

BAXTER INTERNATIONAL INC

Form DEF 14A

March 24, 2016

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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:

<input type="checkbox"/>	Preliminary Proxy Statement
<input type="checkbox"/>	Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
<input type="checkbox"/>	Definitive Proxy Statement
<input type="checkbox"/>	Definitive Additional Materials
<input type="checkbox"/>	Soliciting Material Under Rule 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)

PAYMENT OF FILING FEE (CHECK THE APPROPRIATE BOX):

<input type="checkbox"/>	No fee required.
<input type="checkbox"/>	Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.
	1) Title of each class of securities to which transaction applies:
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	1) Amount previously paid:
	2) Form, Schedule or Registration Statement No.:
	3) Filing Party:
	4) Date Filed:

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Notice of 2016 Annual Meeting of Stockholders and Proxy Statement	
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May 3, 2016
Baxter International
Inc. Headquarters
One Baxter Parkway
Deerfield, Illinois 60015

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Baxter International Inc.
One Baxter Parkway
Deerfield, Illinois 60015

March 24, 2016

Dear Stockholder:

You are invited to attend Baxter's Annual Meeting of Stockholders on Tuesday, May 3, 2016 at 9:00 a.m., Central Daylight 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 Stockholders and Proxy Statement. If you plan to attend the Annual Meeting, please review the information on attendance provided on page 72 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 stockholders, which allows stockholders 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,

José E. Almeida
Chairman of the Board
and Chief Executive Officer

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Notice of Annual Meeting of Stockholders

The 2016 Annual Meeting of Stockholders of Baxter International Inc. (the Annual Meeting) will be held at our corporate headquarters located at One Baxter Parkway, Deerfield, Illinois 60015, on Tuesday, May 3, 2016 at 9:00 a.m., Central Daylight Time, for the following purposes:

- To elect the four directors named in the attached Proxy Statement. Subject to approval of Proposal 4 Proposed Charter Amendment to Declassify Board and the subsequent validation of the related amendment to Baxter's Certificate of Incorporation by the Delaware Court of Chancery (as described in such proposal), the specified directors will be elected to hold office for a term of one year. Otherwise elected directors will hold office for a term of three years.
- To approve named executive officer compensation for 2015.
- To ratify the appointment of PricewaterhouseCoopers LLP as the independent registered public accounting firm for Baxter in 2016.
- To approve amendments to Baxter's Certificate of Incorporation to eliminate the classified board structure and provide for the annual election of directors.
- To vote on a stockholder proposal as described in the Proxy Statement, if such proposal is properly presented at the Annual Meeting.
- To transact any other business that may properly come before the meeting.

The Board of Directors recommends that stockholders vote FOR Items 1, 2, 3, and 4. The Board of Directors recommends that stockholders vote AGAINST the stockholder proposal referred to in Item 5. Stockholders of record at the close of business on March 9, 2016 will be entitled to vote at the meeting.

By order of the Board of Directors,

David P. Scharf
Corporate Secretary

How Do I Vote?

By Internet, following the instructions on the Notice of Internet Availability of Proxy Materials or the proxy card;

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

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

**Important Notice Regarding
the Availability of Proxy Materials for
the Annual Meeting Of Stockholders
to be Held On May 3, 2016**

This Proxy Statement relating to the 2016 Annual Meeting of Stockholders and the Annual Report to Stockholders for the year ended December 31, 2015 are available at <http://materials.proxyvote.com/071813>.

Proxy Statement

The accompanying proxy is solicited on behalf of the Board of Directors for use at the Annual Meeting of Stockholders to be held on Tuesday, May 3, 2016. On or about March 24, 2016, Baxter began mailing to stockholders of record 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). Stockholders 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 24, 2016.

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Proxy Statement Highlights

To assist you in reviewing the proposals to be acted upon at the Annual Meeting, this section presents concise detail about each non-routine voting item. For more complete information, please review our Annual Report on Form 10-K and the complete Proxy Statement.

PROPOSAL 1	Election of Directors
	What am I voting on?
	You are asked to vote for the reelection of the four directors set forth below for a term of one year, subject to the approval of Proposal 4 Proposed Charter Amendment to Declassify Board and the subsequent validation of the charter amendment by the Delaware Court of Chancery. Otherwise, the directors will be elected for a three-year term.
	What is the Board's recommendation?
	The Board of Directors recommends a vote FOR the election of each of the director nominees.
	The Board believes that the four directors standing for reelection possess a desirable mix of professional and industry experience and qualifications and have demonstrated an ability to effectively work together (along with other members of the Board) and constructively challenge each other and management. Additionally, they have overseen the execution of significant corporate governance developments at Baxter in 2015. See below for additional information regarding the qualifications, experiences and backgrounds of the Baxter board (including the director nominees) and recent Board developments.
	Where can I find more information?
	Concise supporting information is presented below.
	See also Proposal 1 Election of Directors for additional information.

Name	Director	Baxter Committees
Primary Occupation	Age Since	Key Attributes and Skills
Thomas F. Chen (I) Senior Vice President and President of International Nutrition, Abbott Laboratories (retired)	66 2012	Extensive international business experience Global perspective
John D. Forsyth (I) Chairman and CEO, Wellmark Blue Cross Blue Shield	68 2003	Extensive experience in the healthcare industry Understanding of large, complex organizations
Michael F. Mahoney (I) President and CEO, Boston Scientific Corporation	51 2015	Significant knowledge of the global medical products business Extensive experience leading global, multi-faceted corporations
Carole J. Shapazian (I) Executive Vice President of Maytag Corporation (retired)	72 2003	Significant experience with, and insight into, global supply and service operations, manufacturing and distribution practices

Key

(I) Independent director	Committee Chairperson	A Audit Committee	CG Corporate Governance Committee
		C Compensation Committee	PP Public Policy Committee

Committee Member

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Board Qualifications, Experiences and Backgrounds

The following chart sets forth the varied qualifications, experiences and backgrounds of the Board. See Corporate Governance at Baxter International Inc. Board of Directors Director Qualifications and Director Nominations for additional information.

- International
- M&A/Transactional
- Manufacturing
- Healthcare
- Marketing/Delivery
- Other Sector
- Leadership
- Scientific/R&D
- Diversity

Creation of two independent boards in connection with the spin-off of Baxalta Incorporated	Addition of two new independent directors, Munib Islam and Michael F. Mahoney, to the Board	Appointment of a new Chairman of the Board and CEO, José E. Almeida	Approved declassification of the Baxter Board	Adoption of a 3% /3 year / greater of 2 and 20% proxy access Bylaw
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Proxy Statement Highlights

PROPOSAL

2

Advisory Vote to Approve Named Executive Officer Compensation

What am I voting on?

You are asked to cast a non-binding advisory vote to approve Baxter's compensation programs as described in the Executive Compensation Compensation Discussion & Analysis section of this Proxy Statement.

What is the Board's recommendation?

The Board of Directors recommends a vote **FOR this proposal.**

The Board and the Compensation Committee believe that Baxter's executive compensation programs appropriately align executives' interests with Baxter's strategies and long-term objectives, including the successful completion of the Baxalta Incorporated (Baxalta) spin-off in 2015. See Corporate Developments and Performance Highlights below for additional information regarding certain 2015 highlights.

Where can I find more information?

Concise supporting information is presented below.

See Proposal 2 Advisory Vote to Approved Named Executive Officer Compensation for additional information.

Corporate Developments and Performance Highlights

Development or Highlight

Completion of the Baxalta spin-off

Further Information

See page 27

Spin-off permits Baxter management to focus on stand-alone medical products business

Also enables Baxter to more effectively commercialize product offerings and to help drive innovation across the Hospital Products and Renal franchises

Provides flexibility to pursue growth and investment strategies in revenue acceleration, improved profitability and enhanced returns

Based on company estimates, the combined total shareholder return of Baxter and Baxalta totaled approximately 7.5% in 2015, as compared to 1.4% for the S&P 500 Composite Index and 7.0% for the S&P 500 Health Care Index. See Executive Compensation Compensation Discussion and Analysis Summary 2015 Results for additional information

Strong financial results and stockholder return for 2015

See page 27

As discussed below, Baxter had \$10.0 billion of net sales in 2015

Adjusted earnings from continuing operations per diluted share of \$1.38 increased 8% in 2015. See Executive Compensation Compensation Discussion and Analysis Structure of Compensation

Program Pay-for-Performance Financial Targets for a reconciliation of adjusted earnings from continuing operations per diluted share to the closest measure determined in accordance with U.S. generally accepted accounting principles (GAAP)

Returned \$910M to stockholders in 2015 through cash dividends, in addition to the value of the shares distributed in the Baxalta spin-off

2015 Global Net Sales		Adjusted Earnings from Continuing Operations per Diluted Share	
\$10.0B	Reflects net sales from continuing operations	\$1.38	8% over 2014

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Compensation Design for 2015 and 2016

See page 31

For 2015, long-term compensation consisted of 50% restricted stock units (RSUs) and 50% stock options given the business separation and challenges in establishing appropriate long-term metrics to adequately reflect performance through the spin-off

Cash bonus plan for 2015 was based on adjusted earnings per share (EPS) and adjusted sales, with separate targets established for each half of the year. Targets for first half of 2015 were based on total Baxter results (including Baxalta) and for second half of 2015, solely on Baxter results (after giving effect to the spin-off)

For 2015, Mr. Parkinson's annual base salary, as Chief Executive Officer, totaled \$1,535,000 and he received a cash bonus award of \$3,637,491 and long-term equity incentive awards with a grant date fair value of \$11,466,401

In connection with the appointment of Mr. Almeida as CEO and Chairman in October 2015, Mr. Almeida was awarded an annual base salary of \$1,300,000 and a target annual cash bonus equal to 135% of his salary beginning in 2016 (or \$1,755,000). He also received a long-term equity grant with a grant date fair value of \$7,714,087, consisting of 50% stock options and 50% performance share units (PSUs) as an acceleration of his 2016 annual equity grant

For 2016, cash bonus awards are based on adjusted EPS, adjusted sales and adjusted free cash flow, consistent with the company's increased rigor around the prioritization of capital expenditures

For 2016, equity incentive awards consist of 50% PSUs and 50% stock options for the company's executive officers. 2016 PSU awards are based on three-year growth in shareholder return (GSV) and annual operating margin targets, consistent with the company's increased focus on improving profit margins

Stockholder Engagement

See page 29

Baxter sponsors an active stockholder engagement program, with involvement from members of the Board, including the independent lead director (lead director) and members of the Corporate Governance and Compensation Committees

In 2015, the company completed a corporate governance outreach to top investors and covered topics including Board composition and refreshment, succession planning (including the appointment of Mr. José Almeida as the company's Chairman and Chief Executive Officer), Board leadership structure, the company's new proxy access bylaw amendment and Baxter's executive compensation program

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Proxy Statement Highlights

PROPOSAL

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Proposed Charter Amendment to Declassify Board

What am I voting on?

If the proposed amendment to Baxter's certificate of incorporation (Charter Amendment) is approved by stockholders and subsequently validated by the Delaware Court of Chancery, the classified board structure will be fully eliminated by 2018. Directors will be elected for one-year terms at each annual meeting of stockholders. Furthermore, any director chosen as a result of a newly created directorship or to fill a vacancy on the Board will hold office until the end of the term as the other members of the class or, if no director is a member of a class, until the next annual meeting.

What is the Board's recommendation?

The Board of Directors recommends a vote FOR the Charter Amendment.

After careful consideration, the Board of Directors has adopted resolutions approving amendments to Article SIXTH of Baxter's certificate of incorporation to eliminate the two-thirds voting standard as well as the classified board structure and is now recommending approval of the Charter Amendment to Baxter's stockholders.

Where can I find more information?

Concise supporting information is presented below.

See Proposal 4 Proposed Charter Amendment to Declassify Board for additional information.

Charter Amendment

See page 62

The Charter Amendment provides for the gradual declassification of the Board between 2016 and 2018

If approved, Baxter will seek validation of the Charter Amendment with the Delaware Court of Chancery

If approved and subsequently validated, director nominees elected under Proposal 1 Election of Directors will be elected for a one-year term; otherwise, they will be elected for a three-year term

PROPOSAL

5

Independent Board Chairman

What am I voting on?

If properly presented, you will be asked to vote on a stockholder proposal. The stockholder proposal asks the Board to adopt a policy and amend Baxter's governing documents to require the Chairman, whenever possible and without violating existing agreements, to be an independent member of the Board.

What is the Board's recommendation?

The Board of Directors recommends a vote AGAINST the stockholder proposal.

Where can I find more information?

See Proposal 5 Independent Board Chairman for additional information.

Items to consider when evaluating this proposal:

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Under the current framework, the Board can respond to or consider strategic concerns and the qualifications of a particular CEO when deciding whether to separate or keep the roles combined

The Board has a history of separating the roles when it deems it appropriate (in connection with the Baxalta spin-off)

The decision to keep the roles combined was made in light of Mr. Almeida's significant leadership and industry experience (including as Chairman and CEO of Covidien plc) and the presence of a strong lead director in Mr. Stalkamp

| 2016 Annual Meeting of Stockholders and Proxy Statement

Table of Contents**Corporate Governance at Baxter International Inc.**

PROPOSAL 1	Election of Directors
	<p>The Board currently consists of 12 members and is divided into three classes, with the directors in each class serving three-year terms. The Board has nominated all four of the current directors whose terms expire at the Annual Meeting for re-election as directors for a term of one year, subject to the approval of Proposal 4 Proposed Charter Amendment to Declassify Board to declassify the Board and the subsequent validation of the Charter Amendment by the Delaware Court of Chancery (as described in such proposal). In the event Proposal 4 does not pass or the Delaware Court of Chancery does not provide the requested validation, the directors will be re-elected to serve a three-year term. Please see Proposal 4 for a description of the Charter Amendment and a discussion of the proceeding which Baxter intends to file with the Delaware Court of Chancery upon the approval of Proposal 4.</p>
	<p>The Board of Directors recommends a vote FOR the election of each of the director nominees named below under Nominees for Election as Directors (Term Expires 2016).</p>

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 stockholders, under Delaware law the director would continue to serve on the Board as a holdover director. However, under the 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. In accordance with the Bylaws, 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. No nominations for directors were received from stockholders, and no other candidates are eligible for election as directors at the Annual Meeting. Accordingly, there is no director election contest and each director nominee must receive a majority of the votes cast with respect to such director in order to be reelected to the Board. Unless proxy cards are marked otherwise, 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 under **Nominees for Election as Directors (Term Expires 2016)** and **Directors Continuing in Office** is information concerning the nominees for election as well as the current directors in each class continuing after the Annual Meeting.

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Corporate Governance at Baxter International Inc.

Nominees for Election as Directors (Term Expires 2016)

Thomas F. Chen

Independent Director

Age 66

Director of Baxter since 2012

Biography

Mr. Chen served as Senior Vice President and President of International Nutrition of Abbott Laboratories (Abbott) before retiring in 2010. During his 22-year career at Abbott, Mr. Chen served in a number of roles with expanding responsibilities, primarily in Pacific/Asia/Africa where he oversaw expansion into emerging markets. Prior to Abbott, he held several management positions at American Cyanamid Company, which later merged with Pfizer Inc. Mr. Chen currently serves as a director of Stericycle, Inc. Mr. Chen previously served as a director of Cyanotech Corporation.

Key Attributes, Experience and Skills

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

John D. Forsyth

Independent Director

Age 68

Director of Baxter since 2003

Biography

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 26 years at the University of Michigan, holding various positions, including President and Chief Executive Officer of the University of Michigan Health System. Mr. Forsyth currently serves as a director of Baxalta and the National Institute of Healthcare Management.

Key Attributes, Experience and Skills

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 in the University of Michigan Health System.

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Corporate Governance at Baxter International Inc.

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Michael F. Mahoney

Independent Director

Age 51

Director of Baxter since 2015

Biography

Mr. Mahoney is President and Chief Executive Officer of Boston Scientific Corporation (Boston Scientific) and a member of its board of directors. He has served in these roles since November 2012. Mr. Mahoney has been appointed to become Boston Scientific's Chairman effective immediately following their 2016 annual meeting. He first joined Boston Scientific in 2011. Prior to joining Boston Scientific, Mr. Mahoney served as worldwide chairman of Johnson & Johnson medical devices and diagnostics division and as worldwide group chairman of Johnson & Johnson's DePuy orthopedics and neuro science business. He was President and Chief Executive officer of the Global Healthcare Exchange from 2001 to 2007 before joining Johnson & Johnson. He serves as a director of The Advanced Medical Technology Association (AdvaMed).

Key Attributes, Experience and Skills

Significant knowledge of the global medical products business and extensive experience leading and operating within global, multi-faceted corporations as a result of his roles at Boston Scientific and Johnson & Johnson.

Carole J. Shapazian

Independent Director

Age 72

Director of Baxter since 2003

Biography

Ms. Shapazian served as Executive Vice President of Maytag Corporation, a producer of home and commercial appliances (Maytag), 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 (Polaroid), a photographic equipment and supplies corporation, from 1998 to 1999, having previously served as Executive Vice President and President of Commercial Imaging.

Key Attributes, Experience and Skills

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 and Polaroid.

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Corporate Governance at Baxter International Inc.

Directors Continuing in Office Continuing Directors (Term Expires 2017)

José E. Almeida

Chairman of the Board and CEO

Age 53

Director of Baxter since 2016

Biography

Mr. Almeida was appointed Chairman of the Board and Chief Executive Officer effective January 1, 2016. He began serving as an executive officer of the company in October 2015. He served as Senior Advisor with The Carlyle Group from May 2015 to October 2015. Previously, he served as the Chairman, President and Chief Executive Officer of Covidien plc (Covidien) from March 2012 through January 2015, prior to Medtronic Inc.'s acquisition of Covidien, and President and Chief Executive Officer of Covidien from July 2011 to March 2012. Mr. Almeida served in other several executive roles with Covidien (formerly Tyco Healthcare) between April 2004 and June 2011. Mr. Almeida served on the board of directors of State Street Corporation from October 2013 to November 2015, Analog Devices, Inc. from December 2014 to November 2015 and EMC Corporation from January 2015 to November 2015. He serves as director and chairman of the board for AdvaMed.

Key Attributes, Experience and Skills

Substantial knowledge of the medical device industry and extensive experience leading and operating global corporations as a result of his roles at Covidien, both as Chairman and Chief Executive Officer, and at other medical device companies.

Munib Islam

Independent Director

Age 42

Director of Baxter since 2015

Biography

Mr. Islam is a partner and the Head of Equities Research at Third Point LLC (Third Point), a registered investment advisor headquartered in New York City. He also sits on Third Point's Risk Committee. From 2008 to 2011, Mr. Islam was a managing director and portfolio manager of the Highbridge European Value Equities fund at Highbridge Capital. Mr. Islam first joined Third Point in 2004, after working as an associate at Oak Hill Capital and at Lazard LLC.

Key Attributes, Experience and Skills

Significant capital allocation, investment management and financial expertise as the Head of Equities Research at Third Point.

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Corporate Governance at Baxter International Inc.

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Thomas T. Stallkamp

Independent Lead Director

Age 69

Director of Baxter since 2000

Biography

Mr. Stallkamp was appointed lead independent director in May 2014 and 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.

Key Attributes, Experience and Skills

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 with Ripplewood Holdings L.L.C. and supply chain expertise as founder and principal of Collaborative Management LLC.

Albert P.L. Stroucken

Independent Director

Age 68

Director of Baxter since 2004

Biography

Effective January 1, 2016, Mr. Stroucken serves as Executive Chairman of the Board of Owens-Illinois, Inc., a glass packaging company. From 2006 to 2016, he served as Chairman, President and Chief Executive Officer of Owens-Illinois, Inc. 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 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. Mr. Stroucken serves as a director of Baxalta.

Key Attributes, Experience and Skills

Substantial experience leading and operating large corporations and significant financial expertise through his leadership roles with Owens-Illinois, Inc. and H.B. Fuller Company as well as through positions at Bayer Corporation.

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Corporate Governance at Baxter International Inc.

Continuing Directors (Term Expires 2018)

Uma Chowdhry, Ph.D.

Independent Director

Age 68

Director of Baxter since 2012

Biography

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 (DuPont) 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.

Key Attributes, Experience and Skills

Substantial scientific and research and development expertise through her more than 30-year career at DuPont, including as Senior Vice President and Chief Science & Technology Officer.

James R. Gavin III, M.D., Ph.D.

Independent Director

Age 70

Director of Baxter since 2003

Biography

Dr. Gavin is Chief Executive Officer and Chief Medical Officer of Healing Our Village, Inc., a healthcare 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, and Clinical Professor of Medicine at Indiana University School of Medicine in Indianapolis, a position he has held since 2008. From 2002 to 2005, Dr. Gavin was President of the Morehouse School of Medicine and from 1991 to 2002 he served as Senior Science Officer at Howard Hughes Medical Institute, a non-profit medical research organization. Dr. Gavin serves as a director of Baxalta. He previously served as a director of Amylin Pharmaceuticals, Inc.

Key Attributes, Experience and Skills

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

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Corporate Governance at Baxter International Inc.

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Peter S. Hellman

Independent Director

Age 66

Director of Baxter since 2005

Biography

From 2000 until his retirement in 2008, Mr. Hellman held various positions at Nordson Corporation, most recently as 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.

Key Attributes, Experience and Skills

Significant financial and operational expertise and experience leading complex 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, including as the audit committee chair of The Goodyear Tire & Rubber Company and Owens-Illinois, Inc.

K.J. Storm

Independent Director

Age 73

Director of Baxter since 2003

Biography

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. He serves as the Vice Chairman of the Supervisory Board of PON Holdings B.V. and a member of the Supervisory Board of Scripsit Holding B.V. (Eisma Media Group). Until 2015, Mr. Storm served as the Chairman of the Board of Anheuser-Busch InBev S.A. and the Vice Chairman of the Board of Unilever N.V. and Plc. Previously, Mr. Storm served as the Chairman of the Supervisory Board of KLM Royal Dutch Airlines N.V. and a member of the Supervisory Board of AEGON N.V.

Key Attributes, Experience and Skills

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., Unilever N.V. and PLC, PON Holdings B.V. and KLM Royal Dutch Airlines, as well as significant accounting expertise as a registered accountant.

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Board of Directors

The Board currently consists of 12 members. The Board has determined that each of the following 11 current directors satisfies Baxter's independence standards and the listing standards of the New York Stock Exchange (NYSE) for independence: Thomas F. Chen, Uma Chowdhry, Ph.D., John D. Forsyth, James R. Gavin III, M.D., Ph.D., Peter S. Hellman, Munib Islam, Michael F. Mahoney, Carole J. Shapazian, Thomas T. Stallkamp, K. J. Storm and Albert P.L. Stroucken. The Board had previously determined that Dr. Wayne Hockmeyer, Mr. Blake Devitt and Ms. Gail Fosler, former Baxter directors, were also independent in accordance with NYSE listing standards. Please refer to [Director Independence](#) below for a discussion of Baxter's independence standards.

During 2015, the Board oversaw the creation and seeding of two separate, public company boards in anticipation of the Baxalta spin-off. The Board consisted of 13 members prior to the spin-off and ten members immediately thereafter. Dr. Hockmeyer, Mr. Devitt and Ms. Fosler resigned from the Board on June 30, 2015 in connection with their appointment to the Baxalta board of directors. Additionally, Dr. James Gavin and Messrs. John Forsyth and Albert Stroucken began serving as directors on both the Baxter and Baxalta boards at that time. In 2015, the Board held 12 meetings. Each director attended at least 75% of the total number of board meetings and meetings of the committees on which he or she served. Baxter's Corporate Governance Guidelines set forth the company's expectation that directors attend each annual meeting of stockholders. In 2015, ten of the company's directors then in office attended the 2015 Annual Meeting held on May 5, 2015, and three directors did not attend due to personal or family medical reasons.

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 NYSE. 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, stockholder 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, employees, 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 fiscal year was below two percent of the consolidated gross revenues of Emory University during for that year.

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Corporate Governance at Baxter International Inc.

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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 as a collective body allow the Board to lead Baxter in a manner that serves its stockholders' interests appropriately. Key attributes, experience and skills for each of the company's current directors are included in Nominees for Election as Directors (Term Expires in 2016) and Directors continuing in Office. Set forth below is a summary of the Board's collective qualifications, experiences and backgrounds.

International
M&A/Transactional
Manufacturing
Healthcare
Marketing/Delivery
Other Sector
Leadership
Scientific/R&D
Diversity

Key growth priority and
integral to strategy
Critical skill to enhance
Baxter's inorganic growth
Expertise required to effectively
assess our strategies and
challenge management plans
Industry leaders ready to bring
different perspectives and challenge
status quo

Diversity of ethnicity or gender

Nomination of Directors

It is the policy of the Corporate Governance Committee to consider candidates for director recommended by stockholders, members of the Board and management (including by virtue of the Third Point Support Agreement (as discussed below)). Additionally in December 2015, the Board adopted a new proxy access bylaw that permits eligible stockholders to nominate candidates for election to the Board, for inclusion in the company's proxy statement, beginning with the 2017 Annual Meeting.

From time to time, the Corporate Governance Committee also considers directors recommended by independent search firms retained by the Board to help identify and evaluate potential director nominees or by stockholders. In 2015, the Corporate Governance Committee retained a search firm to assist in its ongoing search for two additional directors, in light of the Baxalta spin-off, the corresponding reduction to the Board size and the company's emergence as a stand-alone medical products company. These search efforts included the completion of the Corporate Governance Committee's standing practices regarding director recruitment and evaluation (as discussed below). The search also reflected input from Third Point in accordance with the terms of the related Support Agreement, dated as of September 29, 2015 (Third Point Support Agreement), by and among Baxter, Third Point and certain Third Point affiliates. The culmination of these activities resulted in the appointment of Messrs. Islam and Mahoney to the Board in September 2015 and October 2015, respectively.

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The Corporate Governance Committee evaluates all candidates for director (other than proxy access nominees) in the same manner regardless of the source of the recommendation. Stockholder 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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Baxter's Corporate Governance Guidelines provide that (as described below), director nominees selected by the Corporate Governance Committee 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 stockholders 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 stockholders;
- 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; and
- have independent opinions and be willing to state them in a constructive manner;

The Corporate Governance Guidelines also provide that directors are selected on the basis of talent and experience. Diversity of background, including diversity of gender, race, ethnic or geographic origin, age and experience (including in business, government and education as well as healthcare, science and technology), is a relevant factor in the selection process. This factor is relevant as a diverse Board is likely to be a well-balanced Board with varying perspectives and a breadth of experience that will positively contribute to robust discussion at Board meetings. A nominee's ability to meet the independence criteria established by the NYSE is also a factor in the nominee selection process. If a vacancy occurs or is expected to occur, the Board initiates a process to identify potential candidates. Once a candidate has been identified, the Corporate Governance Committee and the independent search firm will engage in a process that includes a thorough investigation of the candidate, an examination of his or her business background and education, research on the individual's accomplishments and qualifications, in-person interviews and reference checking. If this process generates a positive indication, the lead director, the members of the Corporate Governance Committee and the Chairman of the Board will meet separately with the candidate and then confer with each other regarding the candidate. If the individual was positively received, the Corporate Governance Committee will then recommend the individual to the full Board for further meetings and evaluation and ultimately election. If the full Board agrees, the Chairman of the Board is then authorized to extend an offer to the individual candidate to join the Board or nominate the candidate for election at the next Annual Meeting.

Beginning with the 2017 Annual Meeting, eligible stockholders can nominate candidates for election to the Board through the proxy access provisions of Baxter's Bylaws, as amended on December 18, 2015. Subject to compliance with the related requirements (including with respect to the nominating stockholders, the nominee and the manner in which the nominee was nominated), the nominees will be included in the related proxy statement as a stockholder nominee. The proxy access provision provides that stockholders can nominate up to two individuals or 20% of the Board, whichever is greater, for election at an annual stockholders meeting (beginning with the 2017 Annual Meeting); provided that the nominating stockholder (or group of up to 20 stockholders) has held at least 3% of Baxter's outstanding shares for at least three years.

Communicating with the Board of Directors

Stockholders and other interested parties may contact any of Baxter's directors, including the lead director or the non-management directors as a group, by writing a letter to Baxter Director c/o Corporate Secretary, Baxter International Inc., One Baxter Parkway, Deerfield, Illinois 60015, or by sending an e-mail to boardofdirectors@baxter.com. Baxter's Corporate Secretary will forward communications directly to the lead director, unless a different director is specified.

See **Executive Compensation Compensation Discussion and Analysis Summary Stockholder Engagement** for a discussion of the company's stockholder outreach efforts.

Table of Contents**Other Corporate Governance Information****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, most recently adopted in February 2016, cover topics including 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 About Us Governance, Ethics & Compliance Guidelines.

Board Responsibilities**Code of Conduct**

Baxter has adopted a Code of Conduct that applies to all members of the 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 About Us Governance, Ethics & Compliance. The Code of Conduct is available on Baxter's website at www.baxter.com under About Baxter About Us Governance, Ethics & Compliance Code of Conduct.

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 (strategic, operational, financial and regulatory/compliance). These risks are identified across the organization and come 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 March 2015, in advance of the Baxalta spin-off, the Board conducted its annual enterprise risk management review and evaluated key risks across the organization and assigned responsible owners for each risk applicable to Baxter (after the spin-off) to a Baxter representative and those applicable to Baxalta (after the spin-off) to a Baxalta representative.

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 Public Policy Committee is charged with oversight of Baxter's quality and regulatory programs as well as review of strategic issues and corporate actions relating to current and emerging political issues, corporate citizenship and public policy.

Certain Relationships and Related Person Transactions

The Board recognizes that related person transactions present a heightened risk of conflicts of interest. Accordingly, pursuant to Baxter's Corporate Governance Guidelines, the Corporate Governance Committee has been charged with reviewing related person transactions regardless of whether the transactions are reportable pursuant to applicable rules of the Securities and Exchange Commission (SEC). For purposes of this policy, a related person transaction is any transaction in which the company was or is to be a participant and in which any related person has a direct or indirect material interest other than transactions that involve less than \$50,000 when aggregated with all similar transactions. For any related person transaction to be consummated or to continue, the

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Corporate Governance Committee must approve or ratify the transaction. The Corporate Governance Committee will approve or ratify a transaction if it determines that such transaction is in Baxter's best interest. Related person transactions are reviewed as they arise and are reported to the Corporate Governance Committee. The Corporate Governance Committee also reviews materials prepared by the Corporate Secretary (including information identified in questionnaires distributed annually to the company's directors, executive officers and controller) to determine whether any related person transactions have occurred that have not been reported. It is Baxter's policy to disclose all related person transactions in the company's applicable filings to the extent required by the applicable rules and regulations of the SEC.

Upon his hiring in 2011, Dr. Marcus Schabacker received a loan from the company to assist in his relocation. In June 2015, prior to his becoming the company's Corporate Vice President and Chief Scientific Officer, Dr. Schabacker repaid the then outstanding loan balance of \$386,161 (and all accrued interest thereon) in full.

Board Structure and Processes

Board Leadership Structure; Lead Director

Mr. Almeida has served as Chairman of the Board and Chief Executive Officer since January 1, 2016. Mr. Robert Parkinson retired from that role effective as of December 31, 2015. Thomas T. Stallkamp serves as the lead director and has served in such capacity since May 2014.

The Board regularly reviews the leadership structure of the company, including whether the position of Chairman should be held by an independent director. In connection with Mr. Almeida's appointment, the Board determined that it was in Baxter stockholders' best interests to keep the Chairman and Chief Executive Officer roles combined. The Board reached this decision in light of Mr. Almeida's significant industry and leadership experience, including as Chairman and Chief Executive Officer of Covidien. They also believed that Mr. Almeida would serve as an effective bridge between the Board and management as he works with management to establish Baxter's new strategic framework and refresh its long-range plans. See "Stockholder Proposals Proposal 5 Independent Board Chairman Board of Directors Statement Opposing the Stockholder Proposal" for additional information regarding the Board's determination to keep the roles combined in connection with Mr. Almeida's appointment and to make these determinations on a case by case basis.

As Chairman of the Board and pursuant to Baxter's Bylaws, Mr. Almeida presides at all Board and stockholder meetings, serves as the primary spokesperson for Baxter and acts as a liaison between the Board and the stockholders. As Chief Executive Officer and pursuant to Baxter's Bylaws, Mr. Almeida 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. Stallkamp 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 2015, these executive sessions occurred as part of every regularly scheduled meeting of the Board and covered critical issues facing the company. The lead director, together with the chairpersons of the Compensation and Corporate Governance Committees, also leads the non-employee directors in the annual review and approval of compensation for the Chief Executive Officer.

Mr. Stallkamp also serves as the contact person for interested parties to communicate directly with the independent members of the Board. As part of our stockholder outreach, Mr. Stallkamp spoke with company stockholders on select matters, including corporate governance and executive compensation items. See "Executive Compensation Compensation Discussion and Analysis Summary Stockholder Engagement."

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 years.

As discussed above, the Board has determined that this structure continues to serve the best interests of the company's stockholders in light of the related requirements as set forth in Baxter's Bylaws and Corporate Governance Guidelines and the skills

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and experience that Messrs. Almeida and Stallkamp bring to their respective roles. The Board made this determination in advance of extending an offer to Mr. Almeida to serve as Baxter's Chairman and Chief Executive Officer, in accordance with the terms of his offer letter.

| 2016 Annual Meeting of Stockholders and Proxy Statement

Table of Contents**Executive Sessions**

As discussed above, independent directors of the Board met in executive session without management at every regularly scheduled meeting during 2015 in accordance with Baxter's Corporate Governance Guidelines. Mr. Stallkamp, as lead director, led these executive sessions. Additionally, the Audit Committee is required by its charter to regularly hold separate sessions during 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.

Committees of the Board

The standing committees of the Board of Directors currently consist of the Audit Committee, the Compensation Committee, the Corporate Governance Committee and the Public Policy Committee. In July 2015, in connection with the spin-off of Baxalta, the Board of Directors dissolved the Finance and Science and Technology Committees. These changes were made in light of the company's reduced size and emergence as a stand-alone medical products company. The responsibilities of the former Finance and Science and Technology Committees have been assumed by the Board and Audit Committee, as discussed below.

Each committee consists solely of independent directors and is governed by a written charter. All committee charters are available on Baxter's website at www.baxter.com under About Baxter About Us Governance, Ethics & Compliance Committees and Charters.

Audit Committee

The Audit Committee is currently composed of K. J. Storm (Chair), Peter S. Hellman, Munib Islam, Thomas T. Stallkamp and Albert P.L. Stroucken, each of whom is independent under the rules of the NYSE and Rule 10A-3 of the Securities Exchange Act of 1934, as amended (Exchange Act). The Board has determined that Messrs. Hellman, Stallkamp, Storm and Stroucken each qualify as an audit committee financial expert as defined by the rules of the 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 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 unaudited), 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; (8) discussing guidelines and policies governing the process by which Baxter assesses and manages risk; and (9) after the dissolution of the Finance Committee and the February 2016 amendment of the Audit Committee's charter, approving certain financing matters, proposed corporate transactions and capital expenditures. The Audit Committee met 15 times in 2015. The Audit Committee Report appears on page 60.

Compensation Committee

The Compensation Committee is currently composed of John D. Forsyth (Chair), Peter S. Hellman, Michael F. Mahoney, Carole J. Shapazian and Thomas T. Stallkamp, each of whom is independent under the rules of the NYSE. 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 the Chief

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Corporate Governance at Baxter International Inc.

Executive Officer's performance and decisions regarding his compensation. All compensation actions relating to the company's Chief Executive Officer are subject to the approval of the independent directors of the Board. The Compensation Committee met eight times in 2015. The Compensation Committee Report appears on page 27.

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 independent 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 2015, he advised the Compensation Committee Chairman on setting agenda items for Compensation 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 those established for Baxalta prior to the Baxalta spin-off); and conducted a review of the compensation of non-employee directors at Baxter's peer companies. He also assisted in the identification of new peer companies for Baxter, in advance of the Baxalta spin-off. In accordance with the rules of the SEC and the NYSE 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.

Corporate Governance Committee

The Corporate Governance Committee is currently composed of James R. Gavin III, M.D., Ph.D. (Chair), Thomas F. Chen, Uma Chowdhry, Ph.D., John D. Forsyth, Michael F. Mahoney and K. J. Storm, each of whom is independent under the rules of the NYSE. 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 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; (7) overseeing the continuing education of the Board; and (8) reviewing at least annually the adequacy of Baxter's Corporate Governance Guidelines. Additionally, in 2015, the Corporate Governance Committee assisted the Board in deciding to adopt and then finalize the December 2015 proxy access bylaw amendment in order to strike a balance between enhancing stockholder rights and acting in the best interest of all Baxter stockholders. The Corporate Governance Committee met seven times in 2015.

Public Policy Committee

The Public Policy Committee is currently composed of Carole J. Shapazian (Chair), Thomas F. Chen, Uma Chowdhry, Ph.D., James R. Gavin III, M.D., Ph.D. and Albert P.L. Stroucken. 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 compliance with laws and regulations administered by the U.S. Food and Drug Administration and similar agencies; (2) reviewing the safety and quality of Baxter's products; (3) reviewing periodic reports on quality and compliance; (4) coordinating with the Audit Committee on quality and compliance issues; and (5) reviewing strategic issues and corporate actions relating to current and emerging political, corporate citizenship and public policy issues that may affect Baxter. The Public Policy Committee met three times in 2015.

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Corporate Governance at Baxter International Inc.

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Director Compensation

Non-employee directors are compensated for their service under Baxter's non-employee director compensation plan with cash compensation and equity awards of stock options and RSUs. In July and November 2014 and May 2015, Cook & Co. reviewed this plan in its capacity as the Compensation Committee's independent advisor. Cook & Co. recommended that the mix of equity and cash awards under the plan be positioned at the median range of Baxter's new peer group (after the Baxalta spin-off). This new peer set, which was approved by the Compensation Committee in July 2014 for executive-level benchmarking for the company generally, is set forth below under Compensation Discussion and Analysis Structure of Compensation Program Baxter's New Peer Group and Use of Peer Group Data. These recommendations, which were approved by the Compensation Committee and subsequently by all independent directors, increased the value of target annual equity awards to non-employee directors (from \$165,000 to \$175,000) and the cash retainer paid to the lead independent director and committee chairs, as described below.

Beginning in 2016, the Board anticipates that Mr. Islam will be paid solely in cash, in an amount equal to the cash compensation paid to all other non-employee directors (as described below under Cash Compensation) and an amount equal to the target value of the RSUs and stock options awarded to all other non-employee directors (as described below under Stock Options and Restricted Stock Units); provided, that the target value shall only be paid at the end of the one-year vesting period to which all non-employee director equity awards are subject, assuming Mr. Islam is still a director at that time.

Baxter's director compensation program utilizes equity awards in order to further align the interests of directors with Baxter stockholders. Notwithstanding that Mr. Islam may receive solely cash awards beginning in 2017 with regard to his 2016 grants, he serves on the Board as a Third Point nominee in accordance with the terms of Third Point Support Agreement and as a senior Third Point executive. Third Point is the company's largest stockholder as of the date of this Proxy Statement. See Ownership of Our Stock Security Ownership by Certain Beneficial Owners for additional information regarding Third Point's holdings.

Cash Compensation

Each non-employee director is paid a \$65,000 annual cash retainer and a \$2,000 fee for each Board and committee meeting attended. The fee for attending a Science and Technology Committee meeting, prior to its dissolution, was \$3,000 as this committee held less frequent but longer meetings, often not coincident with Board meetings. Each non-employee director who acts as the Chair of any committee meeting receives an additional annual retainer of \$15,000, except for the Chair of the Audit Committee who receives an additional retainer of \$20,000 in light of the frequency of meetings held by this committee. These amounts were increased from \$10,000 and \$15,000, respectively, in 2015. Effective July 1, 2015, the lead director is paid an additional annual cash retainer of \$50,000, an increase from \$30,000. Non-employee directors are eligible to participate in a deferred compensation plan that allows for the deferral of all or any portion of cash payments until Board service ends and provides participants with a select subset of investment elections available to all eligible employees under Baxter's tax-qualified Section 401(k) plan. 2015 cash compensation for Messrs. Forsyth, Hellman, Hockmeyer, Stallkamp and Storm also includes payment for meetings of an ad hoc Board working group constituted to assist on strategic decisions related to the separation of Baxter and Baxalta. Working group meeting fees were \$2,000 per meeting, consistent with Baxter's standard meeting fees.

Stock Options

Except as described above with respect to Mr. Islam, each non-employee director is entitled to receive a grant of stock options annually on the date of each annual meeting. Under Baxter's director compensation plan for 2015, each non-employee director on the Board in May 2015 received an annual stock option grant with a value of \$60,000 as of the grant date, rounded to the nearest ten shares. The stock options become exercisable on the date of the next annual meeting, and may become exercisable earlier in the event of death, disability or a change in control of Baxter. Upon their appointment to the Board, Messrs. Islam and Mahoney received prorated stock option grants in September 2015 and October 2015, respectively.

Restricted Stock Units

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Except as described above with respect to Mr. Islam, each non-employee director also receives an annual grant of RSUs on the date of each annual meeting. The number of RSUs for 2015 equaled the quotient of \$115,000 divided by the closing sale price for a share of Baxter common stock on the date of the 2015 Annual Meeting, rounded to the nearest ten shares. Directors have the option of deferring the distribution of the shares of stock underlying such RSUs until termination from service as a director. The RSUs vest on the date of the next annual meeting and may vest earlier in the event of death, disability or a change in control of Baxter. Directors are credited with dividend equivalents on the shares underlying the RSUs (whether vested or unvested) and such dividend equivalents are reinvested in additional unvested RSUs. Directors have no other rights of a stockholder with respect to the shares underlying the RSUs prior to vesting. Upon their appointment to the Board, Messrs. Islam and Mahoney received prorated RSU grants in September 2015 and October 2015, respectively.

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Corporate Governance at Baxter International Inc.

Other Director Compensation

Directors are eligible to participate in the Baxter International Foundation matching gift program, under which Baxter's foundation matches gifts made by employees and directors to eligible non-profit organizations. The maximum gift total for a non-employee director participant in the program is \$20,000 in any calendar year. Baxter periodically reimburses travel and entertainment expenses when significant others of directors are invited to attend a meeting of the Board. The Compensation Committee believes these types of events help to create a sense of collegiality among the Board that is helpful to the directors in fulfilling their responsibilities as members of the Board.

Baxter's Stock Ownership Guidelines for Directors; Prohibitions on Trading

Baxter's Corporate Governance Guidelines provide that after five years of Board service, each director is recommended to hold common stock equal to five times the annual cash retainer provided to directors. The Board has determined that Mr. Islam satisfies this guideline by virtue of Third Point's ownership of Baxter common stock. Third Point beneficially owns approximately 9.8% of Baxter's outstanding common stock based on Amendment No. 2 to the Schedule 13D/A it filed on September 30, 2015. See [Ownership of Our Stock](#) [Security Ownership by Certain Beneficial Owners](#) for a description of Third Point's holdings.

Pursuant to Baxter's securities trading policy, Baxter directors are prohibited from engaging in short-term trading activities and option transactions in Baxter stock. As a result, directors cannot enter into any put or call options or otherwise buy or sell derivatives on any Baxter stock.

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Corporate Governance at Baxter International Inc.

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Director Compensation Table

The following table provides information on 2015 compensation for non-employee directors who served during 2015.

Name	Fees Earned or Paid in Cash (\$)(¹)	Stock Awards (\$)(²)	Option Awards (\$)(³)	All Other Compensation (\$)(⁴)	Total (\$)
Thomas F. Chen	\$107,000	\$114,923	\$52,977	\$8,813	\$283,713
Uma Chowdhry, Ph.D.	106,000	114,923	52,977	23,874	297,774
John D. Forsyth	138,000	114,923	52,977	2,790	308,690
James R. Gavin, M.D., Ph.D.	127,000	114,923	52,977	30,381	325,281
Peter S. Hellman	133,000	114,923	52,977	21,290	322,190
Munib Islam ⁽⁵⁾	30,250	58,802	36,849	0	125,901
Michael F. Mahoney ⁽⁵⁾	28,717	54,468	35,160	0	118,345
Carole Shapazian	123,000	114,923	52,977	22,790	313,690
Thomas T. Stallkamp	179,000	114,923	52,977	22,090	368,990
K. J. Storm	158,500	114,923	52,977	12,790	339,190
Albert P.L. Stroucken	131,000	114,923	52,977	2,790	301,690
Blake E. Devitt ⁽⁶⁾	72,500	114,923	52,977	4,187	244,587
Gail D. Fosler ⁽⁶⁾	56,500	114,923	52,977	2,687	227,087
Wayne T. Hockmeyer, Ph.D. ⁽⁶⁾	65,000	114,923	52,977	2,687	235,587

¹ Consists of the amounts described above under Cash Compensation.

² The amounts shown in this column are valued based on the grant date fair value computed in accordance with FASB ASC Topic 718. For more information on how these amounts are calculated, please see Note 12 to the Consolidated Financial Statements included in the company's Annual Report on Form 10-K for the year ended December 31, 2015. As of December 31, 2015, each current director (other than Messrs. Islam and Mahoney) had 3,097 unvested Baxter RSUs. Messrs. Islam and Mahoney had 1,790 and 1,530 unvested Baxter RSUs, respectively, as of December 31, 2015. Amounts for each of Dr. Hockmeyer, Mr. Devitt and Ms. Fosler represent 3,610 unvested Baxalta RSUs which were issued in exchange for 3,610 unvested Baxter RSUs in connection with the spin-off. See Adjustments to Certain Equity Awards in the Spin-Off below for a description of the adjustments made to outstanding equity awards in connection with the Baxalta spin-off. Mr. Islam has disclaimed beneficial ownership of the RSUs granted to him in connection with his appointment, in light of his employment arrangement with Third Point.

³ The amounts shown in this column are valued based on the grant date fair value computed in accordance with FASB ASC Topic 718. For more information on how these amounts are calculated, please see Note 12 to the Consolidated Financial Statements included in the company's Annual Report on Form 10-K for the year ended December 31, 2015. As of December 31, 2015, each director had the following number of Baxter and Baxalta stock options outstanding (Baxter/Baxalta): Mr. Chen (20,509/9,720); Dr. Chowdhry (20,509/9,720); Mr. Devitt (0/47,678); Mr. Forsyth (51,539/40,750); Ms. Fosler (25,090/37,678); Dr. Gavin (51,539/40,750); Mr. Hellman (51,539/40,750); Dr. Hockmeyer (33,310/45,898); Mr. Islam (6,290/0); Mr. Mahoney (5,390/0); Ms. Shapazian (35,879/25,090); Mr. Stallkamp (31,899/21,110); Mr. Storm (51,539/40,750); and Mr. Stroucken (51,539/40,750). See Adjustments to Certain Equity Awards in the Spin-Off below for a description of the adjustments made to outstanding equity awards in connection with the Baxalta spin-off. Mr. Islam has disclaimed beneficial ownership of the Baxter stock options granted to him in connection with his appointment, in light of his employment arrangement with Third Point.

⁴ The amounts in this column include contributions made by Baxter's charitable foundation for 2015 (paid as of March 1, 2016) on behalf of certain directors under the foundation's matching gift program as follows: Dr. Chowdhry (\$20,000); Dr. Gavin (\$20,000); Mr. Hellman (\$18,500); Ms. Shapazian (\$20,000); and Mr. Stallkamp (\$19,300). These donations are the only component of All Other Compensation that involved an amount equal to or greater than \$10,000 for any director in 2015. All other amounts in this column represent dividend equivalent payments on RSUs held by the non-employee directors during 2015 (including any RSUs with deferred vesting pursuant to the deferred compensation plan).

⁵ Messrs. Islam and Mahoney were appointed to the Board in September 2015 and October 2015, respectively. Mr. Islam received a pro rata payment to reflect his service between September 29, 2015 and December 31, 2015. Mr. Mahoney received a pro rata payment to reflect his service between October 21, 2015 and December 31, 2015.

⁶ Dr. Hockmeyer, Mr. Devitt and Ms. Fosler resigned from the Board on June 30, 2015 in connection with their appointment to the Baxalta board of directors.

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Executive Compensation

PROPOSAL	Advisory Vote to Approve Named Executive Officer Compensation
2	<p>At the 2011 Annual Meeting, stockholders recommended to hold annual advisory votes approving the compensation of Baxter's named executive officers (commonly referred to as "say-on-pay"). The Board determined to follow the stockholders' recommendation and hold the say-on-pay vote annually until the next vote on the frequency of such votes, which is expected to occur at the 2017 Annual Meeting. Accordingly, the Board is requesting that stockholders approve, pursuant to a non-binding vote, the compensation of the company's named executive officers as disclosed in this Proxy Statement.</p>
	<p>The Board of Directors recommends a vote FOR approval of the compensation of the company's named executive officers.</p>

The Board encourages stockholders to carefully review the "Executive Compensation" Compensation Discussion and Analysis section of this Proxy Statement, in connection with this advisory vote. The Compensation Discussion and Analysis section describes Baxter's executive compensation program and the decisions made by the Compensation Committee and the Board with respect to the compensation of the company's named executive officers for 2015.

The company has designed its executive compensation programs to attract, motivate, reward and retain the senior management talent required to achieve its corporate objectives and increase stockholder value. As discussed below in Compensation Discussion and Analysis, pay-for-performance is the most significant structural element of Baxter's executive compensation program, where the majority of executive pay is at risk and subject to specific annual and long-term performance requirements.

In addition, Baxter has also adopted policies, like the stock ownership guidelines and the executive compensation recoupment policy, to help ensure long-term focus and appropriate levels of risk-taking by executive officers.

The Board believes that Baxter's executive compensation program is designed to meet the objectives discussed in the Compensation Discussion and Analysis section. Accordingly, the Board recommends that stockholders vote in favor of the following resolution:

RESOLVED, that the stockholders of Baxter International Inc. approve the compensation paid to the company's named executive officers as described in this Proxy Statement under "Executive Compensation," including the Compensation Discussion and Analysis, the compensation tables and other narrative disclosure contained therein.

This say-on-pay advisory vote is non-binding on the Board. Although the vote is non-binding, the Board and the Compensation Committee will review and thoughtfully consider the voting results when making future decisions concerning the compensation of the company's named executive officers.

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Compensation Committee Report

The Compensation Committee is responsible for the oversight of Baxter's compensation programs on behalf of the Board of Directors. In fulfilling its oversight responsibilities, the Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis set forth in this Proxy Statement.

Based on the review and discussions referred to above, the Compensation Committee recommended to the Board of Directors that the following Compensation Discussion and Analysis be included in Baxter's Annual Report on Form 10-K for the fiscal year ended December 31, 2015 and this Proxy Statement, each of which will be filed with the SEC.

Compensation Committee

John D. Forsyth (Chair)
 Peter S. Hellman
 Michael F. Mahoney
 Carole J. Shapazian
 Thomas T. Stallkamp

Compensation Discussion and Analysis

This Compensation Discussion and Analysis discusses the 2015 compensation paid to Baxter's executive officers who are identified as named executive officers below. The purpose of this discussion is to provide investors with an understanding of the company's executive compensation policies and practices, and the decisions regarding the compensation for the named executive officers.

Summary

2015 Results

In March 2014, Baxter announced plans to create two separate, independent global healthcare companies—one focused on developing and marketing innovative biopharmaceuticals (Baxalta) and the other on life-saving medical products (Baxter). On July 1, 2015, the spin-off was completed, creating two, well-capitalized independent companies with strong balance sheets, investment grade profiles, and disciplined approaches to capital allocation. Baxter had positioned both businesses to be successful, profitable and sustainable independent companies, and this decision reflects the further evolution of Baxter's multi-faceted strategies emphasizing a commitment to innovation and operational excellence. The two businesses had historically operated in distinct markets with corresponding and distinct underlying fundamentals, and each possesses unique and compelling growth prospects, investment requirements and risk profiles. Baxter believes that the separation has and will continue to result in other material benefits, including:

- Greater management focus on the distinct business of medical products;
- Ability to more effectively commercialize new and existing product offerings;
- Ability to drive innovation across the franchises and allocate necessary resources to the areas presenting the highest growth potential; and
- Flexibility to pursue growth and investment strategies resulting in revenue acceleration, improved profitability and enhanced returns.

Baxter's financial results for 2015 reflect the company's achievement of significant financial, operational and strategic objectives. The related highlights include:

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the successful completion of the Baxalta spin-off, including the distribution of 80.5% of the outstanding shares of Baxalta common stock to Baxter stockholders (as further discussed below);
the implementation of actions to rebase the company's cost structure in light of the company's emergence as a stand-alone medical products company;
the launch of new products or next generation products in select markets, two new automated peritoneal dialysis systems (HOMECHOICE CLARIA with SHARESOURCE and AMIA with SHARESOURCE), Cefazolin injection in GALAXY container (2 g/100 mL), Baxter's next-generation SIGMA SPECTRUM infusion pump and AK-98, Baxter's new in-center hemodialysis system; and
continued savings associated with the Gambro AB integration, the optimization of Baxter's portfolio and the Baxalta spin-off.

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Baxter's global net sales totaled \$10.0 billion in 2015, with adjusted earnings from continuing operation per diluted share of \$1.38 (excluding special items). See footnote 1 to the table in "Structure of Compensation Program Financial Targets" for information regarding the adjustments made to adjusted earnings from continuing operations per diluted share.

As discussed in "Structure of Compensation Program Financial Targets" below, Baxter's short-term cash compensation program for 2015 was based, in part, on the achievement of adjusted EPS and adjusted sales for the first and second half of 2015.

The company's financial, operational and strategic performances (as discussed above) were all significant factors in the compensation decisions made for 2015. A comparison of the performance of Baxter's common stock (after giving effect to the Baxalta spin-off) against certain of its peers provides another perspective on Baxter's overall performance over the last five years and is an additional factor that the Compensation Committee (and with respect to Chief Executive Officer compensation, the Board) considered when making compensation decisions.

In 2015, Baxter delivered value to stockholders through \$910 million in dividends. Additionally, on July 1, 2015, Baxter distributed 80.5% of the outstanding Baxalta shares to its stockholders in the Baxalta spin-off. Based on company estimates and as set forth below, the combined total shareholder return for Baxter and Baxalta in 2015 totaled approximately 7.5%, as compared to 1.4% for the S&P 500 Composite Index and 7.0% for the S&P 500 Health Care Index over the same period.

The following graph compares the cumulative total shareholder return (including reinvested dividends) on Baxter common stock and, for the period between July 1, 2015 and December 31, 2015, on Baxter and Baxalta common stock with the Standard & Poor's 500 Composite Index and the Standard & Poor's 500 Health Care Index for 2015. Performance through June 30, 2015 reflects Baxter performance prior to adjusting for the Baxalta separation. Performance after June 30, 2015 represents the aggregate total shareholder return for Baxter (as adjusted for the Baxalta separation) and Baxalta.

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The second graph compares the change in the cumulative total shareholder return (including reinvested dividends) on Baxter common stock and, for the period between July 1, 2015 and December 31, 2015, on Baxter and Baxalta common stock with the same indices shown above between 2010 and 2015. Performance through June 30, 2015 reflects Baxter performance prior to adjusting for the Baxalta separation. Performance after June 30, 2015 represents the aggregate total shareholder return for Baxter (as adjusted for the Baxalta separation) and Baxalta.

2015 Say-on-Pay Vote

At the 2015 Annual Meeting, approximately 74% of the stockholders voting at the meeting approved the compensation paid to Baxter's named executive officers in 2014.

The Compensation Committee and management are committed to strengthening pay-for-performance alignment, as well as the overall design of the company's executive compensation programs. In 2015 after the 2015 Annual Meeting, Baxter reached out to certain of its top stockholders to seek feedback on Baxter's executive pay practices and the 2015 say-on-pay vote. Several stockholders suggested that their no votes primarily reflected views on total shareholder return and related matters in 2014 and these stockholders generally did not suggest fundamental changes in program design. See [Structure of Compensation Program](#), [Pay-for-Performance](#), [CEO Alignment of Realizable Pay and Performance](#) for additional information regarding the alignment between company performance and realizable pay in 2015.

Stockholder Engagement

Baxter sponsors an active stockholder engagement program. As part of this program, the company is committed to engaging in constructive dialogue with its stockholders. Management is primarily responsible for stockholder communications and engagement, with involvement from the lead director, Corporate Governance and Compensation Committees. Management provides regular updates to the Board concerning stockholder feedback. The Board considers this feedback as well as the interests of all stakeholders when overseeing company strategy, formulating governance practices and designing or evaluating compensation programs, as discussed above.

During 2015, members of the Board and management met with stockholders and other stakeholders as part of its annual outreach program and a targeted corporate governance outreach, as well as at other times throughout the year. This outreach included discussions with representatives from Baxter's top institutional investors, hedge funds, mutual funds and public pension funds (representing over 25% of our outstanding shares). We also engaged with proxy and other investor advisory firms that represented the interests of various stockholders. Topics included our strategy and performance, corporate governance matters such as Board composition and refreshment, succession planning (including the appointment of Mr. Almeida as the company's Chairman and Chief Executive Officer), Board leadership structure and the company's recently adopted proxy access bylaw amendment and Baxter's executive compensation program. Management solicited feedback from stockholders on these subjects and provided a summary of responses to the Board. Directors who participated in the meetings also shared their perspectives on these meetings with the full Board.

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2015 Executive Compensation Awarded and Earned

For his service as Baxter's Chairman and Chief Executive Officer in 2015, Mr. Parkinson has compensation reported in the Summary Compensation Table of \$17,883,684. In reviewing the company's programs (including the successful Baxalta separation and distribution) and the decisions made relative to Mr. Parkinson's compensation, the Compensation Committee believes that Mr. Parkinson was fairly rewarded for leading the company through a period of substantial change and long-term investment for the future benefit of stockholders.

A primary component of this total was Mr. Parkinson's base salary of \$1,535,000. Mr. Parkinson did not receive a salary increase in 2015. And as a result, his base annual salary remained at \$1,535,000 through the effectiveness of his retirement as Chief Executive Officer and Chairman effective as of December 31, 2015. For the period between January 1, 2016 through March 11, 2016, Mr. Parkinson received a base salary of \$25,000 for each bi-weekly pay period for assisting in the completion of the transition of his responsibilities to Mr. Almeida. Mr. Parkinson is no longer employed by Baxter.

Another primary component of Mr. Parkinson's 2015 compensation was his annual cash bonus of \$3,637,491, which represents a 14.8% increase from the prior year. Mr. Parkinson's annual bonus funded at 139% of target for achieving the company's goals on adjusted sales and adjusted EPS, while making significant investments for future growth and preparing the company for the spin-off of Baxalta, notwithstanding a difficult macroeconomic marketplace. This payout includes an adjustment made by the Board in assessing his individual performance for 2015. See Elements of Executive Compensation Cash Bonuses Determination of 2015 Annual Bonus Payouts Individual Performance for a discussion of the factors evaluated by the Board in connection with making these adjustments.

Consistent with Baxter's historical practice, the largest component of Mr. Parkinson's compensation in 2015 was the long-term incentive grant with a grant date fair value of \$11,466,401. For 2015, due to the impending business separation of Baxalta, and the difficulties associated with establishing three-year GSV performance metrics in advance of the spin-off, Mr. Parkinson and all executive officers received their equity grants in equal proportions of stock options and RSUs.

Following Mr. Parkinson's retirement and pursuant to the terms and conditions of his outstanding equity grants, Mr. Parkinson will continue to vest in his outstanding long-term incentive grants on their regular vesting schedules. All of his outstanding PSU grants will continue to be measured based on Baxter's performance. Consequently, Mr. Parkinson's ability to realize the grant date value of his long-term incentive compensation will continue to depend on the company's performance over the long-term. For example, the GSV portion of the PSUs granted to him in 2013 and otherwise payable in 2016 paid out at 0% of the original grant because Baxter's relative GSV performance (including combined Baxter Baxalta results for the second half of 2015) was below the 25th percentile of its peers during the 2013 to 2015 performance period. Please see below for a more detailed discussion of realized pay and performance alignment appears below under Structure of Compensation Program Pay for Performance CEO Alignment of Realizable Pay and Performance.

For 2015, aside from Mr. Parkinson, the other Baxter named executive officers include José E. Almeida, Jeanne K. Mason, PhD, James K. Saccaro, and David P. Scharf. Robert J. Hombach, Baxter's former Corporate Vice President and Chief Financial Officer, and Ludwig N. Hantson, Baxter's former Corporate Vice President and President, BioScience, represent the other named executive officers. Mr. Hombach is included as he served as Baxter's principal financial officer for a portion of 2015 prior to the Baxalta spin-off. Dr. Hantson is included as he would have otherwise been included had he still served as a Baxter executive officer as of December 31, 2015.

Each of the other named executive officers received total performance based compensation for 2015 as follows (based on Baxter's results for applicable financial metrics, with the resulting payout further adjusted by the Compensation Committee in light of individual performance over the relevant period (and as further discussed below)): Mr. Saccaro \$2,001,783; Ms. Mason \$2,473,608; and Mr. Scharf \$3,103,009. The performance based compensation paid to Dr. Hantson and Mr. Hombach for the first half of 2015 totaled \$2,757,589 and \$3,506,691, respectively. Mr. Almeida received total performance based compensation of \$7,714,087 in connection with his appointment as CEO and Chairman. The related grant (which consists solely of PSU and option awards) represents an acceleration of his 2016 annual equity grants. The amounts for Dr. Hantson and Mr. Hombach consist solely

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of compensation paid or awarded by Baxter (whether in Baxter or Baxalta equity, after giving effect to the adjustments made in connection with the Baxalta spin-off). They do not include any compensation paid for post-separation performance.

Consistent with past years, the most significant component of the total compensation paid to the named executive officers in 2015 was in the form of equity. The grant date fair value of the equity awards granted to the named executive officers in 2015 (excluding Messrs. Almeida and Hombach and Dr. Hantson) ranged from 43% to 51% of their total compensation. As with the Chief Executive Officer, the ability of the other named executive officers to realize the grant date fair value of their long-term incentives will ultimately

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depend on the company's performance over the long term. See [Structure of Compensation Program Pay-for-Performance CEO Alignment of Realizable Pay and Performance](#) for additional information regarding Mr. Parkinson's realizable pay in 2015.

Compensation Philosophy

Baxter's compensation program is designed to:

- recognize company and individual performance;
- drive the long-term financial performance of the company (and in doing so, encourage innovation and appropriate levels of risk-taking); and
- reflect the value of each officer's position in the market and within the company.

The objective of the program is to compensate Baxter's executive officers in a manner that is consistent with these principles, align the interests of management and stockholders and drive sustained and superior performance relative to the company's peers. The program is also designed to be comparable with companies with which Baxter competes for executive talent in order to attract, retain and motivate high-performing executives.

Structure of Compensation Program

Historically, Baxter's executive compensation program has reflected the following:

- cash bonus payouts determined primarily by the company's annual performance against specified financial targets, including adjusted EPS, adjusted sales and operating cash flow;
- the company's three-year GSV relative to its peer group and performance against annual return on invested capital (ROIC) targets has historically determined the payout under 50% of the company's annual equity awards, which have been granted in the form of PSUs and which are completely at-risk; and
- the overall performance of the company's common stock determines the value of the other 50% of the company's annual equity awards, which have historically been granted in the form of stock options.

For 2015, given the mid-year business separation of Baxalta from Baxter:

- cash bonus payouts were determined by adjusted EPS and adjusted sales. For the first half of the year, adjusted EPS and adjusted sales were measured against targets for Baxter (before the Baxalta separation), while for the second half of the year, each of these metrics was measured against Baxter results after the separation (for continuing Baxter employees); and
- all eligible officers received their annual equity grants in March 2015 in the form of 50% stock options and 50% RSUs. PSUs were not granted in March 2015 given the business separation and challenges in establishing appropriate long-term metrics that would adequately reflect performance through the spin-off.

For 2016, Baxter's Compensation Committee has approved the following plan design changes, consistent with Baxter's long-range plans, which include an increased focus on the disciplined use of cash for long-term capital investments and on margin improvement:

- in addition to maintaining adjusted EPS and adjusted sales as metrics under Baxter's cash bonus plan, free cash flow has been introduced as a performance metric, replacing operating cash flow; and
- PSUs constitute 50% of the annual equity grant for named executive officers. One-half of the PSUs will be measured based on Baxter's GSV relative to its peer group over a three-year period, and one-half of the PSUs will be measured on three annual operating margin targets, for which the shares will vest based on goal achievement at the end of three years (subject to satisfaction of the related time vesting requirement).

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The annual cash metrics and weightings used for 2014 and 2015 cash bonus assessment, and the 2016 annual cash metrics and weightings, are as follows:

Measure	2014: Full-Year	2015: First-Half	2015: Second-Half	2016: Full-Year
Adjusted EPS	50%	50%	75%	60%
Adjusted Sales	25%	50%	25%	20%
Adjusted Operating Cash Flow	25%			
Adjusted Free Cash Flow				20%

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The equity mix for the named executive officers under Baxter's long-term incentive plan during the same time periods is as follows:

Measure	2014	2015	2016
Stock Options	50%	50%	50%
Restricted Stock Units		50%	
Performance Share Units: GSV	25%		25%
Performance Share Units: ROIC	25%		
Performance Share Units: Operating Margin			25%

Pay-for-Performance

Pay-for-performance is the most significant structural element of Baxter's compensation program. As described in this Proposal 2, for 2015, annual performance against financial targets of adjusted EPS and adjusted sales determined the payout of cash bonuses under Baxter's cash bonus plan. Operating cash flow, which has historically been included as the third measure in the annual bonus plan, was removed for 2015 due to the impending business separation of Baxalta and the challenge with setting an appropriate annual metric. For 2016, free cash flow replaces operating cash flow as the third metric under the company's cash bonus plan, consistent with Baxter's increased focus on the disciplined use of cash for long-term capital investments.

Baxter has historically used three-year GSV relative to its peer group and three-year performance against annual ROIC targets to determine the payout under 50% of the company's annual equity awards to executive officers, which have been granted in the form of PSUs. For 2015, due to the impending business separation of Baxalta, PSUs were not granted to executive officers (other than to Mr. Almeida). Instead, RSUs comprised 50% of the 2015 annual equity awards. This change was made due to the planned separation of Baxalta and the difficulties associated with establishing three-year GSV performance targets in advance of the spin-off. In general, the Compensation Committee views grants not tied to performance and one-time grants as appropriate in limited circumstances (including in connection with the Baxalta spin-off) and seeks to avoid their use to the extent it may be inconsistent with the company's overall pay-for-performance philosophy.

For 2016, Baxter executive officers received 50% of their annual equity grants in the form of PSUs, of which:

- one-half will be measured against Baxter's three-year GSV relative to the company's new peer group, and
- one-half will be measured against three annual operating margin targets, as opposed to three annual ROIC targets.

These PSU awards were in lieu of the annual RSU awards issued to executive officers in 2015. The company elected to use operating margin (as opposed to ROIC) as the second metric under its 2016 equity incentive plan in order to better align executive compensation with the company's plans to increase operating margin over its five year long-range plan.

The overall performance of Baxter's common stock determines the value of the remainder of each executive officer's annual equity grant for 2016, which was granted in the form of stock options. Stock options constitute 50% of annual equity awards in 2015 and 2016, consistent with past practice. The Compensation Committee's assessment (or in the case of the Chief Executive Officer, the Board's assessment) of how each officer performs his or her job impacts earned cash bonuses and equity awards, as discussed below under Performance Over the Long-Term Individual Performance.

Baxter's focus on pay-for-performance is best demonstrated through the structure of its executive compensation programs, where the majority of executive pay is at risk and subject to performance requirements (including in the case of stock options, the performance of Baxter common stock). For 2015, 54% of Mr. Parkinson's target compensation and 48% of the other named executive officers' compensation (excluding Messrs. Almeida and Hombach and Dr. Hantson) was at risk. These percentages are lower than they have been historically because of the granting of RSUs in 2015 instead of PSUs.

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CEO Alignment of Realizable Pay and Performance

To ensure alignment of executive pay with performance, the Compensation Committee reviewed the realizable pay (actual cash compensation and the intrinsic value of equity-based compensation) for Mr. Parkinson over the three-year period for which compensation is disclosed in this Proxy Statement (2013 to 2015).

CEO Realizable Pay 2013 - 2015^{(1),(2)}
(in thousands)

¹ The realizable pay values represent the intrinsic value of stock options and RSUs granted to Mr. Parkinson in 2013, 2014 and 2015, and PSUs granted to Mr. Parkinson in 2010, 2011 and 2012 that were paid in 2013, 2014 and 2015, respectively, and include both Baxter and Baxalta awards. The amount included under the "Change in Pension Value" column in the Summary Compensation Table has been excluded from these calculations, while the amount included under "All Other Compensation" has been included as part of Salary.

² All realizable pay elements are valued based on the closing price of Baxter and Baxalta common stock on December 31, 2015 (\$38.15 and \$39.03, respectively).

As shown in the chart above, Mr. Parkinson's realizable pay was 77% of the Summary Compensation Table value during this time period. This difference is attributable to the lower realizable value of Mr. Parkinson's long-term incentive compensation. The realizable pay for the long-term incentive portion is only 66% of the Summary Compensation Table values, which supports a strong pay-for-performance alignment. Between 2013 and 2015, Baxter's total GSV performance (including reinvested dividends) was approximately 23% (after giving effect to the Baxalta spin-off). This return level was below the median total shareholder return of Baxter's peer companies which was approximately 76% during the same period. This produced lower realizable stock option values and resulted in below target PSU payouts during this time period. Our executive officers received PSU payouts in 2013, 2014 and 2015 at 65%, 30% and 0% of target respectively. See "Financial Targets" for a discussion for how GSV is calculated.

Financial Targets

The Compensation Committee selected adjusted EPS and adjusted sales as the financial measures on which to assess the company's performance for purposes of funding the cash bonus pool for 2015. Each half of the year was measured independently for cash bonus purposes to recognize that the first half of the year represented the combination of Baxter and Baxalta results, while the second half of the year, for continuing Baxter employees, represented Baxter results only. The table below shows the relative weight assigned to each measure during 2015:

	First Half	Second Half
Adjusted EPS	50%	75%
Adjusted Sales	50%	25%

Greater emphasis was placed on adjusted EPS for the second half of the year given the company's increased focus on improving profitability after completion of the spin-off.

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Since each financial measure was met, the cash bonus pool was funded at two times the base salary for each executive officer covered by the bonus pool (other than the Chief Executive Officer, for whom the bonus pool was funded at two times his or her target cash bonus) with negative discretion applied as described below.

The Compensation Committee selected adjusted EPS and adjusted sales as financial metrics for the 2015 cash bonus plan as they are of immediate interest to stockholders and are the primary measures as to which Baxter regularly provides guidance to the market. The table below provides adjusted EPS and adjusted sales targets for 2015, 2014 and 2013 as well as actual results. The table also provides target and adjusted operating cash flow for 2014 and 2013, as operating cash flow was used in the calculation of the annual bonus funding in 2014 and 2013. The 2013 target and actual results exclude the impact of post-acquisition results for Gambro AB (Gambro), which was acquired in September 2013 and now constitutes a portion of Baxter's Renal business.

	Target (H1/H2)		2015 Actual (H1/H2)		Achievement % (H1/H2)		2014 Target		2014 Actual		2014 Achievement %		2013 Target		2013 Actual		2013 Achievement %	
Adjusted EPS ⁽¹⁾	\$1.82	\$0.62	\$2.01	\$0.84	110.3%	135.3%	\$5.11	\$5.17			101.2%		\$4.70	\$4.72			100.0%	
Adjusted Sales (in millions) ⁽²⁾	\$7,900	\$5,431	\$8,010	\$5,482	101.4%	100.9%	\$16,242	\$16,600			102.2%		\$14,259	\$14,323			100.0%	
Adjusted Operating Cash Flow (in millions) ⁽³⁾	N/A	N/A	N/A	N/A	N/A	N/A	\$3,413	\$3,338			97.8%		\$3,277	\$3,256			99.0%	

¹ Adjusted EPS is calculated as the company's diluted earnings per share determined in accordance with GAAP equal to \$1.38 for the first half of 2015 (calculated prior to giving effect to the Baxalta separation), \$0.33 for the second half of 2015 (including only continuing Baxter results), \$4.56 for 2014 and \$3.66 for 2013, each as adjusted for special items. Special items for 2015 related to the previously mentioned first half and second half results were \$343 million on an after-tax basis, or \$0.63 per diluted share, and \$276 million on an after-tax basis, or \$0.51 per diluted share, respectively, primarily related to intangible asset amortization, business optimization items, product-related items, separation-related costs for the Baxalta separation, Gambro integration items, debt extinguishment costs, tax and legal reserves and business development activities. For 2014, special items totaled \$333 million on an after-tax basis, or \$0.61 per diluted share, primarily related to intangible asset amortization, business optimization items, product-related items, separation-related costs for the Baxalta separation, Gambro integration items, tax and legal reserves and business development activities. For 2013, special items totaled \$555 million on an after-tax basis, or \$1.01 per diluted share, primarily related to charges for Gambro acquisition and integration items, business optimization initiatives, tax and legal reserves, currency-related items and business development activities. For 2013, the actual results also exclude a net loss of \$0.05 per diluted share related to the impact of the Gambro acquisition. Total GAAP EPS from continuing operations (after giving effect to the Baxalta separation for the full year) was \$0.72 for 2015, as adjusted for special items of \$0.66 related to the aforementioned items (or \$1.38 per share on an as adjusted basis), and \$0.83 for 2014, as adjusted for special items of \$0.45 related to the foregoing items (or \$1.28 on an as adjusted basis), representing an increase of 8% over the period.

² Adjusted Sales are calculated as the company's reported net sales as determined in accordance with GAAP equal to \$7.7 billion for the first half of 2015 (which amount was calculated prior to giving effect to the Baxalta separation) and \$5.1 billion for the second half of 2015 (which amount represents solely Baxter sales, after giving effect to the Baxalta separation), \$16.7 billion for 2014 (represents solely Baxter sales, after giving effect to the sale of the company's former Vaccines franchise) and \$15.0 billion for 2013 (excluding \$485 million in adjusted sales related to the Gambro acquisition), in each case as adjusted for foreign currency fluctuations calculated using budgeted exchange rates.

³ Adjusted Operating Cash Flow is calculated from the company's cash flow from operations as determined in accordance with GAAP, equal to \$3.215 billion for 2014 and \$3.198 billion for 2013. The 2014 results have been adjusted for cash flows related to the Baxalta separation of \$70 million as well as \$53 million of certain late payments in connection with an insurance recovery affecting a key customer. The 2013 results exclude \$58 million in operating cash flows related to the Gambro acquisition.

The company calculated adjusted EPS for purposes of funding the cash bonus pool the same way it calculated adjusted EPS when it publicly announced its results—that is, the special items that were excluded from EPS to arrive at adjusted EPS for purposes of announcing earnings results were the same as the adjustments made for purposes of the cash bonus pool. Baxter uses adjusted sales (rather than net sales) as a target for the same reason that Baxter provides sales guidance excluding the impact of foreign currency fluctuations and certain other items—that is, the company believes it provides a better perspective on underlying sales growth. The use of budgeted exchange rates allows Baxter to evaluate final performance on the same foreign currency basis that was used for setting the target and establishing the budget.

Performance Over the Long-Term

As a healthcare company, Baxter operates in a rapidly changing, increasingly competitive and heavily regulated environment. Accordingly, encouraging its executive officers to focus on the long-term performance of the company is particularly important to Baxter. Historically, Baxter has awarded PSUs designed to reward strong and sustained long-term performance by the company on two important measures: GSV and ROIC. The ROIC measure was added to the PSU grants in 2013 to provide a better balance compared to tying the award to a single performance metric. It also provides the opportunity to focus on a strategic financial component over a multi-year period. Finally, the use of multiple measures for PSUs is aligned with external market best practice. Fifty percent of each PSU award in 2013 and 2014 consisted of GSV PSUs and the remaining 50% of each award consisted of ROIC PSUs.