</table>

**Historical Performance 1990–1996 as Reported in 1997**

<table>
<thead>
<tr>
<th></th>
<th>Goal: 30</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base Year</td>
<td>12</td>
</tr>
<tr>
<td>1996</td>
<td>16</td>
</tr>
<tr>
<td>2002</td>
<td>22</td>
</tr>
<tr>
<td>2003</td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td></td>
</tr>
</tbody>
</table>
Regulated Waste
In Million Kilograms of Regulated Waste Generated*

<table>
<thead>
<tr>
<th>Year</th>
<th>Disposed</th>
<th>Recycled</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>3.3</td>
<td></td>
</tr>
<tr>
<td>2002</td>
<td>4.2</td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>4.0</td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>3.6</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>5.2</td>
<td></td>
</tr>
</tbody>
</table>

Goal: 3.6**

* Excludes waste recycled on site and remediation waste. Includes certain waste streams (such as waste oils, batteries, lamps, light ballasts, asbestos) not classified as regulated in some locations.

** 2005 goal represents a 35% reduction per unit of production value from the 1996 waste generation rate.

Regulated Waste Reduction Per Unit of Production Value

- 1996–2005 Goal: 35%
- 1996–2004 Interim Objective: 31%
- 1996–2004 Results: 31%

Historical Performance

- 1989 - 1996 as reported in 1997: 33%

Packaging Reduction

Percent Packaging Reduction Versus Baseline*

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>Base Year</td>
</tr>
<tr>
<td>2002</td>
<td>14</td>
</tr>
<tr>
<td>2003</td>
<td>17</td>
</tr>
<tr>
<td>2004</td>
<td>19</td>
</tr>
</tbody>
</table>

Goal: 20*

* Measured as the sum of single-year reductions for individual projects versus percent of 1995 baseline volume.

Packaging Reduction as a Percentage of the 1995 Base Year

- 1995–2005 Goal: 20%
- 1995–2004 Interim Objective: 18%
- 1995–2004 Results: 19%

Historical Performance

- 1990 - 1995 as reported in 1997: 21%
Non-Hazardous Waste
In Million Kilograms of Non-Hazardous Waste Generated*

<table>
<thead>
<tr>
<th>Year</th>
<th>Projected waste quantity at 1996 generation rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>55</td>
</tr>
<tr>
<td>2002</td>
<td>69</td>
</tr>
<tr>
<td>2003</td>
<td>66</td>
</tr>
<tr>
<td>2004</td>
<td>60</td>
</tr>
<tr>
<td>2005</td>
<td>93</td>
</tr>
</tbody>
</table>

Goal: 60**

* Excludes production by-products reused on site. Includes discarded / returned products (such as IV solution, dextrose solution, etc.), which are non-hazardous in nature but may be classified as regulated in some countries. Excludes waste associated with Renal Home Care operations since patients may now dispose of unused product rather than returning it to Baxter for disposal.

** 2005 goal represents a 35% reduction per unit of production value from the 1996 waste generation rate.

Non-Hazardous Waste Reduction Per Unit of Production Value

<table>
<thead>
<tr>
<th>Year Range</th>
<th>Goal</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996–2005</td>
<td>35%</td>
</tr>
<tr>
<td>1996–2004</td>
<td>31%</td>
</tr>
<tr>
<td>1996–2004</td>
<td>31%</td>
</tr>
</tbody>
</table>

Historical Performance

<table>
<thead>
<tr>
<th>Year Range</th>
<th>Goal: 20%</th>
</tr>
</thead>
</table>

Process-Related CFC and Toxic Air Emissions
In Thousands of Kilograms of CFC and Toxic Air Emissions*

<table>
<thead>
<tr>
<th>Year</th>
<th>Projected waste quantity at 1996 generation rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>97</td>
</tr>
<tr>
<td>2002</td>
<td>19</td>
</tr>
<tr>
<td>2003</td>
<td>17</td>
</tr>
<tr>
<td>2004</td>
<td>21</td>
</tr>
<tr>
<td>2005</td>
<td>33**</td>
</tr>
</tbody>
</table>

* Does not include emissions from a catalyst manufacturing facility that is owned, but not operated by Baxter.

** 2005 goal, established in 1997, represents an 80% reduction in CFC and air toxic emissions per unit production value from 1996 levels.

Air Toxics Reduction Per Unit of Production Value

<table>
<thead>
<tr>
<th>Year Range</th>
<th>Goal: 80%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996–2005</td>
<td></td>
</tr>
<tr>
<td>1996–2004</td>
<td></td>
</tr>
<tr>
<td>1996–2004</td>
<td></td>
</tr>
</tbody>
</table>

Historical Performance

<table>
<thead>
<tr>
<th>Year Range</th>
<th>Goal: 86%</th>
</tr>
</thead>
</table>
Making water-based products for intravenous and other medical products is a major part of Baxter’s business. Because of this, Baxter pays careful attention to the manner in which it obtains, treats, uses, recirculates and discharges water. In 2004, Baxter obtained 54 percent of its water from on-site Baxter water wells and 46 percent from municipal water distribution systems.

### Water Pollutants

<table>
<thead>
<tr>
<th></th>
<th>Units</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>BOD² (Biochemical Oxygen Demand)</td>
<td>Metric Tons</td>
<td>26.6</td>
<td>32.6</td>
</tr>
<tr>
<td>COD² (Chemical Oxygen Demand)</td>
<td>Metric Tons</td>
<td>109.6</td>
<td>131.6</td>
</tr>
<tr>
<td>TSS² (Total Suspended Solids)</td>
<td>Metric Tons</td>
<td>48.2</td>
<td>49.9</td>
</tr>
</tbody>
</table>

¹ Estimated total water pollutant levels for treated wastewater discharging directly into waterways.

² When actual performance data was not available, estimates were developed based on performance at similar facilities.
## 2004 Environmental Financial Statement

Estimated Environmental Costs and Savings Worldwide ($ in millions)\(^1,2\)

<table>
<thead>
<tr>
<th>Environmental Costs</th>
<th>2004</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Costs of Basic Program</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate Environmental — General and Shared Multidivisional Costs(^3)</td>
<td>1.2</td>
<td>1.2</td>
<td>1.3</td>
</tr>
<tr>
<td>Auditors’ and Attorneys’ Fees</td>
<td>0.3</td>
<td>0.3</td>
<td>0.4</td>
</tr>
<tr>
<td>Energy Professionals and Programs for Energy Reductions</td>
<td>1.0</td>
<td>0.9</td>
<td>1.0</td>
</tr>
<tr>
<td>Corporate Environmental — Information Technology</td>
<td>0.3</td>
<td>0.5</td>
<td>1.0</td>
</tr>
<tr>
<td>Division/Regional/Facility Environmental Professionals and Programs</td>
<td>6.3</td>
<td>5.4</td>
<td>5.2</td>
</tr>
<tr>
<td>Packaging Professionals and Programs for Packaging Reductions</td>
<td>1.0</td>
<td>1.0</td>
<td>1.3</td>
</tr>
<tr>
<td>Pollution Controls — Operations and Maintenance</td>
<td>3.2</td>
<td>2.8</td>
<td>3.0</td>
</tr>
<tr>
<td>Pollution Controls — Depreciation</td>
<td>0.8</td>
<td>0.8</td>
<td>0.9</td>
</tr>
<tr>
<td><strong>Total Costs of Basic Program</strong></td>
<td>14.1</td>
<td>12.9</td>
<td>13.7</td>
</tr>
<tr>
<td><strong>Remediation, Waste and Other Response Costs</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Attorneys’ Fees for Cleanup Claims, NOVs</td>
<td>0.1</td>
<td>0.7</td>
<td>0.5</td>
</tr>
<tr>
<td>Settlements of Government Claims</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Waste Disposal</td>
<td>6.2</td>
<td>6.8</td>
<td>6.8</td>
</tr>
<tr>
<td>Environmental Fees for Packaging(^6)</td>
<td>1.0</td>
<td>1.0</td>
<td>0.6</td>
</tr>
<tr>
<td>Remediation/Cleanup — On site</td>
<td>0.1</td>
<td>0.4</td>
<td>0.4</td>
</tr>
<tr>
<td>Remediation/Cleanup — Off site</td>
<td>0.2</td>
<td>0.1</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Total Remediation, Waste and Other Response Costs</strong></td>
<td>7.6</td>
<td>9.0</td>
<td>8.3</td>
</tr>
<tr>
<td><strong>Total Environmental Costs</strong></td>
<td>21.7</td>
<td>21.9</td>
<td>22.0</td>
</tr>
</tbody>
</table>

## Environmental Savings

Income, Savings and Cost Avoidance from 2004 Initiatives

<table>
<thead>
<tr>
<th>Environmental Savings</th>
<th>2004</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Air Toxics Cost Reductions</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Hazardous Waste Disposal Cost Reductions</td>
<td>0.7</td>
<td>0.4</td>
<td>0.0</td>
</tr>
<tr>
<td>Hazardous Waste Material Cost Reductions</td>
<td>2.0</td>
<td>1.6</td>
<td>(0.3)</td>
</tr>
<tr>
<td>Nonhazardous Waste Disposal Cost Reductions</td>
<td>0.7</td>
<td>0.5</td>
<td>0.9</td>
</tr>
<tr>
<td>Nonhazardous Waste Material Cost Reductions</td>
<td>5.0</td>
<td>6.5</td>
<td>3.1</td>
</tr>
<tr>
<td>Recycling Income</td>
<td>3.0</td>
<td>2.9</td>
<td>1.9</td>
</tr>
<tr>
<td>Energy Conservation Cost Savings(^7)</td>
<td>9.2</td>
<td>4.2</td>
<td>3.4</td>
</tr>
<tr>
<td>Packaging Cost Reductions</td>
<td>2.9</td>
<td>1.7</td>
<td>2.4</td>
</tr>
<tr>
<td>Water Conservation Cost Savings</td>
<td>1.0</td>
<td>0.9</td>
<td>0.3</td>
</tr>
<tr>
<td><strong>Total Report-Year Environmental Savings(^8)</strong></td>
<td>24.5</td>
<td>18.7</td>
<td>11.7</td>
</tr>
<tr>
<td><strong>As a Percentage of the Costs of Basic Program</strong></td>
<td>174%</td>
<td>144%</td>
<td>85%</td>
</tr>
</tbody>
</table>

## Summary of Savings

<table>
<thead>
<tr>
<th>Summary of Savings</th>
<th>2004</th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Report-Year Environmental Savings</td>
<td>24.5</td>
<td>18.7</td>
<td>11.7</td>
</tr>
<tr>
<td>Cost Avoidance in Report-Year from Efforts Initiated in the Six Years Prior to Report-Year(^4,5)</td>
<td>57.4</td>
<td>40.4</td>
<td>41.9</td>
</tr>
<tr>
<td><strong>Total Income, Savings and Cost Avoidance in Report-Year</strong></td>
<td>81.9</td>
<td>59.1</td>
<td>53.6</td>
</tr>
</tbody>
</table>

---

1. Details on the cost avoidance from initiatives completed in prior years are provided at www.baxter.com/env_financials.
2. Given the manner in which data has been gathered and calculated, the totals have been rounded to reflect an appropriate degree of accuracy.
3. Corporate environmental costs have been restated using a method that more accurately reflects the environmental portion of total EHS costs. Corporate environmental costs are composed of environmental costs related to operating the worldwide environmental resources and the environmental regulatory law programs. While the traditional Corporate EHS and certain divisions integrated in the fourth quarter of 2003, we left the costs of the divisional programs in the Division/Region/Facility environmental costs line, as those environmental costs more directly support the facility programs. Additionally, the corporate environmental costs include the costs of the environmental engineering department that were traditionally reflected in previous reports as the corporate environmental and energy engineering costs. The corporate environmental costs for 2003 and 2002 have been restated to incorporate the environmental engineering costs.
4. In calculating savings and cost avoidance for waste reduction activities, it is assumed that production and distribution activity grew proportionately with the cost of goods sold adjusted for changes in inventory and inflation. To determine the financial values for each stated year, a three-year rolling average of the annual percent change in growth is used. Through the year 2004, the three-year rolling average was 8 percent, through 2003 – 9 percent, and through 2002 – 7 percent. We use this rolling average to avoid distortions due to startups and delayed environmental effects from production changes.
5. Accumulation of cost avoidance is terminated at 7 years, which is the approximate life of new facility projects and product developments.
6. Environmental fees for packaging have been estimated for 2004. This expense will be updated once final figures are received from the appropriate sources.
7. The increase in cost savings and avoidance associated with energy conservation is due to, in part, the continued trend of increased energy costs throughout the world.
Baxter’s Sustainability Reporting Milestones

1991
- Issued public environmental report.

1993
- Prepared environmental report for internal use.

1994
- Published report on the Internet.
- Developed initial reporting principles and process verification.

1995

1997
- Included health and safety data in the report.

1998

1999
- Used Good EHS Reporting Principles (GERP).
- Published full sustainability report covering the “triple bottom line” of economic, social and environmental sustainability.
- Began having an outside auditor evaluate internal processes for collecting, verifying, adjusting and reporting EHS report data.

2000
- Published 2000 sustainability report—“Balance.”

2001
- Published 2001 sustainability report—“Seeing Tomorrow Today.”

2002
- Published 2002 sustainability report—“Our Progress: Generation to Generation.”

2003

2004
- Published Baxter’s first online-only sustainability report.

Contacting Baxter Regarding Sustainability

To receive more information about Baxter’s sustainability activities, to order additional copies of this report and to give us your feedback, please contact us at 1-800-422-9837 or 1-847-948-4770, or by e-mail at onebaxter@baxter.com.

As one of the first companies to pilot the Global Reporting Initiative (GRI) guidelines, Baxter continues to align its online and print summary report to the guidelines, which provide a rigorous framework for reporting across the triple bottom line. Since Baxter’s launch of an online sustainability report last year, the company has received formal and informal stakeholder feedback on its reporting approach. Given the diversity of responses related to online versus print preferences, Baxter decided to issue this print summary companion to its online information to provide more accessibility to the performance highlights from 2004 as well as give more guidance about how to navigate the site. The company invites feedback on its reporting approach and progress in this area.

Memberships:

Recognition:

WebLinks: Baxter’s GRI Summary Chart

www.baxter.com/GRI
The matters discussed in this 2004 Sustainability Report that are not historical facts include forward-looking statements. These statements are based on the company's current expectations and involve numerous risks and uncertainties. Many factors could affect the company's actual results, causing results to differ, possibly materially, from those expressed in any such forward-looking statements. These factors include, but are not limited to: the company's ability to realize in a timely manner the anticipated benefits of restructuring initiatives; the effect of economic conditions; technological developments in the healthcare field; advances in environmental protection processes; and other factors more completely described in Baxter's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and other documents filed by the company with the U.S. Securities and Exchange Commission, which are available on the company's website at www.baxter.com. The company disclaims any current intention to update any forward-looking statements as a result of new information, future events, changed assumptions or otherwise, and all forward-looking statements in this Report speak only as of the date of this Report.

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