

BAXTER INTERNATIONAL INC
Form DEF 14A
March 21, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934
(Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

BAXTER INTERNATIONAL INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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- x No fee required.
- .. Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.
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 - 1) Amount Previously Paid:

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3) Filing Party:

4) Date Filed:

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Baxter International Inc.

One Baxter Parkway

Deerfield, Illinois 60015

March 21, 2014

Dear Shareholder:

You are invited to attend Baxter's Annual Meeting of Shareholders on Tuesday, May 6, 2014 at 9:00 a.m., Central Time, at our corporate headquarters located at One Baxter Parkway, Deerfield, Illinois. Registration will begin at 8:00 a.m.

Details of the business to be conducted at the Annual Meeting are included in the attached Notice of Annual Meeting of Shareholders and Proxy Statement. If you plan to attend the Annual Meeting, please review the information on attendance provided on page 53 of the Proxy Statement.

In accordance with Securities and Exchange Commission rules, Baxter has elected to deliver its proxy materials over the Internet to most shareholders, which allows shareholders to receive information on a more timely basis, while lowering the company's printing and mailing costs and reducing the environmental impact of the Annual Meeting.

Your vote is very important. Whether or not you plan to attend in person, I urge you to vote your shares as promptly as possible. You may vote your shares by Internet or by telephone. If you received a paper copy of the proxy card by mail, you may sign, date and return the proxy card in the enclosed envelope. If you attend the Annual Meeting, you may revoke your proxy and vote in person.

Very truly yours,

Robert L. Parkinson, Jr.

Chairman of the Board

and Chief Executive Officer

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Baxter International Inc.

One Baxter Parkway

Deerfield, Illinois 60015

March 21, 2014

Notice of Annual Meeting of Shareholders

The 2014 Annual Meeting of Shareholders of Baxter International Inc. will be held at our corporate headquarters located at One Baxter Parkway, Deerfield, Illinois, on Tuesday, May 6, 2014 at 9:00 a.m., Central Time, for the following purposes:

1. To elect the four directors named in the attached Proxy Statement to hold office for a term of three years.
2. To ratify the appointment of PricewaterhouseCoopers LLP as the independent registered public accounting firm for Baxter in 2014.
3. To approve named executive officer compensation.
4. To vote on two shareholder proposals described in the Proxy Statement, if such proposals are properly presented at the Annual Meeting.
5. To transact any other business that may properly come before the meeting.

The Board of Directors recommends that shareholders vote **FOR** Items 1, 2, and 3. The Board of Directors recommends that shareholders vote **AGAINST** both shareholder proposals. Shareholders of record at the close of business on March 10, 2014 will be entitled to vote at the meeting.

By order of the Board of Directors,

David P. Scharf

Corporate Secretary

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY

MATERIALS FOR THE ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD ON MAY 6, 2014

This Proxy Statement relating to the 2014 Annual Meeting of Shareholders and

the Annual Report to Shareholders for the year ended December 31, 2013 are

available at <http://materials.proxyvote.com/071813>.

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Proxy Statement

The accompanying proxy is solicited on behalf of the Board of Directors for use at the Annual Meeting of Shareholders to be held on Tuesday, May 6, 2014. On or about March 21, 2014, Baxter began mailing to shareholders a Notice of Internet Availability of Proxy Materials providing instructions on how to access proxy materials via the Internet and how to vote online (www.proxyvote.com). Shareholders who did not receive the Notice of Internet Availability of Proxy Materials as a result of a previous election will receive a paper or electronic copy of the proxy materials, which Baxter also began sending on or about March 21, 2014. As used in this Proxy Statement, Baxter or the company means Baxter International Inc. and its consolidated subsidiaries.

General Information

Q: Who is entitled to vote?

A: All record holders of Baxter common stock as of the close of business on March 10, 2014 are entitled to vote. On that day, approximately 540,935,926 shares were issued and outstanding. Each share is entitled to one vote on each matter presented at the Annual Meeting.

Q: How do I vote?

A: Baxter offers registered shareholders three ways to vote, other than by attending the Annual Meeting and voting in person:

By Internet, following the instructions on the Notice or the proxy card;

By telephone, using the telephone number printed on the proxy card; or

By mail (if you received your proxy materials by mail), using the enclosed proxy card and return envelope.

Q: How do I attend the Annual Meeting? What do I need to bring?

A: In order to be admitted to the Annual Meeting, you must bring documentation showing that you owned Baxter common stock as of the record date of March 10, 2014. Acceptable documentation includes (i) your Notice of Internet Availability of Proxy Materials, (ii) the admission ticket attached to your proxy card (if you received your proxy materials by mail), or (iii) any other proof of ownership (such as a brokerage or bank statement) reflecting your Baxter holdings as of March 10, 2014. All attendees must also bring valid photo identification. Shareholders who do not bring this documentation will not be admitted to the Annual Meeting. Please refer to Other Information Attending the Annual Meeting on page 53 of this Proxy Statement for more information.

Q: How do I vote shares that are held by my broker?

A: If you have shares held by a broker or other nominee, you may instruct your broker or other nominee to vote your shares by following instructions that your broker or nominee provides to you. Most brokers offer voting by mail, telephone and the Internet.

Q: What does it mean to vote by proxy?

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A: It means that you give someone else the right to vote your shares in accordance with your instructions. In this way, you ensure that your vote will be counted even if you are unable to attend the Annual Meeting. If you give your proxy but do not include specific instructions on how to vote, the individuals named as proxies will vote your shares in accordance with the following recommendations of the Board of Directors:

Company Proposals

- Proposal 1** Election of Directors
- Proposal 2** Ratification of Independent Registered Public Accounting Firm
- Proposal 3** Advisory Vote to Approve Named Executive Officer Compensation

Board Recommendation

FOR
FOR
FOR

Shareholder Proposals

- Proposal 4** Right to Act by Written Consent
- Proposal 5** Executives to Retain Significant Stock

Board Recommendation

AGAINST
AGAINST

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Q: What if I submit a proxy and later change my mind?

A: If you have given your proxy and later wish to revoke it, you may do so by giving written notice to the Corporate Secretary, submitting another proxy bearing a later date (in any of the permitted forms), or casting a ballot in person at the Annual Meeting.

Q: What happens if other matters are raised at the meeting?

A: If other matters are properly presented at the meeting, the individuals named as proxies will have the discretion to vote on those matters for you in accordance with their best judgment. However, Baxter's Corporate Secretary has not received timely and proper notice from any shareholder of any other matter to be presented at the meeting.

Q: How is it determined whether a matter has been approved?

A: Assuming a quorum is present, the approval of the matters specified in the Notice of Annual Meeting of Shareholders will be determined as follows:

Each nominee for director receiving a majority of votes cast (number of shares voted for a director must exceed 50% of the number of votes cast with respect to that director) will be elected as a director; and

Each other matter requires the affirmative vote of a majority of the shares of common stock, present in person or by proxy and entitled to vote at the Annual Meeting.

Q: Who will count the vote?

A: Baxter has engaged Broadridge Financial Solutions, Inc. (Broadridge) to serve as the tabulator of votes and a representative of Broadridge will serve as the Inspector of Election at the Annual Meeting.

Q: How do I find out the voting results?

A: Preliminary results are typically announced at the Annual Meeting. Final voting results will be reported on a Form 8-K filed with the Securities and Exchange Commission following the Annual Meeting.

Q: What constitutes a quorum?

A: A majority of the outstanding shares of common stock entitled to vote, represented at the meeting in person or by proxy, constitutes a quorum. Broker non-votes and abstentions will be counted for purposes of determining whether a quorum is present.

Q: What are broker non-votes?

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A: Broker non-votes occur when nominees, such as banks and brokers holding shares on behalf of beneficial owners, do not receive voting instructions from the beneficial holders at least ten days before the meeting. If that happens, the nominees may vote those shares only on matters deemed routine by the New York Stock Exchange (NYSE), such as the ratification of the appointment of the company's independent registered public accounting firm. On non-routine matters nominees cannot vote unless they receive voting instructions from beneficial owners, resulting in so called broker non-votes. The items being considered at the 2014 Annual Meeting, except for the ratification of the appointment of the company's independent registered public accounting firm, are considered non-routine matters.

Q: What effect does an abstention have?

A: Abstentions or directions to withhold authority will have no effect on the outcome of the election of directors. Abstentions will have the same effect as a vote against any of the other matters specified in the Notice of Annual Meeting of Shareholders.

Q: What is householding and how does it affect me?

A: Baxter has adopted householding, a procedure under which shareholders of record who have the same address and last name and do not receive proxy materials electronically will receive a single Notice of Internet Availability of Proxy Materials or set of proxy materials, unless one or more of these shareholders notifies the company that they wish to continue receiving individual copies. Shareholders who participate in householding will continue to receive separate proxy cards. This procedure can result in significant savings to the company by reducing printing and postage costs.

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If you participate in householding and wish to receive a separate Notice of Internet Availability of Proxy Materials or set of proxy materials, or if you wish to receive separate copies of future Notices, annual reports and proxy statements, please call 1-800-542-1061 or write to: Broadridge Financial Solutions, Inc., Household Department, 51 Mercedes Way, Edgewood, New York 11717. The company will deliver the requested documents to you promptly upon your request.

Any shareholders of record who share the same address and currently receive multiple copies of proxy materials who wish to receive only one copy of these materials per household in the future may contact Broadridge Financial Solutions, Inc. at the address or telephone number listed above. If you hold your shares through a broker, bank or other nominee, please contact your broker, bank, or other nominee to request information about householding.

Q: What shares are covered by the proxy card?

A: The proxy card covers all shares held by you of record (*i.e.*, registered in your name), including any shares credited to your Incentive Investment Plan account or Puerto Rico Savings and Investment Plan account held in custody by the plan trustee. If you hold your shares through a broker, bank or other nominee, you will receive separate instructions from your broker, bank or other nominee describing how to vote your shares.

Q: How do I vote if I hold my shares through the Baxter Incentive Investment Plan or Puerto Rico Savings and Investment Plan?

A: If you are a current or former Baxter employee with shares credited to your account in the Incentive Investment Plan or Puerto Rico Savings and Investment Plan, then your completed proxy card (or vote via the Internet or by telephone) will serve as voting instructions to the plan trustee. The trustee will vote the shares credited to your account as you direct, except as may be required by the Employee Retirement Income Security Act (ERISA). Shares for which the trustee has not received timely instructions shall be voted by the trustee to the extent permitted by the Incentive Investment Plan or Puerto Rico Savings and Investment Plan or required by law in its uncontrolled discretion. To allow sufficient time for voting by the plan trustee, your voting instructions must be received by May 1, 2014.

Q: Does the company offer an opportunity to receive future proxy materials electronically?

A: Yes. If you wish to receive future proxy materials over the Internet instead of receiving copies in the mail, follow the instructions provided when you vote through the Internet. If you vote by telephone, you will not have the option to elect electronic delivery while voting. If you elect electronic delivery, the company will discontinue mailing the proxy materials to you beginning next year and will send you an e-mail message notifying you of the Internet address or addresses where you may access next year's proxy materials and vote your shares. You may discontinue electronic delivery at any time.

Q: What are the benefits of electronic delivery?

A: Electronic delivery reduces the company's printing and mailing costs as well as the environmental impact of the Annual Meeting. It is also a convenient way for you to receive your proxy materials and makes it easy to vote your shares over the Internet.

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Proposal 1 Election of Directors

Baxter's Board of Directors currently consists of thirteen members and is divided into three classes. The directors in each class serve three-year terms. The Board has nominated four of the current directors of Baxter whose terms expire at the 2014 Annual Meeting for re-election as directors.

Baxter's Bylaws require each director to be elected by the majority of the votes cast with respect to such director in uncontested elections; that is, the number of shares voted for a director must exceed 50% of the number of votes cast with respect to that director. Abstentions will not be considered votes cast. In a contested election (a situation in which the number of nominees exceeds the number of directors to be elected), the standard for election of directors will be a plurality of the shares represented in person or by proxy at any such meeting and entitled to vote on the election of directors. If a nominee who is serving as a director is not elected at an Annual Meeting of Shareholders, under Delaware law the director would continue to serve on the Board as a holdover director. However, under Baxter's Bylaws, any incumbent director who fails to be elected must offer his or her resignation to the Board. The Corporate Governance Committee would then make a recommendation to the Board whether to accept or reject the resignation, or whether other action should be taken. The Board would act on the Corporate Governance Committee's recommendation and publicly disclose its decision and the rationale behind it within 90 days from the date that the election results are certified. The director who offers his or her resignation would not participate in the Board's decision.

All of the nominees have indicated their willingness to serve if elected, but if any should be unable or unwilling to stand for election, proxies may be voted for a substitute nominee designated by the Board of Directors. No nominations for directors were received from shareholders, and no other candidates are eligible for election as directors at the 2014 Annual Meeting. Unless proxy cards are otherwise marked, the individuals named as proxies intend to vote the shares represented by proxy in favor of all of the Board's nominees.

Set forth below is information concerning the nominees for election as well as the current directors in each class continuing after the Annual Meeting of Shareholders.

The Board of Directors recommends a vote **FOR** the election of each of the director nominees.

Nominees for Election as Directors (Term Expires 2014)

Wayne T. Hockmeyer, Ph.D., age 69, has served as a Director of Baxter since September 2007. Dr. Hockmeyer founded MedImmune, Inc., a healthcare company focused on infectious diseases, cancer and inflammatory diseases, and served as Chairman and/or Chief Executive Officer of MedImmune from 1988 to 2007. Prior to that, he was vice president of laboratory research and product development at Praxis Biologics Inc. and chief of the Department of Immunology at Walter Reed Army Institute of Research. Dr. Hockmeyer serves as a director of GenVec Inc. and Idenix Pharmaceuticals Inc. and previously served as a director of MedImmune, Inc. and Middlebrook Pharmaceuticals, Inc.

Robert L. Parkinson, Jr., age 63, is Chairman and Chief Executive Officer of Baxter, having served in that capacity since April 2004. Prior to joining Baxter, Mr. Parkinson was Dean of Loyola University Chicago School of Business Administration and Graduate School of Business from 2002 to 2004. He retired from Abbott Laboratories in 2001 following a 25-year career, having served in a variety of domestic and international management and leadership positions, including as President and Chief Operating Officer. Mr. Parkinson also serves on the Board of Directors of Chicago-based Northwestern Medical Group, and as Chairman of the Loyola University Chicago Board of Trustees.

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Thomas T. Stallkamp, age 67, has served as a Director of Baxter since 2000. Mr. Stallkamp is the founder and principal of Collaborative Management LLC, a private supply chain consulting firm. From 2004 to 2010, Mr. Stallkamp was an Industrial Partner in Ripplewood Holdings L.L.C., a New York private equity group. From 2003 to 2004, Mr. Stallkamp served as Chairman of MSX International, Inc., a global provider of technology-driven engineering, business and specialized staffing services, and from 2000 to 2003, he served as Vice-Chairman and Chief Executive Officer of MSX. From 1980 to 1999, Mr. Stallkamp held various positions with DaimlerChrysler Corporation and its predecessor Chrysler Corporation, the most recent of which was Vice Chairman and President. Mr. Stallkamp serves as a director of BorgWarner Inc. and as a trustee of EntrepreneurShares Series Trust.

Albert P.L. Stroucken, age 66, has served as a Director of Baxter since 2004. Mr. Stroucken has served as Chairman, President and Chief Executive Officer of Owens-Illinois, Inc., a glass packaging company, since 2006 and as director since 2005. From 1998 to 2006, Mr. Stroucken served as President and Chief Executive Officer of H.B. Fuller Company, a manufacturer of adhesives, sealants, coatings, paints and other specialty chemicals. Mr. Stroucken served as Chairman of the Board of H.B. Fuller Company from 1999 to 2006. From 1997 to 1998, he was General Manager of the Inorganics Division of Bayer AG. From 1992 to 1997, Mr. Stroucken was Executive Vice President and President of the Industrial Chemicals Division of Bayer Corporation.

Directors Continuing in Office (Term Expires 2015)

Uma Chowdhry, Ph.D., age 66, has served as a Director of Baxter since 2012. From 2006 until her retirement in 2010, Dr. Chowdhry served as Senior Vice President and Chief Science and Technology Officer at E. I. DuPont de Nemours & Company where she was responsible for DuPont's worldwide science and technology. She started her career at DuPont in 1977 as a research scientist in the Central Research and Development Department (CR&D) at the DuPont Experimental Station and held positions of increasing responsibility in both technology and business management, including service as director of DuPont Engineering Technology and as Vice President of CR&D.

James R. Gavin III, M.D., Ph.D., age 68, has served as a Director of Baxter since 2003. Dr. Gavin is Chief Executive Officer and Chief Medical Officer of Healing Our Village, Inc., a corporation that specializes in targeted advocacy, training, education, disease management and outreach for health care professionals and minority communities, having previously served as Executive Vice President for Clinical Affairs at Healing Our Village from 2005 to 2007. Dr. Gavin is also Clinical Professor of Medicine and Senior Advisor of Health Affairs at Emory University, a position he has held since 2005. From 2002 to 2005, Dr. Gavin was President of the Morehouse School of Medicine and from 1991 to 2002, he was Senior Science Officer at Howard Hughes Medical Institute, a nonprofit medical research organization. Dr. Gavin previously served as a director of Amylin Pharmaceuticals, Inc. and Nuvelo Inc.

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Peter S. Hellman, age 64, has served as a Director of Baxter since 2005 and was appointed lead director in May 2011. From 2000 until his retirement in 2008, Mr. Hellman held various positions at Nordson Corporation, a manufacturer of systems that apply adhesives, sealants and coatings during manufacturing operations, the most recent of which was President and Chief Financial and Administrative Officer. From 1989 to 1999, Mr. Hellman held various positions with TRW Inc., the most recent of which was President and Chief Operating Officer. Mr. Hellman currently serves as a director of The Goodyear Tire & Rubber Company and Owens-Illinois, Inc. Mr. Hellman previously served as a director of Qwest Communications International Inc. and Nordson Corporation.

K. J. Storm, age 71, has served as a Director of Baxter since 2003. Mr. Storm is a registered accountant (the Dutch equivalent of a Certified Public Accountant) and was Chief Executive Officer of AEGON N.V., an international insurance group, from 1993 until his retirement in 2002. Mr. Storm is Chairman of the Board of Anheuser-Busch InBev S.A., Chairman of the Supervisory Board of KLM Royal Dutch Airlines, Vice-Chairman of the Supervisory Board of PON Holdings B.V., a member of the Supervisory Board of AEGON N.V., and Vice-Chairman of the Board of Unilever N.V. and PLC.

Directors Continuing in Office (Term Expires 2016)

Thomas F. Chen, age 64, has served as a Director of Baxter since 2012. Mr. Chen served as Senior Vice President and President of International Nutrition of Abbott Laboratories before retiring in 2010. During his 22-year career at Abbott, Mr. Chen served in a number of roles with expanded responsibilities, primarily in Pacific/Asia/Africa where he oversaw expansion into a number of emerging markets. Prior to Abbott, he held several management positions at American Cyanamid Company, which later merged with Pfizer. Mr. Chen previously served as a director of Cyanotech Corporation.

Blake E. Devitt, age 67, has served as a Director of Baxter since 2005. Mr. Devitt retired in 2004 from the public accounting firm of Ernst & Young LLP. During his 33-year career at Ernst & Young, Mr. Devitt held several positions, including Senior Audit Partner and Director, Pharmaceutical and Medical Device Industry Practice, from 1994 to 2004.

John D. Forsyth, age 66, has served as a Director of Baxter since 2003. Mr. Forsyth has been Chairman of Wellmark Blue Cross Blue Shield, a healthcare insurance provider for residents of Iowa and South Dakota, since 2000 and Chief Executive Officer since 1996. Prior to that, he spent more than 25 years at the University of Michigan Health System, holding various positions, including President and Chief Executive Officer.

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Gail D. Fosler, age 66, has served as a Director of Baxter since 2001. Ms. Fosler is President of The GailFosler Group LLC, a strategic advisory service for global business leaders and public policy makers. Ms. Fosler also serves as Senior Advisor to the Business Council and leads the organization's partnership with The Conference Board, a global research and business membership organization. During her more than 20 year career at The Conference Board, Ms. Fosler held several positions including President, Executive Vice President and Chief Economist. Ms. Fosler previously served as a director of Caterpillar Inc.

Carole J. Shapazian, age 70, has served as a Director of Baxter since 2003. Ms. Shapazian served as Executive Vice President of Maytag Corporation, a producer of home and commercial appliances, and as President of Maytag's Home Solutions Group, from January 2000 to December 2000. Prior to that, Ms. Shapazian was Executive Vice President and Assistant Chief Operating Officer of Polaroid Corporation, a photographic equipment and supplies corporation, from 1998 to 1999, having previously served as Executive Vice President and President of Commercial Imaging.

Board of Directors

Baxter's Board of Directors currently consists of thirteen members. The Board has determined that each of the following twelve current directors satisfies Baxter's independence standards and the New York Stock Exchange's listing standards for independence: Thomas F. Chen, Uma Chowdhry, Ph.D., Blake E. Devitt, John D. Forsyth, Gail D. Fosler, James R. Gavin III, M.D., Ph.D., Peter S. Hellman, Wayne T. Hockmeyer, Ph.D., Carole J. Shapazian, Thomas T. Stallkamp, K. J. Storm and Albert P.L. Stroucken. Please refer to the section entitled "Corporate Governance - Director Independence" on page 10 of this Proxy Statement for a discussion of Baxter's independence standards.

During 2013, the Board held nine meetings. The average attendance of all directors at board and committee meetings in 2013 was 96% and each director attended at least 75% of the total number of board meetings and meetings of the committees on which he or she served. In accordance with Baxter's Corporate Governance Guidelines, which express the company's expectation that directors attend the Annual Meeting of Shareholders, all of the company's directors attended the Annual Meeting of Shareholders held on May 7, 2013.

Committees of the Board

The standing committees of the Board of Directors are the Audit Committee, Compensation Committee, Corporate Governance Committee, Finance Committee, Public Policy Committee and Science and Technology Committee. Each committee consists solely of independent directors and is governed by a written charter. All such committee charters are available on Baxter's website at www.baxter.com under "About Baxter Corporate Governance - Board of Directors - Committees of the Board." Each committee is permitted under its respective charter to meet in executive session without any management personnel present and to delegate its authority to subcommittees when appropriate.

Audit Committee

The Audit Committee is currently composed of Blake E. Devitt (Chair), Thomas T. Stallkamp, K. J. Storm and Albert P.L. Stroucken, each of whom is independent under the rules of the New York Stock Exchange and Rule 10A-3 of the Securities Exchange Act of 1934, as amended. The Board has determined that Messrs. Devitt, Stallkamp, Storm and Stroucken each qualify as an "audit committee financial expert" as defined by the rules of the Securities and Exchange Commission (SEC). The Audit Committee is primarily concerned with the integrity of Baxter's financial statements, system of internal accounting controls, the internal and external audit process, and the process for monitoring compliance with laws and regulations. The Audit Committee's duties include: (1) reviewing the adequacy and effectiveness of Baxter's internal control over financial

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reporting with management and the external and internal auditors, and reviewing with management Baxter's disclosure controls and procedures; (2) retaining and evaluating the qualifications, independence and performance of the independent registered public accounting firm; (3) approving audit and permissible non-audit engagements to be undertaken by the independent registered public accounting firm; (4) reviewing the scope of the annual external and internal audits; (5) reviewing and discussing Baxter's financial statements (audited and non-audited), as well as earnings press releases and related information, prior to their filing or release; (6) overseeing legal and regulatory compliance as it relates to financial matters; (7) holding separate executive sessions with the independent registered public accounting firm, the internal auditor and management; and (8) discussing guidelines and policies governing the process by which Baxter assesses and manages risk. The Audit Committee met 13 times in 2013. The Audit Committee Report appears on page 46.

Compensation Committee

The Compensation Committee is currently composed of John D. Forsyth (Chair), Peter S. Hellman, Carole J. Shapazian and Thomas T. Stallkamp, each of whom is independent under the rules of the New York Stock Exchange. The Compensation Committee exercises the authority of the Board relating to employee benefit and equity-based plans and the compensation of the company's officers. The Compensation Committee's duties include: (1) making recommendations for consideration by the Board, in executive session and in coordination with the Corporate Governance Committee, concerning the compensation of the Chief Executive Officer; (2) determining the compensation of the company's officers (other than the Chief Executive Officer) and advising the Board of such determination; (3) making recommendations to the Board with respect to incentive compensation plans and equity-based plans and exercising the authority of the Board concerning benefit plans; (4) serving as the administration committee of the company's equity-based plans; (5) making recommendations to the Board concerning director compensation; (6) reviewing the adequacy of the company's stock ownership guidelines and periodically assessing compliance with these guidelines; and (7) overseeing the company's compensation philosophy and strategy and periodically assessing the risk related to its compensation policies and practices. The Corporate Governance and Compensation Committees work together to establish a link between Mr. Parkinson's performance and decisions regarding his compensation. All compensation actions relating to Mr. Parkinson are subject to the approval of the independent directors of the Board. The Compensation Committee met four times in 2013. The Compensation Committee Report appears on page 29.

The Compensation Committee has the sole and direct responsibility for the appointment, compensation and oversight of the work of any advisor retained by the Compensation Committee, and it has directly engaged George B. Paulin, Chairman and Chief Executive Officer of Frederic W. Cook & Co., Inc. (Cook & Co.), as its compensation consultant. Additionally, Aon Hewitt assists the Compensation Committee with the compilation of market data from time to time. Mr. Paulin reports directly and exclusively to the Compensation Committee and his firm provides no other services to Baxter except advising on executive and Board compensation matters. He provides analyses and recommendations that inform the Compensation Committee's decisions, but he does not decide or approve any compensation actions. During 2013, he advised the Compensation Committee Chairman on setting agenda items for Committee meetings; reviewed management proposals presented to the Compensation Committee; assisted in the Compensation Committee's assessment of Baxter's compensation policies and practices; and conducted a review of the compensation of non-employee directors at Baxter's peer companies. In accordance with the rules of the SEC and the New York Stock Exchange regarding the independence of compensation consultants, Mr. Paulin provided the Compensation Committee information regarding any personal, financial, or business relationships between Cook & Co. and Baxter, its management or the members of the Compensation Committee that could impair its independence or present a conflict of interest. Based on its review of this information, the Compensation Committee determined that there were no relationships that impair the independence or create a conflict of interest between Baxter and Cook & Co. and the partners, consultants, and employees who provide services to the Compensation Committee. In addition, the Compensation Committee annually reviews the substantive performance of Mr. Paulin and Cook & Co. as part of its engagement process.

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Corporate Governance Committee

The Corporate Governance Committee is currently composed of James R. Gavin III, M.D., Ph.D. (Chair), Uma Chowdhry, Ph.D., Blake E. Devitt, John D. Forsyth and Gail D. Fosler, each of whom is independent under the rules of the New York Stock Exchange. The Corporate Governance Committee assists and advises the Board on director nominations, corporate governance and general Board organization and planning matters. The Corporate Governance Committee's duties include: (1) developing criteria for use in evaluating and selecting candidates for election or re-election to the Board and assisting the Board in identifying and attracting qualified director candidates; (2) selecting and recommending that the Board approve the director nominees for the next Annual Meeting of Shareholders and recommending persons to fill any vacancy on the Board; (3) determining Board committee structure and membership; (4) overseeing the succession planning process for management, including the Chief Executive Officer; (5) developing and implementing an annual process for evaluating the performance of the Chief Executive Officer; (6) developing and implementing an annual process for evaluating Board and committee performance; and (7) reviewing at least annually the adequacy of Baxter's Corporate Governance Guidelines. The Corporate Governance Committee met five times in 2013.

Finance Committee

The Finance Committee is currently composed of K. J. Storm (Chair), Thomas F. Chen, Gail D. Fosler, Peter S. Hellman, Wayne T. Hockmeyer, Ph.D. and Albert P.L. Stroucken. The Finance Committee assists the Board in fulfilling its responsibilities in connection with the company's financial affairs. The Finance Committee's duties include: (1) reviewing and, subject to the limits specified in its charter, approving or making recommendations to the Board regarding financial proposals, proposed acquisitions, divestitures and other similar transactions, and proposed capital expenditures; (2) reviewing and making recommendations to the Board regarding dividend proposals and plans for the repurchase of shares; (3) reviewing the management of pension assets; and (4) overseeing Baxter's significant financial policies and actions, including with respect to Baxter's capital and tax structure, portfolio investments, hedging activities, use of derivative instruments and insurance coverage. The Finance Committee met five times in 2013.

Public Policy Committee

The Public Policy Committee is currently composed of Carole J. Shapazian (Chair), Thomas F. Chen, Gail D. Fosler and James R. Gavin III, M.D., Ph.D. The Public Policy Committee assists the Board in fulfilling its oversight responsibilities with respect to legal, regulatory and other compliance matters, and advises the Board with respect to Baxter's responsibilities as a global corporate citizen. The Public Policy Committee's duties include: (1) reviewing Baxter's policies and practices with respect to maintaining legal, regulatory and other compliance; (2) reviewing and making recommendations regarding Baxter's Ethics & Compliance program and Corporate Responsibility Office; (3) reviewing and making recommendations regarding Quality and Regulatory programs; (4) reviewing and making recommendations regarding the company's Government Affairs Program and Political Action Committee (BAXPAC); (5) reviewing and making recommendations regarding environment health and safety, sustainability and global inclusion initiatives; and (6) reviewing and making recommendations regarding community relations activities and charitable contributions. The Public Policy Committee met three times in 2013.

Science and Technology Committee

The Science and Technology Committee is currently composed of Wayne T. Hockmeyer, Ph.D. (Chair), Uma Chowdhry, Ph.D., James R. Gavin III, M.D., Ph.D. and Carole J. Shapazian. The Science and Technology Committee assists and advises the Board with regard to science and technology matters, and its duties include: (1) overseeing Baxter's research and development (R&D) strategies and objectives, including with respect to Baxter Ventures; (2) reviewing the company's R&D pipeline and significant technology platforms; and (3) evaluating emerging issues and trends in science and technology that may affect Baxter's overall business strategy. The Science and Technology Committee met for three extended sessions in 2013.

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Corporate Governance

Director Independence

Baxter's Corporate Governance Guidelines require that the Board be composed of a majority of directors who meet the criteria for independence established by the rules of the New York Stock Exchange. To be considered independent, the Board must affirmatively determine that a director does not have any direct or indirect material relationship with Baxter (either directly or as a partner, shareholder or officer of an organization that has a relationship with Baxter), and solely with regard to Compensation Committee Members, consider all relevant factors that could impair the ability of such Compensation Committee members to make independent judgments about executive compensation.

In making its independence determinations, the Board considers transactions, relationships and arrangements between Baxter and entities with which directors are associated as executive officers, directors and trustees. When these transactions, relationships and arrangements exist, they are in the ordinary course of business and are of a type customary for a global diversified company such as Baxter. More specifically, with respect to each of the three most recent fiscal years, the Board evaluated for Dr. Gavin the annual amount of payments to Emory University and determined that the amount of payments in each such fiscal year was well below two percent of the consolidated gross revenues of Emory University during each such fiscal year.

Director Qualifications

As discussed below in Nomination of Directors, directors are selected on the basis of the specific criteria set forth in Baxter's Corporate Governance Guidelines. The experience, expertise and knowledge represented by the Board of Directors as a collective body allows the Board to lead Baxter in a manner that serves its shareholders' interests appropriately. Set forth below is a discussion of the key qualifications for each of the directors.

Mr. Chen Extensive international business experience through his 22-year career at Abbott Laboratories, with a distinct global perspective resulting from his focus on emerging markets, particularly in China, India and other Asia Pacific regions

Dr. Chowdhry Substantial scientific and research and development expertise through her more than 30-year career at E. I. DuPont de Nemours & Company, including her service as Senior Vice President and Chief Science & Technology Officer

Mr. Devitt Significant accounting expertise and knowledge of the healthcare industry through his 33-year career at Ernst & Young, including his service as Director of the Pharmaceutical and Medical Device Industry Practice

Mr. Forsyth Extensive experience in the healthcare industry as well as an understanding of the challenges associated with leading and operating within large, complex organizations as current Chairman and Chief Executive Officer of Wellmark Blue Cross Blue Shield and given his 25 years of management experience at the University of Michigan Health System

Ms. Fosler Substantial experience with respect to corporate best practices as well as significant global economic expertise, with an emphasis on emerging markets, especially China, as a result of her more than 20-year leadership career at The Conference Board and her other public-company board service

Dr. Gavin Extensive medical and scientific expertise and knowledge of the healthcare industry as a result of the positions he has held at Emory University, the Morehouse School of Medicine and Howard Hughes Medical Institute as well as leadership experience given his service as Chief Executive Officer and Chief Medical Officer of Healing Our Village, Inc.

Mr. Hellman Significant financial and operational expertise and experience leading complex, multi-faceted corporations with a considerable global presence as a result of the various senior positions held at Nordson Corporation and TRW Inc. as well as extensive experience serving on public-company boards

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Dr. Hockmeyer Substantial experience developing and running a significant healthcare company as founder and Chairman and Chief Executive Officer of MedImmune and significant scientific and clinical expertise as a result of his roles at Praxis Biologics Inc. and Walter Reed Army Institute of Research

Mr. Parkinson Substantial knowledge of the healthcare industry and extensive experience leading and operating within global, multi-faceted corporations as a result of his roles at Baxter and Abbott Laboratories as well as an understanding of the complexities involved in managing large not-for-profit organizations through his service as Dean of Loyola University Chicago School of Business Administration and Graduate School of Business and other directorships

Ms. Shapazian Significant experience with, and insight into, global supply and service operations, manufacturing and distribution practices, research, product development and quality systems and organizational change as a result of her senior management positions with both Maytag Corporation and Polaroid Corporation

Mr. Stallkamp Significant experience leading complex organizations through his senior management roles at DaimlerChrysler Corporation and its predecessor Chrysler Corporation and MSX International, Inc., financial and business development expertise as an Industrial Partner in Ripplewood Holdings L.L.C. and supply chain expertise as founder and principal of Collaborative Management LLC, a private supply chain consulting firm

Mr. Storm Extensive international business experience and established leadership skills gained as Chief Executive Officer of AEGON N.V. and through his board service at global organizations such as Anheuser-Busch InBev S.A., KLM Royal Dutch Airlines, PON Holdings B.V. and Unilever N.V. and PLC, as well as significant accounting expertise as a registered accountant

Mr. Stroucken Substantial experience leading and operating large, multi-faceted corporations and financial expertise as a result of serving as Chairman, President and Chief Executive Officer of Owens-Illinois, Inc. and H.B. Fuller Company as well as experience in the healthcare and chemical industries through his roles at Bayer

Corporate Governance Guidelines

Baxter's Board of Directors has long adhered to corporate governance principles designed to ensure effective corporate governance. Since 1995, the Board of Directors has had in place a set of corporate governance guidelines reflecting these principles. Baxter's current Corporate Governance Guidelines cover topics including, but not limited to, director qualification standards, director responsibilities (including those of the lead director), director access to management and independent advisors, director compensation, director orientation and continuing education, succession planning and the annual evaluations of the Board and its committees. Baxter's Corporate Governance Guidelines are available on Baxter's website at www.baxter.com under About Baxter Corporate Governance Guidelines.

Code of Conduct

Baxter has adopted a Code of Conduct that applies to all members of Baxter's Board of Directors and all employees of the company, including the Chief Executive Officer, Chief Financial Officer, Controller and other senior financial officers. Any amendment to, or waiver from, a provision of the Code of Conduct that applies to Baxter's Chief Executive Officer, Chief Financial Officer, Controller or persons performing similar functions will be disclosed on Baxter's website, at www.baxter.com under About Baxter Corporate Governance. The Code of Conduct is available on Baxter's website at www.baxter.com under About Baxter Corporate Governance Guidelines Code of Conduct.

Executive Sessions

The independent directors of the Board met in executive session without management at every regularly scheduled meeting during 2013 pursuant to Baxter's Corporate Governance Guidelines. The Audit Committee is required by its charter to hold separate sessions during at least five committee meetings with each of the internal auditor, the independent registered public accounting firm and management. The Corporate Governance and Compensation Committees generally meet in executive session at each meeting.

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Board Leadership Structure; Lead Director

Mr. Parkinson serves as Chairman of the Board and Chief Executive Officer. Peter S. Hellman serves as the lead director. As Chairman of the Board and pursuant to Baxter's Bylaws, Mr. Parkinson presides at all Board and shareholder meetings, serves as the primary spokesperson for Baxter, and acts as a liaison between the Board and the shareholders. As Chief Executive Officer and pursuant to Baxter's Bylaws, Mr. Parkinson supervises the business of the company, subject to the direction of the Board. As lead director and pursuant to Baxter's Corporate Governance Guidelines, Mr. Hellman presides at all executive sessions of the Board, acts as the liaison between the independent directors and the Chairman of the Board, reviews meeting agendas for the Board, and works with the Chairman to facilitate timely and appropriate information flow to the Board. In addition, Mr. Hellman serves as the contact person for interested parties to communicate directly with the independent members of the Board. The full Board annually assesses Mr. Parkinson's performance as Chairman of the Board and as Chief Executive Officer. The Corporate Governance Committee recommends a lead director to the full Board for approval on an annual basis, with the expectation that once elected a lead director will serve for three consecutive annual terms. The Board has determined that this structure is appropriate in light of the requirements for these roles as set forth in Baxter's Bylaws and Corporate Governance Guidelines and the skills and experience that Mr. Parkinson and Mr. Hellman bring to these roles.

Board's Oversight of Risk

Baxter's risk management activities include the identification and assessment of the key risks facing the company among the universe of business risks (*i.e.*, strategic, operational, financial and regulatory/compliance). These risks are identified across the organization from multiple businesses, regions and functions. The Board reviews these risks on an annual basis after they have been identified and assessed by management and regularly reviews the initiatives put in place to mitigate the effects of these risks. These reviews include updates throughout the year from the businesses, regions and functions from which the key risks arise. Depending on the risk, the update may be presented to the full Board or if appropriate to a committee. For example, the Audit Committee reviews the financial risk assessment process and findings of the internal auditors while the Public Policy Committee and the Audit Committee jointly receive an update from the ethics and compliance function at least annually. Some risks are reviewed by the Board as well as a committee. For example, quality updates are provided at least annually to the full Board although more frequently provided to the Public Policy Committee. The oversight of risk within the organization is an evolving process requiring the company to continually identify opportunities to further embed systematic enterprise risk management into ongoing business processes across the organization. The Board actively encourages management to continue to drive this evolution.

In addition to the Board's role in enterprise risk management, various committees of the Board are also expressly tasked by their charters to be responsible for the oversight of certain risks. More specifically, the Audit Committee is charged with oversight of the process by which management assesses and manages risk as well as the company's major financial risk exposures and the steps taken to monitor and control these exposures, while the Finance Committee is charged with oversight of Baxter's significant financial policies and actions, including with respect to the company's capital and tax structure, portfolio investments, hedging activities, use of derivative instruments and insurance coverage.

Nomination of Directors

It is the policy of the Corporate Governance Committee to consider candidates for director recommended by shareholders, members of the Board and management. From time to time, the Corporate Governance Committee also considers directors recommended by the independent search firm retained by the Board to help identify and evaluate potential director nominees. The Corporate Governance Committee evaluates all candidates for director in the same manner regardless of the source of the recommendation. Shareholder recommendations for candidates for director should include the information required by Baxter's Bylaws and be sent to the Corporate Governance Committee, c/o Corporate Secretary, Baxter International Inc., One Baxter Parkway, Deerfield, Illinois 60015.

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Pursuant to Baxter's Corporate Governance Guidelines, nominees for director must:

Possess fundamental qualities of intelligence, honesty, perceptiveness, good judgment, maturity, high ethics and standards, integrity, fairness and responsibility.

Have a genuine interest in the company and recognition that as a member of the Board, each director is accountable to all shareholders of the company, not to any particular interest group.

Have a background that demonstrates an understanding of business and financial affairs and the complexities of a large, multifaceted, global business, governmental or educational organization.

Be or have been in a senior position in a complex organization such as a corporation, university or major unit of government or a large not-for-profit institution.

Have no conflict of interest or legal impediment that would interfere with the duty of loyalty owed to the company and its shareholders.

Have the ability and be willing to spend the time required to function effectively as a director.

Be compatible and able to work well with other directors and executives in a team effort with a view to a long-term relationship with the company as a director.