

**BAXTER INTERNATIONAL INC.**

**SECURITIES TRADING POLICY**

*Revised, effective August 2002*

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## **SECURITIES TRADING POLICY**

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## **I. POLICY OVERVIEW**

All employees of Baxter International Inc. and its subsidiaries ("Baxter") need to be aware that federal and state securities laws impose important restrictions on "insiders" of companies with respect to their securities transactions. An "insider" of Baxter is any Baxter employee who learns of material, non-public information about Baxter or, in some cases, about other companies. Note that an "insider" is not necessarily a senior executive; any employee with material, non-public information may be an insider. In appropriate cases, "insider" status may be extended to persons who are not employed by Baxter but who, as a result of a special relationship with Baxter, learn about material, non-public information about Baxter or others.

**The principal restriction on insiders is that they may not buy or sell securities on the basis of material information known to them but not to the public, or "tip" others about such information.** Violation of this restriction can carry criminal, as well as civil penalties. The terms "material," "non-public" and "tipping" are explained under Section III below.

In light of this restriction, and in order to avoid even the appearance of impropriety, **any material, non-public information that Baxter employees acquire "on the job" about Baxter or any other company should not be used to buy or sell securities or otherwise used for personal gain or be told to others.** The guidelines set forth in this policy are designed to help protect you from violating this policy.

All employees should be continually mindful of the necessity of maintaining the confidentiality of information, as well as avoiding insider trading. This memorandum reflects Baxter's long-standing commitment to maintain compliance with the securities laws, by setting forth and confirming its policies on the subject. Because the securities laws are comprehensive, far-reaching and constantly evolving, this memorandum does not attempt to deal with all of the considerations which may be applicable to securities transactions.

If you have a specific question, you should contact the General Counsel or Corporate Secretary and abstain from the conduct in question until you have been informed that the conduct is permissible.

## **II. PERSONS COVERED**

**All Baxter employees are covered by the policy set forth in this memorandum.** This policy also applies to employees' spouses, family members and others who live in their households, business partners and any other people who might reasonably be deemed to have a relationship (legal, personal or otherwise) meriting coverage. Therefore, all references in this memorandum to Baxter employees should be read to include all of these people as well. Baxter

recognizes that such broad coverage might not be appropriate in all situations. Any such instances should be discussed promptly with the General Counsel or the Corporate Secretary.

Employees who leave Baxter's service for any reason, including retirement, are bound by ethical and legal restrictions governing the disclosure, dissemination, or misuse of confidential information obtained during the course of their employment with Baxter.

### **III. WHAT IS INSIDER TRADING?**

#### **1. Company policy versus legal prohibition**

Company policy prohibits all misuse of confidential information obtained by employees in connection with their employment, including any securities trading based on such information. This is to be distinguished from certain trading activities that also violate the law. Please review Baxter's Standards for Business Ethics Manual for a description of Baxter's policies regarding business conduct and practices, including, among other things, the use of confidential information, conflicts of interest, a summary of this policy and consequences to employees in the event they violate Baxter's policies. This securities trading policy is intended to provide you with a summary of the legal prohibitions against and consequences of unlawful trading. This policy may be broader than the law requires, but this will help protect both employees and Baxter from allegations of impropriety for conduct in cases where the law is unclear or ambiguous.

#### **2. Legal Prohibitions**

The legal requirement is to "abstain" from trading or "disclose." Specifically, securities laws require that an insider who is in possession of material, non-public information must either:

- (a) abstain from (i) trading in securities on the basis of material information which has not been disclosed to the public or (ii) disclosing such information to another person, i.e., a "tippee," or
- (b) disclose it to the investing public.

In light of Baxter's policy designating spokespersons responsible for communications with outsiders, this "abstain or disclose" rule established by law translates into the corporate policy that employees must "abstain." Only authorized officers of Baxter are permitted to decide the timing and content of public disclosures regarding Baxter and employees may not trade or "tip" until public disclosure has been made and an adequate time has passed to assure broad dissemination.

The fact that the insider may have relied on other factors in purchasing or selling securities while in the possession of material inside information will not absolve him or her from liability. If he or she is in possession of such information, he or she must refrain from any transaction in Baxter's securities. It is no excuse that the insider (i) would have traded anyway, (ii) considered himself/herself under a duty (for example, as a trustee) to trade or to disclose information, or (iii) did not intend to defraud anyone. As a result, employees should not enter into any relationship (such as that of a trustee) that might subject them to a duty to trade.

There is an exception from the prohibition on trading while in possession of material, non-public information. An insider may trade Baxter securities, even while in possession of material, non-public information, pursuant to a previously established and approved Rule 10b5-1(c) trading plan. Please refer to Section IV.2.(c) below for a description of requirements applicable to Rule 10b5-1(c) trading plans.

**3. What is a Security?**

Although there are complicated securities law definitions of what constitutes a "security," for purposes of this memorandum, it is sufficient to understand that a "security" means the common stock of a publicly-traded company, including options to purchase such stock.

**4. What is Inside Information?**

Inside information includes anything learned as a result of a special relationship with a corporation or other entity or government agency. It includes any information about the entity and its securities. It may also include information about other companies and their securities learned as a result of a special relationship with these companies.

**5. What is Material Information?**

The term "material information" has no precise definition and is subject to a variety of interpretations concerning the extent of its reach. Accordingly, for purposes of this policy on securities trading, a broad view of the term should be taken, and "material information" should be considered to include any information which, if publicly disclosed:

- (a) might have an effect on the market for a Company's securities generally,
- (b) might affect an individual investment decision of a reasonable investor, or
- (c) might cause an insider to change his/her trading patterns.

Attached as Exhibit A to this memorandum is a list of information with respect to

Baxter or other firms that *may* be considered material. This list is merely illustrative and is not exhaustive; other types of information may be material at any particular time depending upon the circumstances. **Please read the list and the note following the list carefully.**

If you are in any doubt as to the materiality of information known to you, you should consult the General Counsel or Corporate Secretary.

**6. What is Non-Public Information?**

Information is to be considered "non-public" until official announcements of the material information have been sufficiently publicized so that the public has had the opportunity to evaluate the information. Examples of effective disclosure include public filings with securities regulatory authorities, issuance of Baxter press releases and may also include Baxter meetings with members of the press and the public.

An insider may not attempt to "beat the market" by trading simultaneously with, or shortly after, the official release of material information. A reasonable period of time within which the market may absorb the information is considered to be two trading days after public release of the information. In addition, insider trading is not made permissible merely because material information is reflected in the price of the securities based on rumors or other unofficial statements in the marketplace.

**7. What is "Tipping"?**

Not only are insiders forbidden to use undisclosed material information to their own advantage, they may not give, or "tip," such information to an outsider for the improper purpose of exploiting the information for personal gain. "Tipping" is the unauthorized communication of material, non-public information. A "tipper" is a person who divulges such information; a "tippee" is one who receives such information.

**IV. TIMING, PRE-CLEARANCE OF TRANSACTIONS, OPTION TRADING, AND MANNER OF HOLDING BAXTER SECURITIES**

**1. Timing**

If material non-public information exists at the time an insider trades, and subsequent disclosure of information affected the securities' price, there is a risk that governmental or private proceedings will be brought and the insider will have to prove that he or she was not aware of the information -- perhaps a very difficult fact to prove.

The riskiest time to engage in a purchase or sale of Baxter's securities would be

shortly in advance of the public release by Baxter of important information, such as quarterly or year-end results or other important news, while the safest time would be the period shortly following the release and publication of such information (always assuming that the employee is not aware of other undisclosed material information). Even after Baxter has released such information, it is important to be sure that sufficient time has elapsed to enable the information to be disseminated to and considered by investors.

## 2. **Pre-Clearance Policy**

The most likely people to be in possession of material inside information or to be charged with insider trading are Baxter's executive officers, directors and certain other designated individuals. Accordingly, Baxter has imposed a mandatory trading pre-clearance procedure on these persons.

### (a) Who is affected?

- “Executive officers” are those officers who are required to file reports with the Securities and Exchange Commission (“SEC”) indicating all of their transactions in Company securities;
- “Directors” are those members of the board of directors of Baxter International Inc; and
- “Certain designated insiders” includes all other employees who are not officers, but are routinely exposed to information that would necessarily be considered material (such as financial information or important press releases) before it is released to the public. A list of “designated insiders” is maintained by the Corporate Secretary and each of such persons is aware that he/she is on such list.

### (b) What is the Policy?

- All of the individuals described above must receive pre-clearance from the Corporate Secretary or General Counsel prior to effecting any transaction in Company stock. Such pre-clearance is valid for 72 hours, unless of course, the individual learns of material inside information during that time.
- Certain specific periods of the year are designated as "no trading." These "black-outs" on trading begin two weeks prior to a quarter-end and end on the third business day after the quarter's earnings release is issued to the public. The "black-out" is imposed by Baxter as a precaution against insider trading because it is assumed that, during this time, these individuals will necessarily be exposed to certain non-public financial information. During such "black-out" periods, the individuals listed above are prohibited from:

- (a) buying or selling Baxter stock on the open market;
- (b) exercising stock options through the “cashless” exercise program;
- (c) transferring funds in or out of the Baxter stock fund in the Incentive Investment (“IIP”) or similar plan; or
- (d) submitting new subscriptions or canceling existing subscriptions under Baxter’s employee stock purchase plan.

(c) Exception for Rule 10b5-1(c) Trading Plans.

The pre-clearance policy and prohibition on trading during a black-out period do not apply to transactions pursuant to a previously established and approved Rule 10b5-1(c) trading plan. Under this policy, a Rule 10b5-1(c) trading plan:

- (a) can only be established or amended at a time when the insider does not possess material, nonpublic information;
- (b) cannot be established or amended during a no trading “black-out” period;
- (c) must include an interval of at least 30 days between establishment or modification of a trading plan and a transaction under that plan; and
- (d) cannot be established, terminated or amended without prior approval by the General Counsel or Corporate Secretary.

**3. Policy Regarding Holding Baxter Shares in Street Name**

(a) Who is affected?

Executive Officers and directors, as defined above.

(b) What is the Policy?

Persons subject to this policy are prohibited from carrying or placing Baxter shares in “street name” (that is, in the name of a broker) without written notification to the Corporate Secretary and must report changes in street name holdings.

**4. Policy Regarding Option Trading**

Short-term trading activities and option transactions increase the potential for improper use of inside information, and such activities by management members may hurt investor confidence.

(a) Who is affected?

Anyone subject to the Pre-Clearance policy described above and anyone holding a position with Baxter in pay grade "G" or with a title of "vice president" or equivalent.

(b) What is the Policy?

Persons subject to this policy are prohibited from writing put or call options or otherwise buying or selling options on Baxter stock.

**V. PENALTIES FOR INSIDER TRADING**

The seriousness of insider trading is reflected in the penalties that it carries. Company policy prohibits any illegal activity and, as such, insider trading may result in termination for cause. Potential legal penalties include liability for the corporation itself and individual directors, officers or employees. For an individual, insider trading may result in criminal penalties of up to \$5,000,000 or twenty years in jail, or both, if the trading is found to be a willful violation of the law.

The SEC also has the authority to seek a civil money penalty of up to three times the amount of profit gained or loss avoided by insider trading from the violator.

The SEC may also impose liability on Baxter as a controlling person of an insider trading violator for up to the greater of \$1,000,000 or three times the amount of profit gained or loss avoided by insider trading if Baxter recklessly disregards the likelihood that a controlled person was going to engage in a violation and fails to take steps to prevent the action before it occurs. "Profit gained" or "loss avoided" is defined as the difference between the purchase or sale price of the security and its value as measured by the trading price of the security a reasonable period after public dissemination of the non-public information. The SEC is authorized to pay bounties of up to ten percent of a penalty recovered to persons providing information leading to the imposition of a penalty.

In addition to the civil penalty, the SEC may seek other relief such as an injunction against future violations and disgorgement of profits resulting from illegal trading. The disgorged funds may be paid into an escrow account so that private parties damaged by the insider trading can be compensated for their losses.

Finally, private parties may also bring actions against any person purchasing or selling a security while in the possession of material, non-public information. The total amount of damages recoverable may not exceed the profit gained or loss avoided in such a transaction.

## **VI. QUESTIONS ABOUT INSIDER TRADING**

If you have a question as to whether certain information is material or if it has been adequately disclosed to the public, you should contact the General Counsel or Corporate Secretary and abstain from trading or disclosing the information in question until you have been informed that the information is not material or has been sufficiently disclosed to the public.

Examples of “material” information (for illustration purposes only)

- (i) proposals, negotiations or agreements for acquisitions of other companies (including the possibility of a tender offer for or merger with another company) and dispositions of existing operations;
- (ii) the possible initiation of a proxy fight;
- (iii) a change, or proposed or planned change, in dividend rates or dividend policy;
- (iv) a change in senior executive management or control;
- (v) the presentation of, or a change in, financial results, including earnings, earnings estimates or operating results;
- (vi) internal financial projections which vary from publicly stated financial projections, if any;
- (vii) the introduction of a significant new product, discovery or service, or failures thereof;
- (viii) significant litigation or litigation development, including disputes with customers, suppliers or contractors;
- (ix) a significant contingent liability;
- (x) significant shifts in operating or financial circumstances, such as: cash-flow reductions; major write-offs; any event, such as a casualty, strike or lack of orders, likely to cause the shutdown or curtailment of any significant production or service facility for more than a short period; or the proposed shutdown of any significant production or service facility;
- (xi) significant new contracts or changes in existing contractual relationships or loss of business;
- (xii) actual or proposed capital expenditures which vary substantially from the levels projected in Baxter's latest Annual Report and SEC reports, if any;
- (xiii) a proposal, negotiation or agreement for a joint venture or termination thereof;
- (xiv) significant changes in aggregate asset value or composition;

**Exhibit A** (continued)

- (xv) the possibility of a recapitalization or other reorganization;
- (xvi) the possibility of a public offering of securities, stock splits or stock dividends, or private sales of securities;
- (xvii) a planned or possible repurchase of securities;
- (xviii) a government investigation;
- (xix) a default or expected default under a loan agreement, indenture or significant contract;
- (xx) changes in accounting methods which may significantly affect either reported earnings per share or debt levels or change the "quality" of earnings;
- (xxi) a significant change in competitive position;
- (xxii) significant raw material shortages;
- (xxiii) pending action by a governmental agency, such as the Food and Drug Administration;
- (xxiv) any other event requiring the filing of a current report with the SEC; or
- (xxv) any other event that would be expected to affect the value in the market of one or more classes of publicly-traded securities.

**Note: All of the above examples must be viewed in light of the impact each such event could have on Baxter as a whole, as opposed to the effect on a particular business unit or region.**

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