

Baxter 2013 Environmental Financial Statement

Estimated Environmental Costs, Income, Savings and Cost Avoidance Worldwide¹

ENVIRONMENTAL COSTS (dollars in millions)	2013	2012	2011	2010	2009
Basic Program					
Corporate Environmental – General and Shared Business Unit Costs ²	\$3.1	\$2.7	\$2.3	\$2.0	\$2.0
Auditor and Attorney Fees	0.4	0.4	0.3	0.4	0.4
Energy Professionals and Energy Reduction Programs	1.4	1.3	1.2	1.1	1.0
Corporate Environmental – Information Technology	0.3	0.3	0.3	0.4	0.4
Business Unit/Regional/Facility Environmental Professionals and Programs	13.3	12.0	11.6	11.9	11.6
Pollution Controls – Operation and Maintenance	3.9	4.0	3.9	3.7	3.6
Pollution Controls – Depreciation	2.5	2.3	2.4	2.5	3.1
Basic Program Total	\$24.9	\$23.0	\$22.0	\$22.0	\$22.1
Remediation, Waste and Other Response (proactive environmental action will minimize these costs)					
Attorney Fees for Cleanup Claims and Notices of Violation	\$0.3	\$0.3	\$0.2	\$0.1	\$0.1
Settlement of Government Claims	0.0	0.0	0.0	0.0	0.0
Waste Disposal	10.3	9.8	9.2	7.9	8.7
Carbon Taxes, Credits and Offsets ³	1.2	1.2	1.0	1.1	0.2
Environmental Fees for Packaging ⁴	0.9	0.9	0.9	0.9	1.0
Environmental Fees for Electronic Goods and Batteries	0.0	0.1	0.1	0.1	0.1
Remediation/Cleanup – On-site	0.2	0.2	0.2	0.4	0.1
Remediation/Cleanup – Off-site	1.2	1.5	0.4	0.8	0.4
Remediation, Waste and Other Response Total	\$14.1	\$14.0	\$12.0	\$11.3	\$10.6
Total Environmental Costs	\$39.0	\$37.0	\$34.0	\$33.3	\$32.7
ENVIRONMENTAL INCOME, SAVINGS AND COST AVOIDANCE (dollars in millions; see Detail on Income, Savings and Cost Avoidance from 2013 Activities below)					
From Initiatives in Stated Year					
Regulated Waste Disposal	\$0.1	\$0.6	\$0.3	\$1.4	(\$0.5)
Regulated Materials ⁵	(4.9)	(1.8)	(0.7)	3.6	(1.1)
Non-hazardous Waste Disposal	0.2	1.2	(1.0)	0.8	0.3
Non-hazardous Materials ⁵	2.8	9.6	(11.4)	3.4	2.6
Recycling (net income)	7.2	6.6	5.0	5.9	3.5
Energy Conservation	3.4	3.6	2.3	0.5	4.6
Water Conservation	0.0	0.4	(0.2)	0.4	0.7
From Initiatives in Stated Year Total⁶	\$8.8	\$20.2	(\$5.7)	\$16.0	\$10.1
As a Percentage of Basic Program Costs	35%	88%	-26%	73%	46%
Cost Avoidance from Initiatives Started in the Six Years Prior to and Realized in Stated Year^{6,7}	\$37.9	\$38.4	\$41.2	\$87.6	\$100.2
Total Environmental Income, Savings and Cost Avoidance in Stated Year	\$46.7	\$58.6	\$35.5	\$103.6	\$110.3
DETAIL ON INCOME, SAVINGS AND COST AVOIDANCE FROM 2013 ACTIVITIES (dollars in millions)					
	Income and Savings	Cost Avoidance	Total Financial Benefit		
Regulated Waste Disposal Cost Reduction	\$0.1	\$0.0	\$0.1		
Regulated Waste Materials Cost Reduction	(6.5)	1.6	(4.9)		
Non-hazardous Waste Disposal Cost Reduction	(0.5)	0.7	0.2		
Non-hazardous Waste Materials Cost Reduction	(0.8)	3.6	2.8		
Recycling Income	7.2	n/a	7.2		
Energy Consumption Cost Reduction	(6.5)	9.9	3.4		
Water Consumption Cost Reduction	(1.8)	1.8	0.0		
Total	(\$8.8)	\$17.6	\$8.8		
COST AVOIDANCE DETAIL FROM EFFORTS INITIATED IN THE SIX YEARS PRIOR TO REPORT YEAR (dollars in millions)					
	2013	2012	2011	2010	2009
Regulated Waste Disposal	\$0.7	\$0.8	\$0.4	\$0.8	\$0.0
Regulated Waste Materials	(11.8)	(5.9)	(2.8)	0.3	(0.5)
Non-hazardous Waste Disposal	3.1	2.5	1.2	3.9	3.5
Non-hazardous Waste Materials	11.0	5.3	2.2	19.6	25.3
Energy Consumption	30.1	30.1	35.3	55.3	64.6
Water Consumption	4.8	5.6	4.9	7.7	7.3
Total	\$37.9	\$38.4	\$41.2	\$87.6	\$100.2

¹Financial numbers rounded to nearest US\$100,000 to reflect appropriate degree of data accuracy. ²Corporate environmental costs comprise total environmental costs related to operating corporate environmental programs that report into Baxter manufacturing and legal groups. While corporate Environment, Health and Safety (EHS) and certain business unit EHS groups were integrated in 2003, total business unit program costs remain in the Business Unit/Regional/Facility Environmental Professionals and Programs line, as those environmental costs more directly support facility programs. ³Carbon taxes, expenses associated with purchasing renewable energy from electric utilities, renewable energy certificates, and carbon credits purchased on the European Union ETS and Chicago Climate Exchange (CCX), through the U.S. IntercontinentalExchange. ⁴Following completion of the 1996-2005 packaging-reduction goal, Baxter discontinued tracking program costs and financial savings associated with packaging-reduction initiatives at the corporate level. Baxter may reinstitute this line item in future financial statements. ⁵Reflects change (positive for decrease and negative for increase) for purchases of raw materials due to changes in material use efficiency and associated generation of waste. ⁶In calculating savings and cost avoidance for waste-, energy- and water-reduction activities, it is assumed that production and distribution activities grew proportionately with Baxter's publicly stated cost of goods sold, adjusted for changes in inventory and the average of three inflation indexes. Baxter uses a three-year rolling average of the annual percentage change in adjusted growth in the cost of goods sold to determine the financial values for each stated year. For 2013, the three-year rolling average was 5%; for 2012, 3%; for 2011, 3%; for 2010, 1%; and for 2009, 3%. This rolling average helps avoid distortions due to certain acquisitions/divestitures and the delayed environmental effects from changes in production. ⁷To be conservative, the accumulation of reported cost avoidance from conservation activities in prior years is terminated after seven years, the approximate duration of many facility conservation and process-improvement projects, after which additional process improvements and changes are possible.

Background

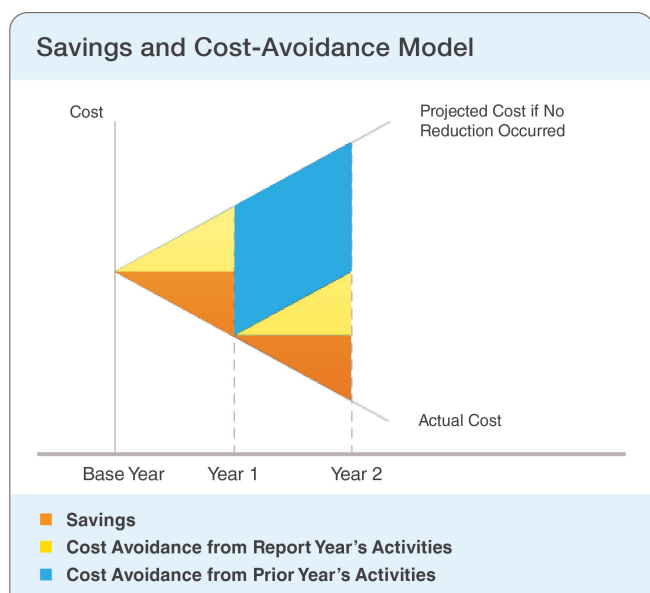
Baxter developed and consistently uses specific methodologies to estimate income, savings and cost avoidance each year, to enhance the reliability and comparability of the results. The company uses the following terms and conventions:

- **Monetary Amounts:** Stated in U.S. dollars.
- **Income:** Money received in each of the reported years.
- **Savings:** Reduction in actual costs between the report year and the prior year. An increase in actual costs equals negative savings.
- **Cost Avoidance:** Costs that the company would have incurred had the reduction activity not taken place. Conservation initiatives produce cost avoidance in the year commenced, and in future years in which the resource (such as energy, water or materials) remains eliminated from processes. To be conservative, Baxter stops accumulating cost avoidance from conservation activities after seven years (including the year implemented). This reflects the typical duration of many conservation projects, after which additional process improvements and changes are possible.

Calculating Savings and Cost Avoidance

In calculating savings and cost avoidance for resource reduction activities, Baxter assumes that production and distribution grow at the same rate as the company's cost of goods sold, and that resource use and waste generation increase at that same rate in the absence of reduction initiatives. Baxter determines this rate by calculating the average annual increase in the company's published cost of goods sold over the past six years. It then adjusts this number for new acquisitions and changes in inventory, and subtracts inflation, which is calculated as an average of three major, relevant U.S. producer-price indexes. The company then rounds the resulting growth rate down to the nearest whole number to conservatively report performance.

In calculations related to materials use, Baxter uses the current average cost of materials and the compounded growth in business activity.



Undetermined (and Unreported) Environmental-related Costs and Savings

The following undetermined costs are not included in the EFS:

- Environmentally driven materials research and other research and development, the costs of which are typically offset by increased sales and other non-environmental benefits not reported in the EFS;
- Capital costs of modifying processes and implementing certain resource conservation projects, other than adding pollution controls (these are typically offset by increased production rates, efficiencies and other non-environmental benefits not reported in the EFS);
- Cost of substitutes for ozone-depleting substances and other hazardous materials (estimated to be relatively minor); and
- Time spent by non-environmental employees on environmental activities (environmental training and responsibilities are part of every Baxter employee's job).

Baxter's global environmental program also produces undetermined savings and other benefits that are not easily measured and are not included in the EFS. Examples include the following:

- Decreased liability exposure related to the operation of external regulated waste management sites by maintaining a program (launched in the 1980s) requiring a detailed audit of any such site before use by Baxter and periodic re-audits after the initial assessment;
- Reduced risk due to other risk-management programs, including performance of environmental due diligence on all business acquisitions and divestitures, use of a common set of EHS policies throughout Baxter operations, auditing those operations regularly against these policies and using a tracking system to resolve any audit findings;
- Decreased regulatory burden by reducing waste generation at Baxter below certain thresholds, which decreases training, recordkeeping, reporting, and administrative costs;
- Avoided costs for environmental problems that did not occur due to Baxter's proactive efforts;
- Enhanced ability for employees to focus on higher value tasks due to the reduction of waste, possible spills and other potential environmental problems;
- Increased good will and brand value, improved company reputation and employee morale, and possible additional sales; and
- Attraction and retention of key personnel in part due to Baxter's strong environmental program.