

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-4448



Baxter International Inc.

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

One Baxter Parkway, Deerfield, Illinois
(Address of Principal Executive Offices)

36-0781620
(I.R.S. Employer
Identification No.)

60015
(Zip Code)

Registrant's telephone number, including area code 224.948.2000

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common stock, \$1.00 par value	New York Stock Exchange Chicago Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting common equity held by non-affiliates of the registrant as of June 30, 2016 (the last business day of the registrant's most recently completed second fiscal quarter), based on the per share closing sale price of \$45.22 on that date and the assumption for the purpose of this computation only that all of the registrant's directors and executive officers are affiliates, was approximately \$24 billion. There is no non-voting common equity held by non-affiliates of the registrant. The number of shares of the registrant's common stock, \$1.00 par value, outstanding as of January 31, 2017 was 540,082,230.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive 2017 proxy statement for use in connection with its Annual Meeting of Stockholders to be held on May 2, 2017 are incorporated by reference into Part III of this report.

TABLE OF CONTENTS

	<u>Page Number</u>
Item 1. Business	1
Item 1A. Risk Factors	5
Item 1B. Unresolved Staff Comments	12
Item 2. Properties	13
Item 3. Legal Proceedings	14
Item 4. Mine Safety Disclosures	14
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	16
Item 6. Selected Financial Data	17
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	18
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	39
Item 8. Financial Statements and Supplementary Data	40
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	88
Item 9A. Controls and Procedures	88
Item 9B. Other Information	88
Item 10. Directors, Executive Officers and Corporate Governance	89
Item 11. Executive Compensation	89
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	89
Item 13. Certain Relationships and Related Transactions, and Director Independence	90
Item 14. Principal Accountant Fees and Services	90
Item 15. Exhibits and Financial Statement Schedules	91

PART I

Item 1. *Business.*

Company Overview

Baxter International Inc., through its subsidiaries, provides a broad portfolio of essential renal and hospital products, including acute and chronic dialysis; sterile IV solutions; infusion systems and devices; parenteral nutrition therapies; premixed and oncolytic injectables; biosurgery products and anesthetics; drug reconstitution systems; and pharmacy automation, software and services. The company's global footprint and critical nature of its products and services play a key role in expanding access to healthcare in emerging and developed countries. These products are used by hospitals, kidney dialysis centers, nursing homes, rehabilitation centers, doctors' offices and by patients at home under physician supervision. As of December 31, 2016, Baxter manufactured products in over 20 countries and sells them in over 100 countries.

Baxter International Inc. was incorporated under Delaware law in 1931. As used in this report, "Baxter International" means Baxter International Inc. and "Baxter," the "company" or the "Company" means Baxter International and its consolidated subsidiaries (after giving effect to the separation and distribution of Baxalta Incorporated (Baxalta), as further described below), unless the context otherwise requires.

Separation of Baxalta

On July 1, 2015, Baxter completed the distribution of approximately 80.5% of the outstanding common stock of Baxalta to Baxter shareholders (the Distribution). The Distribution was made to Baxter's shareholders of record as of the close of business on June 17, 2015 (the Record Date), who received one share of Baxalta common stock for each Baxter common share held as of the Record Date. As a result of the distribution, Baxalta became an independent public company trading under the symbol "BXL" on the New York Stock Exchange.

In 2016, Baxter disposed of its remaining 19.5% interest in Baxalta through a series of transactions including debt-for-equity exchanges, an equity-for-equity exchange and a contribution to its U.S. pension plan. As a result of these transactions, the company extinguished approximately \$3.65 billion in company indebtedness, repurchased 11,526,638 Baxter shares and contributed 17,145,570 Baxalta shares to its U.S. pension plan. On June 3, 2016, Baxalta became a wholly-owned subsidiary of Shire plc (Shire).

The local separation of Baxalta's business in certain countries outside the United States did not occur prior to the distribution date due to regulatory requirements, the need to obtain consents from local governmental authorities and other business reasons. Separation of the remaining three countries is expected to occur by 2018.

As a result of the separation, the consolidated statements of income, consolidated balance sheets, consolidated statements of cash flow, and related financial information reflect Baxalta's operations, assets and liabilities, and cash flows as discontinued operations for all periods presented.

Refer to Note 2 in Item 8 of this Annual Report on Form 10-K for additional information regarding the separation of Baxalta.

Business Segments and Products

The company operates in two segments: Hospital Products and Renal.

The Hospital Products business manufactures sterile intravenous (IV) solutions and administration sets, premixed drugs and drug-reconstitution systems, pre-filled vials and syringes for injectable drugs, IV nutrition products, parenteral nutrition therapies, infusion pumps, inhalation anesthetics, and biosurgery products. The business also provides products and services related to pharmacy compounding, and drug formulation; sterile IV solutions; infusion systems and devices; parenteral nutrition therapies; premixed and oncolytic injectables; biosurgery products and anesthetics; drug reconstitution systems; and pharmacy automation, software and services.

The Renal business offers a comprehensive portfolio to meet the needs of patients with end-stage renal disease, or irreversible kidney disease and acute kidney injuries, including technologies and therapies for peritoneal dialysis (PD), hemodialysis (HD), continuous renal replacement therapy (CRRT) and additional dialysis services.

For financial information about Baxter's segments and sales franchises, see Note 17 in Item 8 of this Annual Report on Form 10-K.

Sales and Distribution

The company has its own direct sales force and also makes sales to and through independent distributors, drug wholesalers acting as sales agents and specialty pharmacy or other alternate site providers. In the United States, third parties such as Cardinal Health, Inc. warehouse and ship a significant portion of the company's products through their distribution centers. These centers are generally stocked with adequate inventories to facilitate prompt customer service. Sales and distribution methods include frequent contact by sales and customer service representatives, automated communications via various electronic purchasing systems, circulation of catalogs and merchandising bulletins, direct-mail campaigns, trade publication presence and advertising.

International sales are made and products are distributed on a direct basis or through independent distributors or sales agents in more than 100 countries as of December 31, 2016.

International Operations

The majority of the company's revenues are generated outside of the United States and geographic expansion remains a component of the company's strategy. Baxter's international presence includes operations in Europe (including Eastern and Central Europe), the Middle East, Africa, Asia-Pacific, Latin America and Canada. The company is subject to certain risks inherent in conducting business outside the United States. For more information on these risks, see the information under the captions "Risks Related to Baxter's Business —We are subject to risks associated with doing business globally" and "— Changes in foreign currency exchange rates and interest rates could have a material adverse effect on our operating results and liquidity" in Item 1A of this Annual Report on Form 10-K.

For financial information about foreign and domestic operations and geographic information, see Note 17 in Item 8 of this Annual Report on Form 10-K. For more information regarding foreign currency exchange risk, refer to the discussion under the caption entitled "Financial Instrument Market Risk" in Item 7 of this Annual Report on Form 10-K.

Contractual Arrangements

Substantial portions of the company's products are sold through contracts with customers, both within and outside the United States. Some of these contracts have terms of more than one year and place limits on the company's ability to increase prices. In the case of hospitals, governments and other facilities, these contracts may specify minimum quantities of a particular product or categories of products to be purchased by the customer.

In keeping with the increased emphasis on cost-effectiveness in healthcare delivery, many hospitals and other customers of medical products in the United States have joined group purchasing organizations (GPOs), or formed integrated delivery networks (IDNs), to enhance purchasing power. GPOs and IDNs negotiate pricing arrangements with manufacturers and distributors, and the negotiated prices are made available to members. Baxter has purchasing agreements with several of the major GPOs in the United States. GPOs may have agreements with more than one supplier for certain products. Accordingly, in these cases, Baxter faces competition from other suppliers even where a customer is a member of a GPO under contract with Baxter. Purchasing power is similarly consolidated in many other countries. For example, public contracting authorities act as the purchasing entities for the hospitals and other customers of medical products in their region and many hospitals and other customers have joined joint procurement entities and buying consortia. The result is that demand for healthcare products is increasingly concentrated across the company's markets globally.

Raw Materials

Raw materials essential to Baxter's business are purchased from numerous suppliers worldwide in the ordinary course of business. Although most of these materials are generally available, Baxter at times may experience shortages of supply. In an effort to manage risk associated with raw materials supply, Baxter works closely with its suppliers to help ensure availability and continuity of supply while maintaining high quality and reliability. The company also seeks to develop new and alternative sources of supply where beneficial to its overall raw materials procurement strategy.

The company also utilizes long-term supply contracts with some suppliers to help maintain continuity of supply and manage the risk of price increases. Baxter is not always able to recover cost increases for raw materials through customer pricing due to contractual limits and market forces.

In connection with the separation and distribution, Baxter entered into a long-term manufacturing and supply agreement with Baxalta. Baxalta manufactures and supplies Baxter with ARTISS, TISSEEL, FLOSEAL and stand-alone thrombin under the manufacturing and supply agreement, on a cost-plus basis.

Competition and Healthcare Cost Containment

Baxter's Hospital Products and Renal businesses benefit from a number of competitive advantages, including the breadth and depth of their product offerings, as well as strong relationships with customers, including hospitals and clinics, group purchasing organizations, physicians, and patients, many who self-administer the home-based therapies supplied by Baxter. Baxter as a whole benefits from efficiencies and cost advantages resulting from shared manufacturing facilities and the technological advantages of its products.

Although no single company competes with Baxter in all of its businesses, Baxter faces substantial competition in each of its segments from international and domestic healthcare and pharmaceutical companies and providers of all sizes, and these competitors often differ across our businesses. In addition, global and regional competitors continue to expand their manufacturing capacity and sales and marketing channels. Competition is primarily focused on cost-effectiveness, price, service, product performance, and technological innovation. There has been increasing consolidation in the company's customer base and by its competitors, which continues to result in pricing and market pressures.

Global efforts toward healthcare cost containment continue to exert pressure on product pricing. Governments around the world use various mechanisms to control healthcare expenditures, such as price controls, the formation of public contracting authorities, product formularies (lists of recommended or approved products), and competitive tenders which require the submission of a bid to sell products. Sales of Baxter's products are dependent, in part, on the availability of reimbursement by government agencies and healthcare programs, as well as insurance companies and other private payers. In the United States, the federal and many state governments have adopted or proposed initiatives relating to Medicaid and other health programs that may limit reimbursement or increase rebates that Baxter and other providers are required to pay to the state. In addition to government regulation, managed care organizations in the United States, which include medical insurance companies, medical plan administrators, health-maintenance organizations, hospital and physician alliances and pharmacy benefit managers, continue to put pressure on the price and usage of healthcare products. Managed care organizations seek to contain healthcare expenditures, and their purchasing strength has been increasing due to their consolidation into fewer, larger organizations and a growing number of enrolled patients. Baxter faces similar issues outside of the United States. In Europe and Latin America, for example, the government provides healthcare at low cost to patients, and controls its expenditures by purchasing products through public tenders, collective purchasing, regulating prices, setting reference prices in public tenders or limiting reimbursement or patient access to certain products.

Intellectual Property

Patents and other proprietary rights are essential to Baxter's business. Baxter relies on patents, trademarks, copyrights, trade secrets, know-how and confidentiality agreements to develop, maintain and strengthen its competitive position. Baxter owns a number of patents and trademarks throughout the world and has entered into license arrangements relating to various third-party patents and technologies. Products manufactured by Baxter are sold primarily under its own trademarks and trade names. Some products distributed by the company are sold under the company's trade names, while others are sold under trade names owned by its suppliers or partners. Trade secret protection of unpatented confidential and proprietary information is also important to Baxter. The company maintains certain details about its processes, products and technology as trade secrets and generally requires employees, consultants, and business partners to enter into confidentiality agreements. These agreements may be breached and Baxter may not have adequate remedies for any breach. In addition, Baxter's trade secrets may otherwise become known or be independently discovered by competitors. To the extent that Baxter's employees, consultants, and business partners use intellectual property owned by others in their work for the company, disputes may arise as to the rights in related or resulting know-how and inventions.

Baxter's policy is to protect its products and technology through patents and trademarks on a worldwide basis. This protection is sought in a manner that balances the cost of such protection against obtaining the greatest value for the company. Baxter also recognizes the need to promote the enforcement of its patents and trademarks and takes commercially reasonable steps to enforce its patents and trademarks around the world against potential infringers, including judicial or administrative action where appropriate.

Baxter operates in an industry susceptible to significant patent litigation. At any given time, the company is involved as either a plaintiff or defendant in a number of patent infringement and other intellectual property-related actions. Such litigation can result in significant royalty or other payments or result in injunctions that can prevent the sale of products. For more information on patent and other litigation, see Note 16 in Item 8 of this Annual Report on Form 10-K.

Research and Development

Baxter's investment in research and development (R&D), consistent with the company's portfolio optimization and capital allocation strategies, helps fuel its future growth and its ability to remain competitive in each of its business segments. Accordingly, Baxter continues to focus its investment on select R&D programs to enhance future growth through clinical differentiation. Expenditures for Baxter's R&D activities were \$647 million in 2016, \$603 million in 2015 and \$610 million in 2014. These expenditures include costs

associated with R&D activities performed at the company's R&D centers located around the world, which include facilities in Belgium, Sweden, Italy, Germany, China, Japan and the United States, as well as in-licensing, milestone and reimbursement payments made to partners for R&D work performed at non-Baxter locations.

For more information on the company's R&D activities, refer to the discussion under the caption entitled "Strategic Objectives" in Item 7 of this Annual Report on Form 10-K.

Quality Management

Baxter's continued success depends upon the quality of its products. Quality management plays an essential role in determining and meeting customer requirements, preventing defects, facilitating continuous improvement of the company's processes, products and services, and assuring the safety and efficacy of the company's products. Baxter's quality system enables the design, development, manufacturing, packaging, sterilization, handling, distribution and labeling of the company's products to ensure they conform to customer requirements. In order to continually improve the effectiveness and efficiency of the quality system, various measurements, monitoring and analysis methods such as management reviews and internal, external and vendor audits are employed at local and central levels.

Each product that Baxter markets is required to meet specific quality standards, both in packaging and in product integrity and quality. If any of those is determined to be compromised at any time, Baxter endeavors to take corrective and preventive actions designed to ensure compliance with regulatory requirements and to meet customer expectations. For more information on corrective actions taken by Baxter, refer to the discussion under the caption entitled "Certain Regulatory Matters" in Item 7 of this Annual Report on Form 10-K.

Government Regulation

The operations of Baxter and many of the products manufactured or sold by the company are subject to extensive regulation by numerous government agencies, both within and outside the United States. The Food and Drug Administration (FDA) in the United States, the European Medicines Agency (EMA) in Europe, the China Food and Drug Administration (CFDA) in China and other government agencies inside and outside of the United States, administer requirements covering the testing, safety, effectiveness, manufacturing, labeling, promotion and advertising, distribution and post-market surveillance of Baxter's products. The company must obtain specific approval from FDA and non-U.S. regulatory authorities before it can market and sell most of its products in a particular country. Even after the company obtains regulatory approval to market a product, the product and the company's manufacturing processes and quality systems are subject to continued review by FDA and other regulatory authorities globally. State agencies in the United States also regulate the facilities, operations, employees, products and services of the company within their respective states. The company and its facilities are subject to periodic inspections and possible administrative and legal actions by FDA and other regulatory agencies inside and outside the United States. Such actions may include warning letters, product recalls or seizures, monetary sanctions, injunctions to halt manufacture and distribution of products, civil or criminal sanctions, refusal of a government to grant approvals or licenses, restrictions on operations or withdrawal of existing approvals and licenses. As situations require, the company takes steps to ensure safety and efficacy of its products, such as removing products found not to meet applicable requirements from the market and improving the effectiveness of quality systems. For more information on compliance actions taken by the company, refer to the discussion under the caption entitled "Certain Regulatory Matters" in Item 7 of this Annual Report on Form 10-K.

The company is also subject to various laws inside and outside the United States concerning its relationships with healthcare professionals and government officials, price reporting and regulation, the promotion, sales and marketing of its products and services, the importation and exportation of products, the operation of its facilities and distribution of products. In the United States, the company is subject to the oversight of FDA, Office of the Inspector General within the Department of Health and Human Services (OIG), the Center for Medicare/Medicaid Services (CMS), the Department of Justice (DOJ), Environmental Protection Agency, Department of Defense and Customs and Border Protection in addition to others. The company supplies products and services to healthcare providers that are reimbursed by federally funded programs such as Medicare. As a result, the company's activities are subject to regulation by CMS and enforcement by OIG and DOJ. In each jurisdiction outside the United States, the company's activities are subject to regulation by government agencies including the EMA in Europe, CFDA in China and other agencies in other jurisdictions. Many of the agencies enforcing these laws have increased their enforcement activities with respect to healthcare companies in recent years. These actions appear to be part of a general trend toward increased enforcement activity globally.

Environmental policies of the company require compliance with all applicable environmental regulations and contemplate, among other things, appropriate capital expenditures for environmental protection.

Employees

As of December 31, 2016, Baxter employed approximately 48,000 people.

Available Information

Baxter makes available free of charge on its website at www.baxter.com its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (Exchange Act), as soon as reasonably practicable after electronically filing or furnishing such material to the Securities and Exchange Commission. In addition, Baxter's Corporate Governance Guidelines, Code of Conduct, and the charters for the committees of Baxter's Board of Directors are available on Baxter's website at www.baxter.com under "About Baxter—About us — Governance." All the foregoing materials will be made available to stockholders in print upon request by writing to: Corporate Secretary, Baxter International Inc., One Baxter Parkway, Deerfield, Illinois 60015. Information contained on Baxter's website shall not be deemed incorporated into, or to be a part of, this Annual Report on Form 10-K.

Item 1A. *Risk Factors.*

In addition to the other information in this Annual Report on Form 10-K, stockholders or prospective investors should carefully consider the following risk factors. If any of the events described below occurs, our business, financial condition and results of operations and future growth prospects could suffer.

Risks Related to Baxter's Business

We may not achieve our long-term financial improvement goals.

We have begun implementing plans to enhance profitability and returns for our stockholders. These plans include the achievement of certain financial goals (including improved operating margin) in 2017 and beyond. While we are continuing to refine these goals, our plan contemplates significant margin expansion over our long-range plan, which runs through 2020. We have identified certain key strategies to help achieve these targets. These strategies include optimizing our core product portfolio globally, driving operational excellence through the rebasing of our cost structure and various restructuring activities and maximizing the value derived from the allocation of our capital.

As part of these strategies, we continue to evaluate the performance of all of our businesses and may sell or acquire a business or product line or exit a particular market. We are also evaluating our corporate and commercial infrastructure in the interest of streamlining costs while maintaining our commitment to quality and safety. Future divestitures may result in significant write-offs, including those related to goodwill and other intangible assets. Future acquisitions may fail to achieve the desired financial results (including return on investment) and synergies and may not provide the desired market access. The restructuring of our operations may not generate targeted savings or may cause unexpected disruptions to our business. As a result, we may not achieve our targeted financial results, which could have a material adverse effect on our business, financial condition or results of operations.

If we are unable to successfully introduce new products or fail to keep pace with advances in technology, our business, financial condition and results of operations could be adversely affected.

We need to successfully introduce new products to achieve our strategic business objectives. Product development requires substantial investment and there is inherent risk in the research and development process. A successful product development process depends on many factors, including our ability to properly anticipate and satisfy customer needs, adapt to new technologies, obtain regulatory approvals on a timely basis, demonstrate satisfactory clinical results, manufacture products in an economical and timely manner and differentiate our products from those of our competitors. If we cannot successfully introduce new products or adapt to changing technologies, our products may become obsolete and our revenue and profitability could suffer.

Issues with product supply or quality could have an adverse effect upon our business, subject us to regulatory actions and cause a loss of customer confidence in us or our products.

Our success depends upon the availability and quality of our products. The medical products industry is competitive and subject to complex market dynamics and varying demand levels. These levels vary in response to macro-economic conditions, regulatory requirements (including the availability of private or public reimbursement) and seasonality. Additionally the development of new or enhanced products involves a lengthy regulatory process and is capital intensive. As a result, our ability to match our production levels and capacity to market demand is imprecise and may result in a failure to meet market demand or satisfy customer requirements for our products or, alternatively, an oversupply of inventory. Failure to meet market demand may result in customers transitioning to

available competitive products resulting in a loss of market share or customer confidence. In the event of an oversupply, we may be forced to lower our prices or record asset impairment charges or take other action which may adversely affect our business, financial condition and results of operations.

Additionally, quality management plays an essential role in determining and meeting customer requirements, preventing defects, improving the company's products and services and assuring the safety and efficacy of our products. Our future success depends on our ability to maintain and continuously improve our quality management program. While we have a quality system that covers the lifecycle of our products, quality and safety issues may occur with respect to any of our products. A quality or safety issue may result in adverse inspection reports, warning letters, product recalls (either voluntary or required by the FDA or similar governmental authorities in other countries) or seizures, monetary sanctions, injunctions to halt manufacture and distribution of products, civil or criminal sanctions, costly litigation, refusal of a government to grant approvals and licenses, restrictions on operations or withdrawal of existing approvals and licenses. An inability to address a quality or safety issue in an effective and timely manner may also cause negative publicity, a loss of customer confidence in us or our current or future products, which may result in the loss of sales and difficulty in successfully launching new products. Additionally, Baxter has made and continues to make significant investments in assets, including inventory and property, plant and equipment, which relate to potential new products or modifications to existing products. Product quality or safety issues may restrict the company from being able to realize the expected returns from these investments, potentially resulting in asset impairments in the future.

Unaffiliated third party suppliers provide a number of goods and services to our R&D, clinical and manufacturing organizations. Third party suppliers are required to comply with our quality standards. Failure of a third party supplier to provide compliant raw materials or supplies could result in delays, service interruptions or other quality related issues that may negatively impact our business results.

For more information on regulatory matters currently affecting us, refer to the discussion under the caption entitled "Certain Regulatory Matters" in Item 7 of this Annual Report on Form 10-K.

We are subject to a number of existing laws and regulations, non-compliance with which could adversely affect our business, financial condition and results of operations, and we are susceptible to a changing regulatory environment.

As a participant in the healthcare industry, our operations and products, and those of our customers, are regulated by numerous government agencies, both inside and outside the United States. The impact of this on us is direct to the extent we are subject to these laws and regulations, and indirect in that in a number of situations, even though we may not be directly regulated by specific healthcare laws and regulations, our products must be capable of being used by our customers in a manner that complies with those laws and regulations.

The manufacture, distribution, marketing and use of our products are subject to extensive regulation and scrutiny by FDA and other regulatory authorities globally. Any new product must undergo lengthy and rigorous testing and other extensive, costly and time-consuming procedures mandated by FDA and foreign regulatory authorities. Changes to current products may be subject to vigorous review, including additional 510(k) and other regulatory submissions, and approvals are not certain. Our facilities must be approved and licensed prior to production and remain subject to inspection from time to time thereafter. Failure to comply with the requirements of FDA or other regulatory authorities, including a failed inspection or a failure in our adverse event reporting system, could result in adverse inspection reports, warning letters, product recalls or seizures, monetary sanctions, injunctions to halt the manufacture and distribution of products, civil or criminal sanctions, refusal of a government to grant approvals or licenses, restrictions on operations or withdrawal of existing approvals and licenses. Any of these actions could cause a loss of customer confidence in us and our products, which could adversely affect our sales. The requirements of regulatory authorities, including interpretative guidance, are subject to change and compliance with additional or changing requirements or interpretative guidance may subject the company to further review, result in product launch delays or otherwise increase our costs. For information on current regulatory issues affecting us, please refer to the caption entitled "Certain Regulatory Matters" in Item 7 of this Annual Report on Form 10-K. In connection with these issues, there can be no assurance that additional costs or civil and criminal penalties will not be incurred, that additional regulatory actions with respect to the company will not occur, that the company will not face civil claims for damages from purchasers or users, that substantial additional charges or significant asset impairments may not be required, that sales of other products may not be adversely affected, or that additional regulation will not be introduced that may adversely affect the company's operations and consolidated financial statements.

The sales, marketing and pricing of products and relationships that pharmaceutical and medical device companies have with healthcare providers are under increased scrutiny by federal, state and foreign government agencies. Compliance with the Anti-Kickback Statute, False Claims Act, Food, Drug and Cosmetic Act (including as these laws relate to off-label promotion of products) and other healthcare related laws, as well as competition, data and patient privacy and export and import laws, is under increased focus by the agencies charged with overseeing such activities, including FDA, OIG, DOJ and the Federal Trade Commission. The DOJ and the Securities and Exchange Commission have also increased their focus on the enforcement of the U.S. Foreign Corrupt Practices Act

(FCPA), particularly as it relates to the conduct of pharmaceutical and medical product companies. The FCPA and similar anti-bribery laws generally prohibit companies and their employees, contractors or agents from making improper payments to government officials for the purpose of obtaining or retaining business. Healthcare professionals in many countries are employed by the government and consequently may be considered government officials. Foreign governments have also increased their scrutiny of pharmaceutical and medical product companies' sales and marketing activities and relationships with healthcare providers and competitive practices generally. The laws and standards governing the promotion, sale and reimbursement of our products and those governing our relationships with healthcare providers and governments, including the Sunshine Act enacted under the Patient Protection and Affordable Care Act, can be complicated, are subject to frequent change and may be violated unknowingly.

Additionally, the U.S. Department of the Treasury's Office of Foreign Control and the Bureau of Industry and Security at the U.S. Department of Commerce administer laws and regulations that restrict U.S. persons and, in some instances, non-U.S. persons, in conducting activities, transacting business or making investments in certain countries, governments, entities and individuals subject to U.S. economic sanctions. From time to time, certain of our subsidiaries have limited business dealings in countries subject to these sanctions, including Iran, Sudan, Syria, Cuba, and Russia. These dealings represent an insignificant amount of our consolidated revenues and income but expose us to an increased risk of violating applicable sanctions regulations, which are complex and subject to frequent change. Additional restrictions may be enacted, enforced or interpreted in a way that may adversely affect our operations.

We have compliance programs in place, including policies, training and various forms of monitoring, designed to address the risks discussed above. Nonetheless, these programs and policies may not always protect us from conduct by individual employees that violate these laws. Violations or allegations of violations of these laws may result in large civil and criminal penalties, debarment from participating in government programs, diversion of management time, attention and resources and may otherwise have an adverse effect on our business, financial condition and results of operations. For more information related to the company's ongoing government investigations, please refer to Note 16 in Item 8 of this Annual Report on Form 10-K.

The laws and regulations discussed above are broad in scope and subject to evolving interpretations, which could require us to incur substantial cost associated with compliance or to alter one or more of our sales and marketing practices and may subject us to enforcement actions which could adversely affect our business, financial condition and results of operations.

If reimbursement or other payment for our current or future products is reduced or modified in the United States or abroad, including through the implementation of government-sponsored healthcare reform or other similar actions, cost containment measures, or changes to policies with respect to pricing, taxation or rebates, then our business could suffer.

Sales of our products depend, in part, on the extent to which the costs of our products are paid by both public and private payers. These payers include Medicare, Medicaid, and private health care insurers in the United States and foreign governments and third-party payers outside the United States. Public and private payers are increasingly challenging the prices charged for medical products and services. We may continue to experience continued downward pricing pressures from any or all of these payers which could result in an adverse effect on our business, financial condition and operational results.

Global efforts toward healthcare cost containment continue to exert pressure on product pricing. Governments around the world use various mechanisms to control healthcare expenditures such as price controls, the formation of public contracting authorities, product formularies (lists of recommended or approved products), and competitive tenders which require the submission of a bid to sell products. Sales of our products are dependent, in part, on the availability of reimbursement by government agencies and healthcare programs, as well as insurance companies and other private payers. In much of Europe, Latin America, Asia and Australia, for example, the government provides healthcare at low cost to patients, and controls its expenditures by purchasing products through public tenders, collective purchasing, regulating prices, setting reference prices in public tenders or limiting reimbursement or patient access to certain products. Additionally, austerity measures or other reforms by foreign governments may limit, reduce or eliminate payments for our products and adversely affect both pricing flexibility and demand for our products.

For example, in the United States the Patient Protection and Affordable Care Act (PPACA), which was signed into law in March 2010, includes several provisions which impact our businesses in the United States, including increased Medicaid rebates and an expansion of the 340B Drug Pricing Program which provides certain qualified entities, such as hospitals serving disadvantaged populations, with discounts on the purchase of drugs for outpatient use and an excise tax on the sale of certain drugs. The PPACA reduces Medicare and Medicaid payments to hospitals and other providers, which may cause us to experience downward pricing pressure. Members of Congress and the Executive Branch have made statements suggesting plans to seek repeal of all or portions of the PPACA. Because of the continued uncertainty about the implementation of the PPACA, including the potential for legal challenges or repeal of that legislation, we cannot quantify or predict the likely impact of any change in or replacement of the PPACA on our business and the demand for our products.

As a result of these and other measures, including future measures or reforms that cannot be predicted, reimbursement may not be available or sufficient to allow us to sell our products on a competitive basis. Legislation and regulations affecting reimbursement for our products may change at any time and in ways that may be adverse to us. We cannot predict the impact of these pressures and initiatives, or any negative effects of any additional regulations that may affect our business.

There is substantial competition in the product markets in which we operate.

Although no single company competes with us in all of our businesses, we face substantial competition in both of our segments from international and domestic healthcare and pharmaceutical companies and providers of all sizes, and these competitors often differ across our businesses. Competition is primarily focused on cost-effectiveness, price, service, product performance, and technological innovation.

Competition may increase further as additional companies begin to enter our markets or modify their existing products to compete directly with ours. If our competitors respond more quickly to new or emerging technologies and changes in customer requirements or we do not introduce new versions or upgrades to our product portfolio in response to those requirements, our products may be rendered obsolete or non-competitive. If our competitors develop more effective or affordable products, or achieve earlier patent protection or product commercialization than we do, our operations will likely be negatively affected. If we are forced to reduce our prices due to increased competition, our business could become less profitable. The company's sales could be adversely affected if any of its contracts with GPOs, IDNs or other customers are terminated due to increased competition or otherwise.

If our business development activities are unsuccessful, our business could suffer and our financial performance could be adversely affected.

As part of our long-term strategy, we are engaged in business development activities including evaluating acquisitions, joint development opportunities, technology licensing arrangements and other opportunities. These activities may result in substantial investment of the company's resources. Our success developing products or expanding into new markets from such activities will depend on a number of factors, including our ability to find suitable opportunities for acquisition, investment or alliance; whether we are able to complete an acquisition, investment or alliance on terms that are satisfactory to us; the strength of the other company's underlying technology, products and ability to execute its business strategies; any intellectual property and litigation related to these products or technology; and our ability to successfully integrate the acquired company, business, product, technology or research into our existing operations, including the ability to adequately fund acquired in-process research and development projects and to maintain adequate controls over the combined operations. Certain of these activities are subject to antitrust and competition laws, which laws could impact our ability to pursue strategic transactions and could result in mandated divestitures in the context of proposed acquisitions. If we are unsuccessful in our business development activities, we may be unable to meet our financial targets and our financial performance could be adversely affected.

For more information on recent business development activities, see Note 5 in Item 8 of this Annual Report on Form 10-K.

If we are unable to obtain sufficient components or raw materials on a timely basis or if we experience other manufacturing or supply difficulties, our business may be adversely affected.

The manufacture of our products requires the timely delivery of sufficient amounts of quality components and materials. We manufacture our products in approximately 50 manufacturing facilities around the world. We acquire our components and materials from many suppliers in various countries. We work closely with our suppliers to ensure the continuity of supply but we cannot guarantee these efforts will always be successful. Further, while efforts are made to diversify our sources of components and materials, in certain instances we acquire components and materials from a sole supplier. For most of our components and materials for which a sole supplier is used, we believe that alternative sources of supply exist and have made a strategic determination to use a sole supplier. In very limited instances, however, we do rely upon sole supplier relationships for which no alternatives have currently been identified. Although we do carry strategic inventory and maintain insurance to mitigate the potential risk related to any related supply disruption, there can be no assurance that such measures will be effective. Due to the regulatory environment in which we operate, we may be unable to quickly establish additional or replacement sources for some components or materials. A reduction or interruption in supply, and an inability to develop alternative sources for such supply, could adversely affect our ability to manufacture our products in a timely or cost-effective manner, and our ability to make product sales.

Many of our products are difficult to manufacture. This is due to the complex nature of manufacturing pharmaceuticals, including biologics, and devices, as well as the strict regulatory regime governing our manufacturing operations. Variations in the manufacturing process may result in production failures which could lead to launch delays, product shortage, unanticipated costs, lost revenues and damage to our reputation. A failure to identify and address manufacturing problems prior to the release of products to our customers may also result in a quality or safety issue of the type discussed above.

Some of our products are manufactured at a single manufacturing facility or stored at a single storage site. Loss or damage to a manufacturing facility or storage site due to a natural disaster or otherwise could adversely affect our ability to manufacture sufficient quantities of key products or otherwise deliver products to meet customer demand or contractual requirements which may result in a loss of revenue and other adverse business consequences. Because of the time required to approve and license a manufacturing facility a third party manufacturer may not be available on a timely basis to replace production capacity in the event we lose manufacturing capacity or products are otherwise unavailable due to natural disaster, regulatory action or otherwise.

If we are unable to protect our patents or other proprietary rights, or if we infringe the patents or other proprietary rights of others, our competitiveness and business prospects may be materially damaged.

Patent and other proprietary rights are essential to our business. Our success depends to a significant degree on our ability to obtain and enforce patents and licenses to patent rights, both in the United States and in other countries. We cannot guarantee that pending patent applications will result in issued patents, that patents issued or licensed will not be challenged or circumvented by competitors, that our patents will not be found to be invalid or that the intellectual property rights of others will not prevent the company from selling certain products or including key features in the company's products.

The patent position of a healthcare company is often uncertain and involves complex legal and factual questions. Significant litigation concerning patents and products is pervasive in our industry. Patent claims include challenges to the coverage and validity of our patents on products or processes as well as allegations that our products infringe patents held by competitors or other third parties. A loss in any of these types of cases could result in a loss of patent protection or the ability to market products, which could lead to a significant loss of sales, or otherwise materially affect future results of operations. We also rely on trademarks, copyrights, trade secrets and know-how to develop, maintain and strengthen our competitive positions. Third parties may know, discover or independently develop equivalent proprietary information or techniques, or they may gain access to our trade secrets or disclose our trade secrets to the public.

Although our employees, consultants, parties to collaboration agreements and other business partners are generally subject to confidentiality or similar agreements to protect our confidential and proprietary information, these agreements may be breached, and we may not have adequate remedies for any breach. To the extent that our employees, consultants, parties to collaboration agreements and other business partners use intellectual property owned by others in their work for us, disputes may arise as to the rights in related or resulting know-how and inventions.

Furthermore, our intellectual property, other proprietary technology and other sensitive company data is potentially vulnerable to loss, damage or misappropriation from system malfunction, computer viruses, unauthorized access to our data or misappropriation or misuse thereof by those with permitted access and other events. While we have invested to protect our intellectual property and other data, and continue to work diligently in this area, there can be no assurance that our precautionary measures will prevent breakdowns, breaches, cyber incidents or other events. Such events could have a material adverse effect on our reputation, business, financial condition or results of operations.

Misappropriation or other loss of our intellectual property from any of the foregoing would have an adverse effect on our competitive position and may cause us to incur substantial litigation costs.

We are subject to risks associated with doing business globally.

Our operations are subject to risks inherent in conducting business globally and under the laws, regulations and customs of various jurisdictions and geographies. These risks include changes in exchange controls and other governmental actions, loss of business in government and public tenders that are held annually in many cases, increasingly complex labor environments, availability of raw materials, changes in taxation, export control restrictions, changes in or violations of U.S. or local laws, including the FCPA and the United Kingdom Bribery Act, dependence on a few government entities as customers, pricing restrictions, economic and political instability (including instability as it relates to the Euro and currencies in certain emerging market countries), disputes between countries, diminished or insufficient protection of intellectual property, and disruption or destruction of operations in a significant geographic region regardless of cause, including war, terrorism, riot, civil insurrection or social unrest. Failure to comply with, or material changes to, the laws and regulations that affect our global operations could have an adverse effect on our business, financial condition or results of operations.

The 2016 referendum by British voters to exit the European Union (EU) (commonly known as Brexit) has created uncertainties affecting business operations in the EU. The UK government is expected to initiate a process to withdraw from the EU in the coming months. A withdrawal could result in the deterioration of economic conditions, volatility in currency exchange rates (as evidenced by the deterioration in the value of the British pound as compared to the U.S. dollar following the Brexit vote), and increased regulatory complexities. These outcomes could have an adverse effect on our business, financial condition or results of operations.

Changes in foreign currency exchange rates and interest rates could have a material adverse effect on our operating results and liquidity.

We generate the majority of our revenue and profit outside the United States. As a result, our financial results may be adversely affected by fluctuations in foreign currency exchange rates. We cannot predict with any certainty changes in foreign currency exchange rates or our ability to mitigate these risks. We may experience additional volatility as a result of inflationary pressures and other macroeconomic factors in certain emerging market countries. We are also exposed to changes in interest rates, and our ability to access the money markets and capital markets could be impeded if adverse liquidity market conditions occur. A discussion of the financial impact of foreign exchange rate and interest rate fluctuations, and the ways and extent to which we attempt to mitigate such impact is contained under the caption "Financial Instrument Market Risk" in Item 7 of this Annual Report on Form 10-K.

Changes in tax laws or exposure to additional income tax liabilities may have a negative impact on our operating results.

Tax policy reform continues to be a topic of discussion in the United States. Members of the newly installed U.S. Congress, including the Speaker of the House Paul Ryan, have identified comprehensive tax reform as a priority for 2017. A significant change to the tax system in the United States, including changes to the taxation of international income or imported product, could have an adverse effect upon our results of operations. Because we operate in multiple income tax jurisdictions both inside and outside the United States, cross border transactions among our affiliates are a significant part of the manner in which we operate. Although we believe that we transact intercompany business in accordance with arms-length principles, taxing authorities may audit us from time to time, disagree with certain positions we have taken and assess additional taxes. We regularly assess the likely outcomes of these audits in order to determine the appropriateness of our tax provision. However, we may not accurately predict the outcome of these audits, and as a result the actual outcome of these audits may have an adverse impact on our financial results. For more information on ongoing audits, see Note 15 in Item 8 of this Annual Report on Form 10-K.

We are increasingly dependent on information technology systems and subject to privacy and security laws, and our systems and infrastructure face certain risks, including from cyber security breaches and data leakage.

We increasingly rely upon technology systems and infrastructure. Our technology systems are potentially vulnerable to breakdown or other interruption by fire, power loss, system malfunction, unauthorized access and other events. Likewise, data privacy breaches by employees and others with both permitted and unauthorized access to our systems and products may pose a risk that sensitive data (including protected health information (PHI)) may be exposed to unauthorized persons or to the public, or may be permanently lost. The increasing use and evolution of technology, including cloud-based computing, creates additional opportunities for the unintentional dissemination of information, intentional destruction of confidential information stored in our systems, products or in non-encrypted portable media or storage devices. We could also experience a business interruption, information theft of confidential information, or reputational damage from industrial espionage attacks, malware or other cyber incidents, which may compromise our system infrastructure or lead to data leakage, either internally or at our third-party providers or other business partners. As our products continue to evolve, third-parties may attempt to access or obtain proprietary information from our products or systems. Additionally, we must comply with numerous federal and state laws and regulations governing the collection, dissemination, access, use, security and PHI, including The Health Insurance Portability and Accountability Act of 1996 and its implementing privacy and security regulations. While we have invested heavily in the protection of data and information technology and in related training, there can be no assurance that our efforts will prevent significant breakdowns, breaches in our systems or other cyber incidents or ensure compliance with all applicable security and privacy laws, regulations and standards, including with respect to third-party service providers that utilize sensitive personal information, including PHI, on our behalf. Any such breakdown, breach, incident or failure to comply could have a material adverse effect upon our reputation, business, operations or financial condition. In addition, significant implementation issues may arise as we continue to consolidate and outsource certain computer operations and application support activities.

If we fail to attract and retain key employees our business may suffer.

Our ability to compete effectively depends on our ability to attract and retain key employees, including people in senior management, sales, marketing and research positions. Competition for top talent in healthcare can be intense. Our ability to recruit and retain such talent will depend on a number of factors, including hiring practices of our competitors, compensation and benefits, work location, work environment and industry economic conditions. If we cannot effectively recruit and retain qualified employees, our business could suffer.

We are subject to a number of pending lawsuits.

We are a defendant in a number of pending lawsuits. In addition, we may be named as a defendant in future patent, product liability or other lawsuits. These current and future matters may result in a loss of patent protection, reduced revenue, significant liabilities and

diversion of our management's time, attention and resources. Given the uncertain nature of litigation generally, we are not able in all cases to estimate the amount or range of loss that could result from an unfavorable outcome in these current matters. In view of these uncertainties, the outcome of these matters may result in charges in excess of any established reserves, and, to the extent available, liability insurance. We also continue to be self-insured with respect to product liability claims. The absence of third-party insurance coverage for current or future claims increases our potential exposure to unanticipated claims and adverse decisions. Protracted litigation, including any adverse outcomes, may have an adverse impact on the business, operations or financial condition of the company. Even claims without merit could subject us to adverse publicity and require us to incur significant legal fees. See Note 16 in Item 8 of this Annual Report on Form 10-K for more information regarding current lawsuits.

Current or worsening economic conditions may adversely affect our business and financial condition.

The company's ability to generate cash flows from operations could be affected if there is a material decline in the demand for the company's products, in the solvency of its customers or suppliers, or deterioration in the company's key financial ratios or credit ratings. Current or worsening economic conditions may adversely affect the ability of our customers (including governments) to pay for our products and services, and the amount spent on healthcare generally. This could result in a decrease in the demand for our products and services, declining cash flows, longer sales cycles, slower adoption of new technologies and increased price competition. These conditions may also adversely affect certain of our suppliers, which could cause a disruption in our ability to produce our products. We continue to do business with foreign governments in certain countries, including Greece, Spain, Portugal, and Italy, which have experienced deterioration in credit and economic conditions. As of December 31, 2016, the company's net accounts receivable from the public sector in Greece, Spain, Portugal and Italy totaled \$137 million. While global economic conditions have not significantly impacted the company's ability to collect receivables, liquidity issues in certain countries have resulted, and may continue to result, in delays in the collection of receivables and credit losses. These conditions may also impact the stability of the Euro or Yuan. For more information on accounts receivable and credit matters with respect to certain of these countries, refer to the discussion under the caption entitled "Credit Facilities, Access to Capital and Credit Ratings" in Item 7 of this Annual Report on Form 10-K.

We may incur operational difficulties or be exposed to claims and liabilities as a result of the separation and distribution.

On July 1, 2015, we distributed approximately 80.5% of the outstanding shares of Baxalta common stock to Baxter stockholders in connection with the separation of our biopharmaceuticals business. We disposed of our remaining 19.5% stake in Baxalta (Retained Shares) in 2016, in connection with a series of transactions including debt-for-equity exchanges, an equity-for-equity exchange and a contribution to our U.S. pension plan (Retained Shares Transactions). Shire plc (Shire) acquired Baxalta in June 2016, after completion of the last Retained Shares Transaction. In connection with the July 2015 distribution, we entered into a separation and distribution agreement and various other agreements (including a transition services agreement, a tax matters agreement, a long term services agreement, a manufacturing and supply agreement, an employee matters agreement, a trademark license agreement, a Galaxy license agreement, an international commercial operations agreement, a shareholders' and registration rights agreement and certain other commercial agreements) with Baxalta. These agreements govern the separation and distribution and the relationship between the companies going forward, including with respect to potential tax-related losses associated with the separation and distribution and the Retained Shares Transactions. They also provide for the performance of services by each company for the benefit of the other for a period of time (including under the manufacturing and supply agreement pursuant to which Shire now manufactures and sells certain products and materials to us).

The separation and distribution agreement provides for indemnification obligations designed to make Baxalta financially responsible for many liabilities that may exist relating to its business activities, whether incurred prior to or after the distribution, including any pending or future litigation. It is possible that a court would disregard the allocation agreed to between us and Baxalta and require us to assume responsibility for obligations allocated to Baxalta. Third parties could also seek to hold us responsible for any of these liabilities or obligations, and the indemnity rights we have under the separation and distribution agreement may not be sufficient to fully cover all of these liabilities and obligations. Even if we are successful in obtaining indemnification, we may have to bear costs temporarily. In addition, our indemnity obligations to Baxalta may be significant. These risks could negatively affect our business, financial condition or results of operations.

The separation of Baxalta continues to involve a number of risks, including, among other things, the indemnification risks described above and the potential that management's and our employees' attention will be significantly diverted by the provision of transitional services. Certain of the agreements described above provide for the performance of services by each company for the benefit of the other for a period of time. Shire may elect to extend the term for which we provide services to Baxalta under these agreements. If Baxalta is unable to satisfy its obligations under these agreements, including its indemnification obligations, we could incur losses. These arrangements could also lead to disputes over rights to certain shared property and rights and over the allocation of costs and revenues for products and operations. Our inability to effectively manage the separation activities and related events could adversely affect our business, financial condition or results of operations.

There could be significant liability if the separation and distribution or any Retained Shares Transaction is determined to be a taxable transaction. Baxalta has indemnified us for certain potential liabilities that may arise, and such indemnification obligation is guaranteed by Shire, but Baxalta and Shire may be unable to satisfy their indemnification obligations to us in the future.

The separation and distribution and the Retained Shares Transactions (collectively, the Baxter Transactions) qualify for tax-free treatment to Baxter and its stockholders under the Internal Revenue Code of 1986, as amended (the Code). Completion of the separation and distribution was conditioned upon, among other things, the receipt of a private letter ruling from the IRS regarding certain issues relating to the tax-free treatment of the Baxter Transactions. Although the IRS private letter ruling is generally binding on the IRS, the continuing validity of such ruling is subject to the accuracy of factual representations and assumptions made in the ruling. Completion of the distribution was also conditioned upon Baxter's receipt of a tax opinion from KPMG LLP regarding certain aspects of the Baxalta spin-off not covered by the IRS private letter ruling. The opinion was based upon various factual representations and assumptions, as well as certain undertakings made by Baxter and Baxalta. If any of the factual representations or assumptions in the IRS private letter ruling or tax opinion is untrue or incomplete in any material respect, if any undertaking is not complied with, or if the facts upon which the IRS private letter ruling or tax opinion are based are materially different from the actual facts relating to the Baxter Transactions, the opinion or IRS private letter ruling may not be valid. Moreover, opinions of a tax advisor are not binding on the IRS. As a result, the conclusions expressed in the opinion of a tax advisor could be successfully challenged by the IRS.

If the Baxter Transactions are determined to be taxable, Baxter and its stockholders could incur significant tax liabilities. Pursuant to the tax matters agreement, Baxalta agreed to indemnify us for certain tax-related losses incurred if Baxalta's actions cause the separation and distribution and certain related transactions to fail to qualify for tax-free status under the applicable provisions of the Code.

In anticipation of the proposed Baxalta — Shire merger (the Merger), we entered into a letter agreement with Shire and Baxalta (the Letter Agreement). Under the Letter Agreement, Baxalta agreed to indemnify, and Shire agreed to guarantee such indemnity to, Baxter and each of its affiliates and each of their respective officers, directors and employees against certain tax-related losses attributable to or resulting from (in whole or in part) the merger as further described in the Letter Agreement. If the Baxter Transactions are determined to be taxable as a result (in whole or in part) of the merger (for example, if the merger is deemed to be part of a plan (or series of related transactions) that includes the Baxter Transactions), Baxter and its stockholders could incur significant tax liabilities. Although Baxalta and Shire may be required to indemnify Baxter under the tax matters agreement and the Letter Agreement for any such tax liabilities incurred by Baxter, there can be no assurance that the indemnity from Baxalta or the guarantee thereof by Shire will be sufficient to protect us against all or a part of the amount of such liabilities, or that either Baxalta or Shire will be able to fully satisfy their respective obligations.

Even if we ultimately succeed in recovering from Baxalta or Shire any amounts for which we are held liable, we may be temporarily required to bear these costs ourselves, which could negatively affect our business, results of operations and financial condition.

Item 1B. *Unresolved Staff Comments.*

None.

Item 2. Properties.

The company's corporate offices are owned and located at One Baxter Parkway, Deerfield, Illinois 60015.

Baxter owns or has long-term leases on all of its manufacturing facilities. The company's principal manufacturing facilities by segment are listed below:

Business	Location	Owned/Leased
Hospital Products	Shanghai, China	Owned
	Tianjin, China	Owned
	Cartago, Costa Rica	Owned
	Haina, Dominican Republic	Leased
	Halle, Germany	Owned
	Guayama, Puerto Rico	Owned
	Jayuya, Puerto Rico	Leased
	Aibonito, Puerto Rico	Leased
	Sabinanigo, Spain	Owned
	San Vittore, Switzerland	Owned
	Tunis, Tunisia	Owned
	Elstree, United Kingdom	Leased
	Thetford, United Kingdom	Owned
	Hayward, California	Leased
	Irvine, California	Owned
	Englewood, Colorado	Leased
	Round Lake, Illinois	Owned
	Bloomington, Indiana	Owned/Leased(1)
	Cleveland, Mississippi	Leased
	St. Paul, Minnesota	Leased
Medina, New York	Leased	
Renal	Guangzhou, China	Owned
	Prerov, Czech Republic	Leased
	Meyzieu, France	Owned
	Hechingen, Germany	Leased
	Rostock, Germany	Leased
	Medolla, Italy	Owned
	Sondalo, Italy	Owned
	Miyazaki, Japan	Owned
	Tijuana, Mexico	Owned
	Lund, Sweden	Leased
	Amata, Thailand	Owned
	Liverpool, United Kingdom	Leased
	Opelika, Alabama	Owned
	Brooklyn Park, Minnesota	Leased
	Shared (Hospital Products and Renal)	Toongabbie, Australia
Lessines, Belgium		Owned
Sao Paulo, Brazil		Owned
Alliston, Canada		Owned
Suzhou, China		Owned
Cali, Colombia		Owned
Manesar, India		Owned
Castlebar, Ireland		Owned
Grosotta, Italy		Owned
Marsa, Malta		Owned
Cuernavaca, Mexico		Owned
PESA, Mexico		Owned
Canlubang, Philippines		Leased
Lublin, Poland		Owned/Leased(1)
Woodlands, Singapore		Owned/Leased(2)
Mountain Home, Arkansas		Owned/Leased(1)
North Cove, North Carolina		Owned

(1) Includes both owned and leased facilities.

(2) Baxter owns the facility located at Woodlands, Singapore and leases the property upon which it rests.

The company also owns or operates shared distribution facilities throughout the world. In the United States and Puerto Rico, there are six shared distribution facilities with the principal facilities located in Memphis, Tennessee; Catano, Puerto Rico; North Cove, North Carolina; and Round Lake, Illinois. Internationally, we have more than 100 shared distribution facilities located in Argentina, Australia, Benelux, Brazil, Brunei, Canada, Chile, China, Colombia, Costa Rica, the Czech Republic, Ecuador, France, Germany, Greece, Guatemala, Hong Kong, India, Ireland, Italy, Japan, Korea, Mexico, New Zealand, Panama, the Philippines, Poland, Portugal, Russia, Singapore, Spain, Sweden, Switzerland, Thailand, Turkey, the United Arab Emirates, the United Kingdom and Venezuela.

The company continually evaluates its plants and production lines and believes that its current facilities plus any planned expansions are generally sufficient to meet its expected needs and expected near-term growth. Expansion projects and facility closings will be undertaken as necessary in response to market needs.

Item 3. Legal Proceedings.

Incorporated by reference to Note 16 in Item 8 of this Annual Report on Form 10-K.

Item 4. Mine Safety Disclosures.

Not Applicable.

Executive Officers of the Registrant

As of February 23, 2017, the following serve as Baxter's executive officers:

José E. Almeida, age 54, is Chairman and Chief Executive Officer, having served in that capacity since January 2016. Between October 2015 and January 2016, Mr. Almeida served as an executive officer of the company. Previously, he served as an operating executive to the Carlye Group L.P. from May 2015 until October 2015. Previously, he served as the Chairman, President and Chief Executive Officer of Covidien plc (Covidien) from March 2012 to January 2015, prior to Medtronic plc's acquisition of Covidien, and President and Chief Executive Officer of Covidien from July 2011 to March 2012. Mr. Almeida served in other executive roles with Covidien (formerly Tyco Healthcare) between April 2004 and June 2011.

Giuseppe Accogli, age 46, is Corporate Vice President and President, Renal. Mr. Accogli joined the company in 2007 as renal business unit director in Italy, and assumed positions of increasing responsibility with the Renal business in Europe, including head of the EMEA region for renal from 2013 to 2015. Prior to joining Baxter, he served as business unit manager and sales and marketing manager for Medtronic, Inc. (Italy) from 2004 to 2007. From 1996 to 2004, he held a series of positions in Europe with Tyco Healthcare – Covidien Ltd., including marketing director and group product director.

Brik V. Eyre, age 53, is Corporate Vice President and President, Hospital Products. Mr. Eyre joined the company in 2008 as general manager for BioPharma Solutions, Baxter's manufacturing and contract services business. He later served as general manager for our U.S. medication delivery business and most recently he was Corporate Vice President and President, Renal. Prior to joining Baxter, he held a variety of senior management positions at Cardinal Health, Inc., including president of Cardinal's PreSource Products and Services business.

Jeanne K. Mason, Ph.D., age 61, is Corporate Vice President, Human Resources. Prior to joining Baxter in May 2006, Dr. Mason was with General Electric from 1988, holding various leadership positions, the most recent of which was with GE Insurance Solutions where she was responsible for global human resource functions.

Scott Pleau, age 51, is Corporate Vice President, Operations. Prior to joining Baxter in June 2016, Mr. Pleau served as vice president of operations for medical devices at Medtronic plc from 2015 to 2016, and at Covidien from 2013 to 2015, prior to Medtronic plc's acquisition of Covidien. From 1995 to 2013, he held several key operations positions at Covidien, including vice president of operations, surgical solutions; vice president of operations, vascular therapies & medical supplies; vice president of engineering; and director of operational quality.

James K. Saccaro, age 44, is Corporate Vice President and Chief Financial Officer and has served in that capacity since June 2015. Mr. Saccaro was Senior Vice President and Chief Financial Officer at Hill-Rom Corporation from December 2013 to July 2014 prior to rejoining Baxter in July 2014 as Special Advisor to the Chief Executive Officer. Prior to that, Mr. Saccaro served as Corporate Vice President and Treasurer of Baxter from 2011 to 2013. He originally joined the company in 2002 as manager of strategy for the company's former BioScience business, and from there moved onto positions of increasing responsibility, including Vice President of

Financial Planning and Vice President of Finance for the company's operations in Europe, Middle East and Africa. Prior to Baxter, he held strategy and business development positions at Clear Channel Communications and the Walt Disney Company.

Marcus Schabacker, M.D., Ph.D., age 53, is Corporate Vice President and Chief Scientific Officer. Dr. Schabacker joined the company in 2011. Prior to his current role, Dr. Schabacker served as Vice President, R&D, Medical Products. Dr. Schabacker held the position of Senior Vice President and Chief Scientific Officer at ConvaTec, Inc. before joining the company. His previous roles include Corporate Vice President R&D at B. Braun Medical and Senior Medical Officer at Mafikeng General Hospital, South Africa.

David P. Scharf, age 49, is Corporate Vice President and General Counsel, having served in this capacity since August 2009. Mr. Scharf joined Baxter in July 2005 and served in advancing leadership roles within the legal department. Prior to joining Baxter, Mr. Scharf was with Guidant Corporation from 2002, in roles of increasing responsibility.

Paul Vibert, age 57, is Corporate Vice President and President, International. Mr. Vibert joined the company in January 2008 as Vice President of Business Development for Asia Pacific. He also served as regional general manager for China and Hong Kong for two years before moving to Ferring Pharmaceuticals, as Senior Vice President, Asia Pacific, from May 2011 to May 2013. He returned to Baxter in May 2013 as President of Western Europe, and assumed his current role in January 2015. Prior to joining Baxter in 2008, Vibert spent 19 years with Abbott Laboratories, where he held various leadership positions.

All executive officers hold office until the next annual election of officers and until their respective successors are elected and qualified.

PART II

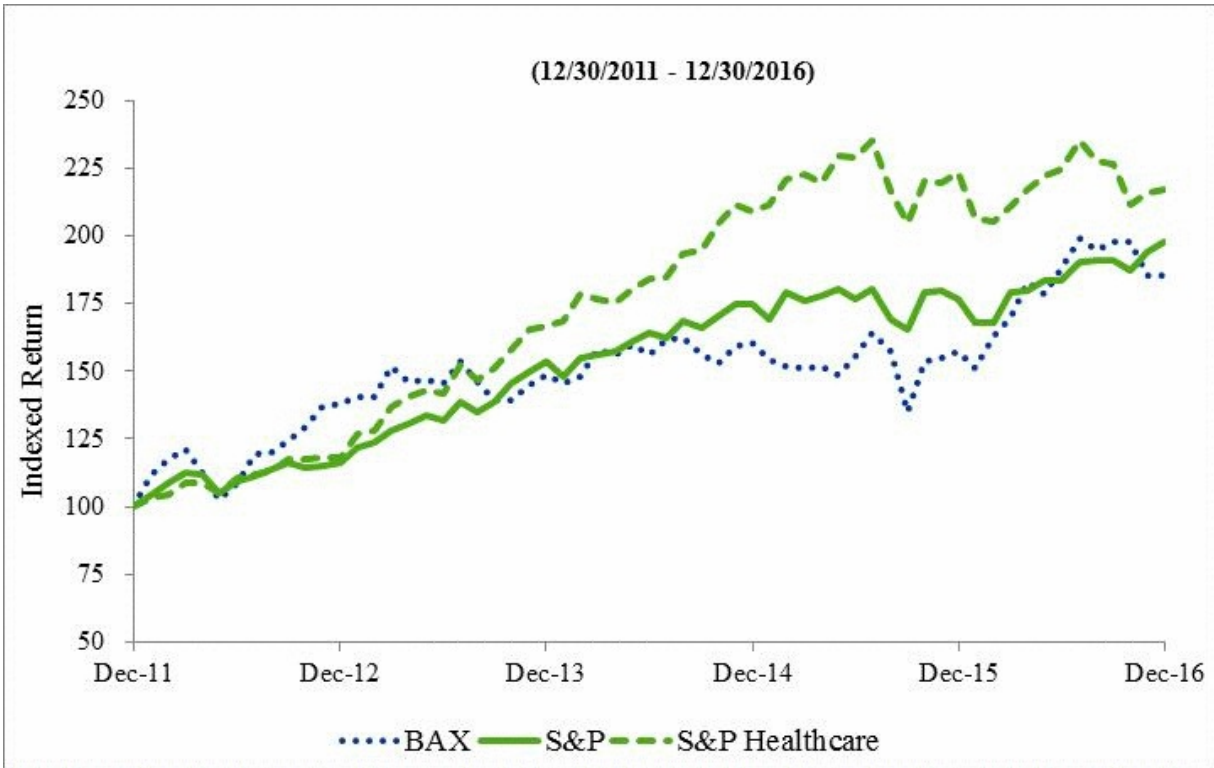
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

On July 25, 2012, the company announced that its Board of Directors authorized the company to repurchase up to \$2.0 billion of its common stock on the open market or in private transactions. The Board of Directors increased this authority by \$1.5 billion in November 2016. During 2016, the company repurchased approximately 6.3 million shares for \$287 million in cash pursuant to this authority. The remaining authorization under this program totaled approximately \$1.7 billion at December 31, 2016. This program does not have an expiration date.

Additional information required by this item is incorporated by reference to Note 18 in Item 8 of this Annual Report on Form 10-K.

Performance Graph

The following graph compares the change in Baxter’s cumulative total shareholder return (including reinvested dividends) on Baxter’s common stock with the Standard & Poor’s 500 Composite Index and the Standard & Poor’s 500 Health Care Index over the past five years. Performance through June 30, 2015 has been adjusted for the Baxalta separation which occurred on July 1, 2015.



Item 6. Selected Financial Data.

See Note 1 of Item 8 for additional details regarding basis of presentation.

as of or for the years ended December 31		2016 ^{2,1}	2015 ^{3,1}	2014 ^{4,1}	2013 ^{5,1}	2012 ^{6,1}
Operating Results	Net sales	\$ 10,163	9,968	10,719	9,413	8,626
<i>(in millions)</i>	Income from continuing operations	\$ 4,966	393	457	315	663
	Income (loss) from discontinued operations, net of tax	\$ (1)	575	2,040	1,697	1,663
	Net income	\$ 4,965	968	2,497	2,012	2,326
Balance Sheet	Capital expenditures, continuing operations	\$ 719	911	925	706	622
Information	Total assets	\$ 15,546	20,962	26,138	25,224	20,390
<i>(in millions)</i>	Long-term debt and lease obligations	\$ 2,779	3,922	7,331	8,126	5,580
Common Stock	Weighted-average number of common shares outstanding					
Information	Basic	546	545	542	543	551
	Diluted	551	549	547	549	556
	Income from continuing operations per common share					
	Basic	\$ 9.10	0.72	0.84	0.58	1.20
	Diluted	\$ 9.01	0.72	0.83	0.57	1.19
	Income from discontinued operations per common share					
	Basic	\$ (0.01)	1.06	3.77	3.12	3.02
	Diluted	\$ 0.00	1.04	3.73	3.09	2.99
	Net income per common share					
	Basic	\$ 9.09	1.78	4.61	3.70	4.22
	Diluted	\$ 9.01	1.76	4.56	3.66	4.18
	Cash dividends declared per common share	\$ 0.505	1.270	2.050	1.920	1.570

¹ Refer to the notes to the consolidated financial statements for information regarding other charges and income items.

² Income from continuing operations included charges totaling \$409 million for business optimization, \$54 million related to the Baxalta separation, \$149 million of debt extinguishment costs related to the March 2016 debt-for-equity exchange for certain company indebtedness and certain debt redemptions, \$51 million for impairment primarily related to developed technology and \$9 million related to the settlement of an income tax matter in the company's non-wholly owned joint venture in Turkey. Also included were net realized gains of \$4.4 billion related to the Baxalta Retained Shares transactions and a benefit of \$18 million primarily related to adjustments to the COLLEAGUE and SIGMA SPECTRUM infusion pump reserves.

³ Income from continuing operations included charges totaling \$200 million for business optimization, \$111 million related to the Baxalta separation and \$130 million related to Baxter's July 2015 tender offer for certain outstanding indebtedness. Also included were benefits of \$28 million primarily related to adjustments to the COLLEAGUE and SIGMA SPECTRUM infusion pump reserves, \$52 million related to a litigation settlement in which Baxter was the beneficiary and \$20 million relating to the reversal of contingent consideration milestone liabilities.

⁴ Income from continuing operations included charges totaling \$138 million for business optimization, \$68 million for SIGMA Spectrum Infusion Pump product remediation efforts, \$11 million related to the Baxalta separation and \$3 million to account for an additional year of the Branded Prescription Drug Fee in accordance with final regulations issued by the Internal Revenue Service. Also included were benefits of \$1 million related to third-party recoveries and reversals of prior reserves.

⁵ Income from continuing operations included charges totaling \$148 million for business optimization, \$17 million primarily related to remediation efforts associated with modifications to the SIGMA Spectrum Infusion Pump in conjunction with re-filing for 510(k) clearance, \$255 million related to the acquisition and integration of Gambro and losses from the derivative instruments used to hedge the anticipated foreign currency cash outflows and \$25 million related to an upfront payment associated with one of the company's collaboration arrangements. Also included were benefits of \$3 million related to tax and legal reserves associated with VAT matters in Turkey.

⁶ Income from continuing operations included charges totaling \$106 million for business optimization, \$15 million primarily related to business development, and \$170 million primarily related to pension settlement charges and other pension-related items. Also included were benefits of \$23 million primarily related to an adjustment to the COLLEAGUE infusion pump reserve when the company substantially completed its recall activities in the United States and \$91 million for gains related to a decrease in the estimated fair value of acquisition-related contingent payment liabilities.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following commentary should be read in conjunction with the consolidated financial statements and accompanying notes.

EXECUTIVE OVERVIEW

Description of the Company and Business Segments

Baxter International Inc., through its subsidiaries, provides a broad portfolio of essential renal and hospital products, including acute and chronic dialysis; sterile IV solutions; infusion systems and devices; parenteral nutrition therapies; premixed and oncolytic injectables; biosurgery products and anesthetics; drug reconstitution systems; and pharmacy automation, software and services. The company's global footprint and critical nature of its products and services play a key role in expanding access to healthcare in emerging and developed countries. These products are used by hospitals, kidney dialysis centers, nursing homes, rehabilitation centers, doctors' offices and by patients at home under physician supervision.

Separation of Baxalta Incorporated

On July 1, 2015, Baxter completed the distribution of approximately 80.5% of the outstanding common stock of its biopharmaceuticals business, Baxalta Incorporated (Baxalta), to Baxter stockholders (the Distribution). As a result of the separation, the operating results of Baxalta have been reflected as discontinued operations for the years ended December 31, 2016, 2015, and 2014. Refer to Note 2 in Item 8 for additional information regarding the separation of Baxalta. Unless otherwise stated, financial results herein reflect continuing operations.

Segments

Baxter operates under two reportable segments, Hospital Products and Renal. Refer to Note 14 in Item 8 for additional information regarding the company's segments.

The segments and a description of their products and services are as follows:

The Hospital Products business manufactures sterile intravenous (IV) solutions and administration sets, premixed drugs and drug-reconstitution systems, pre-filled vials and syringes for injectable drugs, parenteral nutrition therapies, infusion pumps, inhalation anesthetics, and biosurgery products. The business also provides products and services related to pharmacy compounding, and drug formulation; sterile IV solutions; infusion systems and devices; parenteral nutrition therapies; premixed and oncolytic injectables; biosurgery products and anesthetics; drug reconstitution systems; and pharmacy automation, software and services.

The Renal business offers a comprehensive portfolio to meet the needs of patients with end-stage renal disease, or irreversible kidney disease and acute kidney injuries, including technologies and therapies for peritoneal dialysis (PD), hemodialysis (HD), continuous renal replacement therapy (CRRT) and additional dialysis services.

Baxter has approximately 48,000 employees and conducts business in over 100 countries. The company generates approximately 60% of its revenues outside the United States, and maintains approximately 50 manufacturing facilities and over 100 distribution facilities in the United States, Europe, Asia-Pacific, Latin America and Canada.

Financial Results

Baxter's global net sales totaled \$10.2 billion in 2016, an increase of 2% over 2015, including an unfavorable foreign currency impact of two percentage points. International sales totaled \$5.9 billion in 2016, a decrease of 1% compared to 2015, including an unfavorable foreign currency impact of four percentage points. Sales in the United States totaled \$4.3 billion in 2016, an increase of 6% compared to 2015.

Baxter's income from continuing operations for 2016 totaled \$5.0 billion or \$9.01 per diluted share, compared to \$393 million, or \$0.72 per diluted share, in the prior year. Income from continuing operations in 2016 included special items which resulted in a net increase to income from continuing operations of \$3.9 billion, or \$7.05 per diluted share. Income from continuing operations in 2015 included special items which resulted in a net reduction to income from continuing operations of \$362 million, or \$0.66 per diluted share. The company's special items are discussed further in the Results of Operations section below.

Baxter's financial results included R&D expenses totaling \$647 million in 2016, which reflects the company's focus on balancing increased investments to support the company's new product pipeline with efforts to optimize overall R&D spending through continuous evaluation of the portfolio.

The company's financial position remains strong, with operating cash flows from continuing operations totaling \$1.6 billion in 2016. The company has continued to execute on its disciplined capital allocation framework, which is designed to optimize stockholder value creation through reinvestment in the businesses, dividends and targeted share repurchases, as well as acquisitions and other business development initiatives as discussed in the Strategic Objectives section below.

Capital investments totaled \$719 million in 2016 as the company continues to invest across its businesses to support future growth, including additional investments in support of new and existing product capacity expansions. The company's investments in capital expenditures in 2016 were focused on projects that improve production efficiency and enhance manufacturing capabilities to support its strategy of geographic expansion with select investments in growing markets.

The company also continued to return value to its stockholders in the form of dividends. During 2016, the company paid cash dividends to its shareholders totaling \$268 million. Additionally, in 2016 the company repurchased 17.8 million shares through cash repurchases and an equity-for-equity exchange of Retained Shares for outstanding Baxter shares.

Strategic Objectives

Baxter continues to focus on several key objectives to successfully execute its long-term strategy to achieve sustainable growth and deliver enhanced stockholder value. Baxter's diversified and broad portfolio of medical products that treat life-threatening acute or chronic conditions and its global presence are core components of the company's strategy to achieve these objectives. The company is focused on three strategic factors as part of its pursuit of industry leading performance: optimizing its core portfolio globally; operational excellence focused on streamlining the cost structure and enhancing operational efficiency; and following a disciplined and balanced approach to capital allocation.

Optimizing the Core Portfolio Globally

Baxter has categorized its product portfolio into four strategic business groupings. Those groupings include core growth, core return on capital, maintain or manage differently and strategic bets. Within the core growth grouping, Baxter looks to invest for long-term, higher margin growth. Baxter looks to optimize its return on investment and to maintain or enhance its market position with its core return on capital products. Maintain or manage differently products are those for which Baxter looks to sustain or reposition its underlying investment. Finally, the strategic bet grouping includes products for which Baxter is evaluating its market position and investment strategy. These products cover mature and emerging markets. While Baxter has made an initial assignment of each of its product categories to one of the business groupings described above, Baxter continues to evaluate each product category's placement in light of shifting market dynamics and company priorities and may reassign a product category into a different business grouping from time to time.

As part of this portfolio review, Baxter seeks to optimize its position in product areas where the company has a stable, profitable business model, identify and alter investments in products that have reached the end of their life cycles or with respect to which market positions have evolved unfavorably. In the course of doing so, Baxter expects to continue to reallocate capital to more promising opportunities or business groupings, as described above.

As part of this strategy, Baxter is shifting its investments to drive innovation where it has compelling opportunities to serve patients and healthcare professionals while advancing the business and will accelerate the pace in bringing these advances to market. Baxter is in the midst of launching more than 100 products by 2020 in such areas as chronic and acute renal care; smart pump technology; hospital pharmaceuticals and nutritionals; surgical sealants, and more. These comprise a mix of entirely new offerings, marked improvements on existing technologies, and the expansion of current products into new geographies.

Operational Excellence

As part of its pursuit of improved margin performance, Baxter is working to optimize its cost structure, consistent with its emergence as a stand-alone medical products company and as such is critically assessing optimal support levels in light of the company's ongoing portfolio optimization efforts.

The company intends to continue to actively manage its cost structure to help ensure it is committing resources to the highest value uses. Such high value activities include supporting innovation, building out the portfolio, expanding patient access and accelerating growth for the company's stockholders.

Baxter has undertaken a comprehensive review of all aspects of its operations and has already begun to implement changes in line with its business goals.

Maintaining Disciplined and Balanced Capital Allocation

Baxter's capital allocation strategies include the following:

- reinvest in the business, by funding opportunities that are positioned to deliver sustainable growth, support the company's innovation efforts and improve margin performance;
- return capital to stockholders through stock dividends, to meaningfully increase with earnings growth;
- targeted share repurchases; and
- identify and pursue accretive M&A opportunities that generate returns above targeted thresholds.

Responsible Corporate Citizen

The company strives for continued growth and profitability, while furthering its focus on acting as a responsible corporate citizen. At Baxter, sustainability means creating lasting social, environmental and economic value by addressing the needs of the company's wide-ranging stakeholder base. Baxter's comprehensive sustainability program is focused on areas where the company is uniquely positioned to make a positive impact. Priorities include providing employees a safe, healthy and inclusive workplace, fostering a culture that drives integrity, strengthening access to healthcare, enhancing math and science education, and driving environmental performance across the product life cycle including development, manufacturing and transport. Baxter and the Baxter International Foundation provide financial support and product donations in support of critical needs, from assisting underserved communities to providing emergency relief for countries experiencing natural disasters.

Throughout 2016 the company continued to implement a range of water conservation strategies and facility-based energy saving initiatives. In the area of product stewardship and life cycle management, Baxter is pursuing efforts such as sustainable design and reduced packaging. Baxter is also responding to the challenges of climate change through innovative greenhouse gas emissions-reduction programs, such as shifting to less carbon-intensive energy sources in manufacturing and transport. Additionally, the company developed new long-term goals to drive continued environmental stewardship while creating healthier, more sustainable communities where Baxter employees work and live.

Risk Factors

The company's ability to sustain long-term growth and successfully execute the strategies discussed above depends in part on the company's ability to manage within an increasingly competitive and regulated environment and to address the other risk factors described in Item 1A of this Annual Report on Form 10-K.

RESULTS OF OPERATIONS

Special Items

The following table provides a summary of the company's special items and the related impact by line item on the company's results of continuing operations for 2016, 2015 and 2014.

years ended December 31 (in millions)	2016	2015	2014
Gross Margin			
Intangible asset amortization expense	\$ (163)	\$ (158)	\$ (168)
Business optimization items ¹	(156)	(38)	11
Intangible asset impairment ²	(51)	—	—
Separation-related costs ³	(1)	—	—
Product-related items ⁴	18	28	(64)
Total Special Items	\$ (353)	\$ (168)	\$ (221)
Impact on Gross Margin Ratio	(3.5 pts)	(1.7 pts)	(2.1 pts)
Marketing and Administrative Expenses			
Business optimization items ¹	\$ 173	\$ 152	\$ 115
Separation-related costs ³	53	110	11
Product-related items ⁴	—	—	4
Branded Prescription Drug Fee ⁵	—	—	3
Total Special Items	\$ 226	\$ 262	\$ 133
Impact on Marketing and Administrative Expense Ratio	2.3 pts	2.6 pts	1.2 pts
Research and Development Expenses			
Business optimization items ¹	\$ 80	\$ 13	\$ 2
Separation-related costs ³	—	1	—
Total Special Items	\$ 80	\$ 14	\$ 2
Other (Income) Expense, Net			
Business optimization items ¹	\$ —	\$ (3)	\$ 25
Net realized gains on Retained Shares transactions ⁶	(4,391)	—	—
Loss on debt extinguishment ⁷	149	130	—
Reserve items and adjustments ⁸	—	(52)	1
Business development items ⁹	—	(20)	—
Tax matter ¹⁰	9	—	—
Total Special Items	\$ (4,233)	\$ 55	\$ 26
Income Tax Expense			
Impact of special items ¹⁰	\$ (314)	\$ (137)	\$ (137)
Total Special Items	\$ (314)	\$ (137)	\$ (137)
Impact on Effective Tax Rate	(22.1 pts)	(10.4 pts)	(12.8 pts)

Intangible asset amortization expense is identified as a special item to facilitate an evaluation of current and past operating performance and is similar to how management internally assesses performance. Additional special items are identified above because they are highly variable, difficult to predict and of a size that may substantially impact the company's reported operations for a period. Management believes that providing the separate impact of the above items on the company's results in accordance with generally accepted accounting principles (GAAP) in the United States may provide a more complete understanding of the company's operations and can facilitate a fuller analysis of the company's results of operations, particularly in evaluating performance from one period to another. This information should be considered in addition to, and not as a substitute for, information prepared in accordance with GAAP.

¹ In 2016, 2015 and 2014, the company's results were impacted by costs associated with the company's execution of certain strategies to optimize its organization and global cost structure on a global basis. These actions included streamlining the company's international operations, rationalizing its manufacturing facilities, reducing its general and administrative infrastructure, re-aligning certain R&D activities and cancelling certain R&D programs. The company recorded net business optimization charges of \$409 million, \$200 million and \$131 million in 2016, 2015 and 2014, respectively. The company's results in 2016 included a net charge of \$285 million related to restructuring activities, \$65 million of costs to implement business optimization programs which primarily included external consulting and project employee costs, \$33 million of accelerated depreciation associated with facilities to be closed, and \$26 million of Gambro integration costs. The \$285 million of

restructuring charges included net \$180 million of employee termination costs, \$54 million of costs related to the discontinuance of the VIVIA home hemodialysis development program, \$47 million of asset impairment charges related to acquired in-process R&D and facility closure costs and \$4 million of other exit costs. The company's results in 2015 included a net charge of \$127 million related to restructuring activities and \$73 million of Gambro integration costs. The \$127 million of net restructuring charges included net \$91 million of employee termination costs, a \$20 million intangible asset impairment and \$16 million of other asset impairments and other exit costs. The company's results in 2014 included \$144 million of Gambro integration costs and a net benefit of \$13 million from adjustments for reserves that are no longer probable of being utilized. Refer to Note 7 in Item 8 for further information regarding these charges and related reserves.

- 2 The company's results in 2016 included a \$51 million asset impairment primarily related to developed technology.
- 3 The company's results in 2016, 2015 and 2014 included costs related to the Baxalta separation of \$54 million, \$111 million and \$11 million, respectively.
- 4 The company's results in 2016 and 2015 included a net benefit of \$18 million and \$28 million, respectively, primarily related to adjustments to the COLLEAGUE and SIGMA SPECTRUM infusion pump reserves. The company's results in 2014 included charges, net of reversals, of \$68 million primarily related to product remediation efforts for the SIGMA SPECTRUM infusion pump. Refer to Note 7 in Item 8 for further information regarding these charges and related reserves.
- 5 The company's results in 2014 included a charge of \$3 million to account for an additional year of the Branded Prescription Drug Fee in accordance with final regulations issued in the third quarter of 2014 by the Internal Revenue Service.
- 6 The company's results in 2016 included net realized gains of \$4.4 billion related to the debt-for-equity exchanges of the company's retained shares in Baxalta for certain indebtedness, the exchange of retained shares in Baxalta for Baxter shares and the contribution of retained shares in Baxalta to Baxter's U.S. pension fund.
- 7 The company's results in 2016 included a net debt extinguishment loss totaling \$149 million related to the March 2016 debt-for-equity exchange for certain company indebtedness and certain debt redemptions. The company's results in 2015 included a loss of \$130 million related to its July 2015 tender offer, for certain of its outstanding indebtedness. Refer to Note 8 in Item 8 for additional information.
- 8 The company's results in 2015 included income of \$52 million related to a litigation settlement in which Baxter was the beneficiary. The company's results in 2014 included income of \$1 million related to third-party recoveries and reversals of prior litigation reserves.
- 9 The company's results in 2015 included a benefit of \$20 million relating to the reversal of contingent consideration milestone liabilities. Refer to Note 5 in Item 8 for further information regarding the company's acquisitions and other arrangements.
- 10 The company's results in 2016 included a net after-tax benefit of \$10 million, related to the settlement of an income tax matter in the company's non-wholly owned joint venture in Turkey. This amount was comprised of \$19 million included in income tax expense offset by \$9 million in non-controlling interest recorded in other income.

Net Sales

years ended December 31 (in millions)	2016	2015	2014	Percent change			
				At actual currency rates		At constant currency rates	
				2016	2015	2016	2015
Renal	\$ 3,855	\$ 3,789	\$ 4,172	2%	(9)%	5%	1%
Hospital Products	6,308	6,179	6,547	2%	(6)%	4%	1%
Total net sales	\$ 10,163	\$ 9,968	\$ 10,719	2%	(7)%	4%	1%

years ended December 31 (in millions)	2016	2015	2014	Percent change			
				At actual currency rates		At constant currency rates	
				2016	2015	2016	2015
United States	\$ 4,259	\$ 4,001	\$ 3,999	6%	0%	6%	0%
International	5,904	5,967	6,720	(1)%	(11)%	3%	2%
Total net sales	\$ 10,163	\$ 9,968	\$ 10,719	2%	(7)%	4%	1%

Net sales for the year ended December 31, 2016 increased 2% at actual currency rates and 4% on a constant currency basis. Net sales for the year ended December 31, 2015 decreased 7% at actual currency rates but increased 1% on a constant currency basis.

Foreign currency unfavorably impacted net sales by two percentage points during 2016 compared to the prior year principally due to the strengthening of the U.S. dollar relative to the British Pound, Mexican Peso, Colombian Peso and the Chinese Yuan, as well as other currencies, partially offset by the weakening of the U.S. dollar relative to the Japanese Yen. Foreign currency unfavorably impacted net sales by eight percentage points during 2015 compared to 2014 principally due to the strengthening of the U.S. Dollar relative to the Euro, Australian Dollar, Colombian Peso, and certain other currencies.

The comparisons presented at constant currency rates reflect comparative local currency sales at the prior year's foreign exchange rates. This measure provides information on the change in net sales assuming that foreign currency exchange rates had not changed between the prior and the current period. The company believes that the non-GAAP measure of change in net sales at constant currency rates, when used in conjunction with the GAAP measure of change in net sales at actual currency rates, may provide a more complete understanding of the company's operations and can facilitate a fuller analysis of the company's results of operations, particularly in evaluating performance from one period to another.

Franchise Net Sales Reporting

The Renal segment includes sales of the company's peritoneal dialysis (PD), hemodialysis (HD) and continuous renal replacement therapies (CRRT) and additional dialysis services.

The Hospital Products segment includes four commercial franchises: Fluid Systems, Integrated Pharmacy Solutions, Surgical Care and Other.

- **Fluid Systems** includes sales of the company's IV therapies, infusion pumps and administration sets.
- **Integrated Pharmacy Solutions** includes sales of the company's premixed and oncology drug platforms, nutrition products and pharmacy compounding services.
- **Surgical Care** includes sales of the company's inhaled anesthesia and critical care products as well as biological products and medical devices used in surgical procedures for hemostasis, tissue sealing and adhesion prevention.
- **Other** includes sales primarily from the company's pharmaceutical partnering business.

The following is a summary of net sales by commercial franchise.

years ended December 31 (in millions)	2016	2015	2014	Percent change					
				At actual currency rates		At constant currency rates			
				2016	2015	2016	2015		
Total Renal net sales	\$ 3,855	\$ 3,789	\$ 4,172	2%	(9)%	5%	1%		
Fluid Systems	\$ 2,300	\$ 2,106	\$ 2,129	9%	(1)%	11%	6%		
Integrated Pharmacy Solutions	2,245	2,297	2,535	(2)%	(9)%	0%	(2)%		
Surgical Care	1,321	1,323	1,373	0%	(4)%	1%	3%		
Other	442	453	510	(2)%	(11)%	(2)%	(5)%		
Total Hospital Products net sales	\$ 6,308	\$ 6,179	\$ 6,547	2%	(6)%	4%	1%		

Net sales in the Renal segment increased 2% in 2016 from 2015 but decreased 9% in 2015 from 2014. These amounts include an unfavorable foreign currency impact of three percentage points in 2016 and 10 percentage points in 2015. Sales increased 5% on a constant currency basis in 2016, driven by continued global growth of patients, new product launches and improved pricing in the United States in our PD business. PD contributed approximately two percentage points to the growth rate during 2016. In addition, increased sales of the company's CRRT to treat acute kidney injury contributed two percentage points to the growth rate during 2016. Renal net sales are expected to be negatively impacted in 2017 by approximately \$50 million as compared to 2016 due to certain international strategic market exits. Sales increased 1% on a constant currency basis in 2015, driven by continued growth in the number of PD patients globally, which contributed approximately three percentage points, and strong demand in the acute business. These factors were partially offset by lower sales in the chronic in-center HD business, resulting from the decision to forgo certain lower margin sales opportunities, increased austerity measures in Western Europe, and competitive pressures for dialyzers.

Net sales in the Hospital Products segment increased 2% in 2016 and decreased 6% in 2015. Foreign currencies had an unfavorable impact of two percentage points in 2016 and seven percentage points in 2015. Hospital Products net sales are expected to be negatively impacted in 2017 by approximately \$50 million as compared to 2016 due to certain international strategic market exits. Excluding the impact of foreign currency, the principal drivers impacting 2016 net sales growth were the following:

- In the Fluid Systems franchise, sales increased 11% in 2016 on a constant currency basis driven by favorable pricing and volume for IV solutions and increased sales of the SIGMA SPECTRUM pump and the related sets in the United States. Sales increased 6% in 2015 on a constant currency basis driven by increased sales of infusion system products, which contributed approximately four percentage points, including the relaunch of the SIGMA Spectrum infusion pump in the United States, Puerto Rico, and Canada during 2015. Additionally, sales growth in 2015 was impacted by favorable pricing and volume in the United States for the company's IV therapies, which contributed approximately one percentage point.
- In the Integrated Pharmacy Solutions franchise, sales were flat in 2016 on a constant currency basis driven by global demand for the company's nutritional therapies, contributing approximately one percentage point during 2016 and demand for the company's international pharmacy compounding services which contributed approximately one percentage point during 2016. These increases were offset by lower U.S. sales of the company's pharmacy injectable products, as there were government PROTOPAM orders in 2015 that did not reoccur in 2016, contributing approximately one percentage point of decline. In addition, U.S. sales of cyclophosphamide, a generic oncology drug, were approximately \$210 million and \$270 million in 2016 and 2015, respectively, which contributed an approximate three percentage point of decline in 2016. The company expects a significant decline in U.S sales for cyclophosphamide in 2017 due to additional competition in the market. Sales decreased 2% in 2015 on a constant currency basis driven by decreased sales of cyclophosphamide, following a competitor entering the U.S. market in November 2014 which contributed approximately six percentage points. U.S. sales of cyclophosphamide during 2014 were approximately \$450 million. This decline was offset by an increase in revenues from pharmacy compounding services, increased demand for the company's nutritional therapies, and pharmacy injectable products, including approximately \$40 million in sales of PROTOPAM, which contributed two percentage points.
- In the Surgical Care franchise, sales increased 1% in 2016 on a constant currency basis driven by increased demand for international anesthesia products. Sales increased 3% in 2015 on a constant currency basis driven by strong global demand for the company's portfolio of anesthetics products, which contributed three percentage points, offset partially by lower sales of select non-core biosurgery products.
- In the Other franchise, sales decreased 2% in 2016 on a constant currency basis compared to 2015 driven by lower demand for products manufactured by Baxter on behalf of one of its pharmaceutical partners. The company also recognized revenue of \$39 million in 2016 as compared to \$37 million in 2015 related to the company's manufacturing and supply agreement with Baxalta. Sales decreased 5% in 2015 on a constant currency basis compared to 2014 driven by one of the company's pharmaceutical partners electing to self-manufacture products previously contract manufactured by Baxter. This loss of revenue was partially offset by increased sales related to the company's manufacturing and supply agreement with Baxalta.

Gross Margin and Expense Ratios

years ended December 31 (as a percent of net sales)	2016	2015	2014	Change	
				2016	2015
Gross margin	40.4%	41.6%	42.7%	(1.2 pts)	(1.1 pts)
Marketing and administrative expenses	27.0%	31.0%	30.9%	(4.0 pts)	0.1 pts

Gross Margin

The special items previously identified in the above had an unfavorable impact of 3.5, 1.7 and 2.1 percentage points on the gross margin ratio in 2016, 2015 and 2014, respectively. Refer to the Special Items section above for additional detail.

Excluding the impact of the special items, the gross margin ratio increased 0.6 percentage points in 2016. The gross margin ratio was impacted by a positive sales mix, improved pricing in select areas of the portfolio and favorable manufacturing performance, offset by reduced sales of cyclophosphamide in the United States and foreign exchange.

Excluding the impact of the special items, the gross margin ratio in 2015 was unfavorably impacted by decreased sales of cyclophosphamide in the United States, partially offset by an improved product mix in the Renal segment.

Marketing and Administrative Expenses

The special items identified above had an unfavorable impact of 2.3, 2.6 and 1.2 percentage points on the marketing and administrative expenses ratio in 2016, 2015 and 2014, respectively. Refer to the Special Items section above for additional detail.

Excluding the impact of the special items, the marketing and administrative expense ratio decreased 3.7 percentage points in 2016 and was impacted by reduced pension expense, as well as benefits from the company's actions taken to rebase its cost structure and continued focus on expense management, in addition to a reduction to expense under the transition services agreement with Baxalta.

Excluding the impact of the special items, the marketing and administrative expense ratio in 2015 was impacted by the benefits from the company's business optimization actions as the company resets its cost structure, reduced its discretionary spending, and benefited from certain costs charged to Baxalta under the transition services agreement. These benefits were partially offset by increased bad debt expense in emerging markets.

Pension and Other Postemployment Benefit Plan Expense

Expense related to the company's pension and other postemployment benefit plans decreased \$111 million in 2016 primarily due to a change in approach to estimating employer service and interest costs and a \$706 million voluntary, non-cash contribution to the US qualified plan using Retained Shares. Pension and other postemployment benefit plan expense increased \$8 million in 2015 primarily due to a decrease in the discount rate.

Business Optimization Items

Beginning in the second half of 2015, the company has initiated actions to transform the company's cost structure and enhance operational efficiency. These efforts include restructuring the organization, optimizing the manufacturing footprint, R&D operations and supply chain network, employing disciplined cost management, and centralizing and streamlining certain support functions. Through December 31, 2016 the company incurred cumulative pretax costs of \$407 million related to these actions. The costs consisted primarily of employee termination costs, implementation costs, and accelerated depreciation. The company expects to incur additional pretax costs of approximately \$390 million and capital expenditures of \$90 million related to these initiatives by the end of 2018. These costs will primarily include employee termination costs, implementation costs, and accelerated depreciation. The company expects that approximately 10 percent of the charges will be non-cash. These actions in the aggregate are expected to provide future annual pretax savings of approximately \$860 million. The savings from these actions will impact cost of sales, marketing and administrative expenses, and R&D expenses. The company estimates that actions taken through December 31, 2016 have resulted in approximately \$343 million of savings in 2016. Approximately 85 percent of the expected annual pretax savings are expected to be realized by the end of 2018, with the remainder by the end of 2020.

In addition to the programs above, the company recorded additional net business optimization charges of \$125 million in 2016. These charges primarily include employee termination costs, contract termination costs, asset impairments, and Gambro integration costs. Approximately 40% of these costs were non-cash. The company does not anticipate incurring any additional costs related to these programs in the future. The actions in the aggregate are expected to provide future annual pretax savings of approximately \$19 million. The savings from these actions will impact cost of sales, marketing and administrative expenses, and R&D expenses. The company estimates that the actions taken through December 31, 2016, have resulted in approximately \$8 million of savings in the current period. The remaining pretax savings are expected to be realized as the programs are substantially completed by the end of 2017.

Refer to Note 7 in Item 8 for additional information regarding the company's business optimization initiatives.

Research and Development

years ended December 31 (in millions)	2016	2015	2014	Percent change	
				2016	2015
Research and development expenses	\$ 647	\$ 603	\$ 610	7%	(1)%
as a percent of net sales	6.4%	6.0%	5.7%	0.4 pts	0.3 pts

The special items identified above had an unfavorable impact of \$80 million, \$14 million and \$2 million in 2016, 2015 and 2014, respectively.

Excluding the impact of special items, R&D expenses decreased 4% in 2016 primarily due to the optimization of the infrastructure, the exit of certain programs and the impact of foreign currency. R&D expenses in 2015 declined as the company worked to balance increased investments with efforts to optimize its overall R&D expenditures.

Net Interest Expense

Net interest expense was \$66 million, \$126 million and \$145 million in 2016, 2015 and 2014, respectively. The decrease in 2016 was principally driven by lower outstanding debt as a result of the first quarter 2016 debt-for-equity exchanges and reduced coupon rates resulting from the third quarter 2016 debt issuance, partially offset by lower capitalized interest compared to 2015. The decrease in 2015 was principally driven by the debt tender offer completed in July 2015 and the maturity of \$600 million of 4.625% senior unsecured notes in March 2015, partially offset by higher interest on the company's short term revolving credit facility, lower capitalized interest, and lower income from interest rate hedging activities. Refer to Note 3 in Item 8 for a summary of the components of net interest expense for 2016, 2015 and 2014.

Other (Income) Expense, Net

Other (income) expense, net was income of \$4.3 billion in 2016, income of \$105 million in 2015 and expense of \$21 million in 2014. Current year results included net realized gains of \$4.4 billion on the Retained Shares transactions, dividend income of \$16 million from the Retained Shares, and \$28 million of income related to foreign currency fluctuations principally relating to intercompany receivables, payables and monetary assets denominated in a foreign currency. These income items were partially offset by net debt extinguishment losses of \$153 million. The 2015 results were driven primarily by \$52 million of income related to a favorable litigation settlement, \$38 million income from the sale of available-for-sale securities, and \$113 million of income related to foreign currency fluctuations principally relating to intercompany receivables, payables and monetary assets denominated in a foreign currency, partially offset by a \$130 million loss on extinguishment of debt related to the July 2015 debt tender offer.

Segment EBITDA

The company uses income from continuing operations before net interest expense, income tax expense, depreciation and amortization expense (Segment EBITDA), on a segment basis to make resource allocation decisions and assess the ongoing performance of the company's business segments. Refer to Note 17 in Item 8 for additional details regarding the company's segments. The following is a summary of significant factors impacting the segments' financial results.

Renal

Segment EBITDA was \$703 million, \$566 million and \$666 million in 2016, 2015 and 2014, respectively. The increase in 2016 was primarily driven by increased sales and lower marketing and administrative expenses as cost savings were realized from the company's business optimization programs and continued focus on expense management. This was partially offset by unfavorable foreign currency fluctuations, incremental manufacturing and quality costs, and higher allocated R&D costs. EBITDA declined in 2015 due to unfavorable foreign currency fluctuations, the impairment of certain intangible assets and investments in certain quality programs and manufacturing capabilities, partially offset by efficiencies related to the integration of the Gambro business.

Hospital Products

Segment EBITDA was \$2.3 billion, \$2.0 billion and \$2.2 billion in 2016, 2015 and 2014, respectively. The increase in 2016 was driven by increased sales, favorable manufacturing performance, lower allocated R&D costs, and lower marketing and administrative expenses as cost savings were realized from the company's business optimization programs and continued focus on expense management. This growth was partially offset by unfavorable foreign currency fluctuations. EBITDA in 2015 was impacted primarily by unfavorable foreign currency fluctuations and decreased sales of the higher margin cyclophosphamide product. This was offset by a reduction in costs in 2014 related to manufacturing inefficiencies and quality costs.

Corporate and other

Certain income and expense amounts are not allocated to a segment. These amounts are detailed in the table in Note 17 in Item 8 and primarily include net interest expense, foreign exchange fluctuations (principally relating to intercompany receivables, payables and loans denominated in foreign currency), the majority of the foreign currency hedging activities, corporate headquarters costs, international global support costs, stock compensation expense, non-strategic investments and related income and expense, certain employee benefit plan costs as well as certain nonrecurring gains, losses, and other charges (such as business optimization and asset impairments).

Income Taxes

Effective Income Tax Rate

The effective income tax rate for continuing operations was (0.2%) in 2016, 8.2% in 2015 and 6.7% in 2014. The company anticipates that the effective income tax rate from continuing operations, calculated in accordance with GAAP, will be approximately 21.5% in 2017, excluding any impact from tax windfalls or deficiencies attributable to stock compensation exercises as well as additional audit developments or other special items.

The company's effective tax rate differs from the U.S. federal statutory rate each year due to certain operations that are subject to tax incentives, state and local taxes and foreign taxes that are different than the U.S. federal statutory rate. The average foreign effective tax rate on international pre-tax income from continuing operations was 25.2%, 27.5% and 24.1% for the years ended December 31, 2016, 2015 and 2014, respectively. The company's average foreign effective tax rate was lower than the U.S. federal statutory rate as a result of the impact of tax incentives in Puerto Rico, Switzerland and certain other tax jurisdictions outside of the United States, as well as foreign earnings in tax jurisdictions with lower statutory rates than the United States. Adversely impacting the foreign rate were foreign loss-generating operations that did not receive tax benefits due to the losses resulting in, or contributing to, the need for a valuation allowance. In addition, as discussed further below, the company's effective income tax rate can be impacted in each year by discrete factors or events. Refer to Note 15 in Item 8 for further information regarding the company's income taxes.

Factors impacting the company's effective tax rate in 2016 included tax-free net realized gains during the first and second quarter associated with the exchanges of Baxalta Retained Shares for the company's debt and the company's shares as well as tax-free net realized gains associated with the contribution of Baxalta Retained Shares to the company's pension plan. Additionally, the income tax rate for 2016 was favorably impacted by tax benefits from partially settling an IRS (2008-2013) income tax audit, settling a German (2008-2011) income tax audit, resolution of uncertain tax positions related to the company's Turkish joint venture, other transfer pricing matters, and partial settlement of interest expense deductions related to the company's acquisition of Gambro.

Factors adversely impacting the company's effective tax rate in 2015 included charges related to contingent tax matters primarily related to transfer pricing and the separation of Baxalta as well as the need to record valuation allowances for some loss making entities. Partially offsetting the foregoing adverse factors was a benefit from reaching a settlement of a Puerto Rico excise tax matter as well as the U.S. R&D credit resulting from the retroactive reinstatement in December 2015 of the Protecting Americans from Tax Hikes Act of 2015.

Factors impacting the company's effective tax rate in 2014 included the favorable settlement of a portion of the company's contingent tax matter related to operations in Turkey as well as a favorable shift of earnings from high to low tax jurisdictions compared to the prior period. Additionally, the effective tax rate was unfavorably impacted by increases in valuation allowances due to the tax benefit from losses that the company does not believe that it is more likely than not to realize and interest expense related to the company's unrecognized tax benefits.

The company earns a significant amount of its operating income outside the United States, of which a substantial portion is deemed to be indefinitely reinvested in foreign jurisdictions. As a result, most of the company's cash and short-term investments are held by foreign subsidiaries. The company does not intend or foresee a need to repatriate these funds and expects existing domestic cash and short-term investments and cash flows from operations to continue to be sufficient to fund domestic operating activities and cash commitments for investing and financing activities, such as regular quarterly dividends and capital expenditures, for at least the next 12 months and thereafter for the foreseeable future.

If the company should require more capital in the United States than is generated by its domestic operations (e.g., to fund significant discretionary activities such as business acquisitions and share repurchases), the company could elect to repatriate future earnings from foreign jurisdictions or raise capital in the United States through debt or equity issuances. These alternatives could result in higher effective tax rates, increased interest expense or dilution of the company's earnings. The company has borrowed domestically and continues to believe it has the ability to do so at reasonable interest rates.

Income from Continuing Operations and Earnings per Diluted Share

Income from continuing operations was \$5.0 billion in 2016, \$393 million in 2015 and \$457 million in 2014. Income from continuing operations per diluted share was \$9.01 in 2016, \$0.72 in 2015 and \$0.83 in 2014. The significant factors and events causing the net changes from 2015 to 2016 and 2014 to 2015 are discussed above. Additionally, income from continuing operations per diluted share was positively impacted by the repurchase of 17.8 million shares through cash repurchases and an equity-for-equity exchange of Retained Shares for outstanding Baxter shares in 2016, and the repurchase of eight million shares in 2014. Refer to Note 12 in Item 8 for further information regarding the company's stock repurchases.

(Loss) Income from Discontinued Operations

The following table is a summary of the operating results of Baxalta, which have been reflected as discontinued operations for the years ended December 31, 2016, 2015 and 2014.

Years ended December 31 (in millions)	2016	2015	2014
Net sales	\$ 148	\$ 2,895	\$ 6,523
(Loss) income from discontinued operations before income taxes	(10)	752	2,562
Gain on disposal of discontinued operations	19	—	—
Income tax expense	10	177	522
Total (loss) income from discontinued operations	\$ (1)	\$ 575	\$ 2,040

Refer to Note 2 in Item 8 for additional information regarding the separation of Baxalta.

LIQUIDITY AND CAPITAL RESOURCES

The company's cash flows reflect both continuing and discontinued operations.

Cash Flows from Operations — Continuing Operations

Operating cash flows from continuing operations totaled \$1.6 billion in 2016, \$1.3 billion in 2015 and \$1.2 billion in 2014. The cash flows from continuing operations in 2015 were impacted by the receipt of a \$52 million legal settlement as well as \$114 million of payments related to the July 2015 debt tender offer. See below for other factors impacting the increase in cash flows in 2016 and the decrease in cash flows in 2015.

Accounts Receivable

Cash flows relating to accounts receivable increased in 2016 and 2015 as the days sales outstanding decreased in 2016 and increased in 2015. Days sales outstanding were 54.5 days, 56.2 days and 54.2 days for 2016, 2015 and 2014, respectively. Days sales outstanding decreased in 2016 primarily driven by timing of collections in certain international markets. Days sales outstanding increased in 2015 driven by slower collections in the United States.

Inventories

Cash flows relating to inventory improved from an outflow of \$118 million in 2015 to an inflow of \$80 million in 2016, driven by continued working capital improvement initiatives which decreased days inventory on hand by ten days and increased turns significantly as compared to the prior year. The following is a summary of inventories at December 31, 2016 and 2015, as well as inventory turns by segment for 2016, 2015 and 2014. Inventory turns for the year are calculated as the annualized fourth quarter cost of sales divided by the year-end inventory balance.

(in millions, except inventory turn data)	Inventories		Inventory turns		
	2016	2015	2016	2015	2014
Renal	\$ 544	\$ 605	4.4	3.7	3.6
Hospital Products	885	955	3.9	3.6	3.7
Other	1	44	n/a	n/a	n/a
Total company	\$ 1,430	\$ 1,604	4.1	3.6	3.7

Other

The changes in accounts payable and accrued liabilities were an outflow of \$197 million in 2016, an inflow of \$236 million in 2015 and a \$37 million outflow in 2014. The change in 2016 was primarily driven by an increase in tax payments primarily due to a tax settlement as well as the timing of payments to suppliers. Refer to Note 15 in Item 8 for additional details regarding the tax settlement. The change in 2015 was primarily driven by the timing of payments to suppliers as well as the timing of tax payments.

Payments related to the execution of the SIGMA SPECTRUM infusion pump recalls as well as the company's business optimization initiatives were \$191 million in 2016, \$112 million in 2015 and \$124 million in 2014. Refer to Note 7 in Item 8 for further information regarding the SIGMA SPECTRUM infusion pump recalls and the business optimization initiatives.

Other balance sheet items had net cash inflows of \$115 million in 2016, and outflows of \$341 million and \$17 million in 2015 and 2014, respectively. In 2016, the company received a U.S. federal income tax refund of \$250 million as a result of carrying back to prior tax years the company's 2015 U.S. tax loss which arose, in significant part, from the funding of the company's defined benefit pension plan with a portion of the Baxalta retained stake. Additionally, cash contributions to the company's pension plans totaled \$66 million, \$157 million and \$74 million in 2016, 2015 and 2014, respectively. The changes during 2015 and 2014 were primarily driven by prepaid expenses and hedging activity.

Cash Flows from Investing Activities — Continuing Operations

Capital Expenditures

Capital expenditures relating to continuing operations totaled \$719 million in 2016, \$911 million in 2015 and \$925 million in 2014. The company's capital expenditures in 2016 and 2015 consisted of targeted investments in projects to support production of PD and IV solutions as well as expansion activities for dialyzers. The decline in capital expenditures over the three years was due to a reduction in spending related to ongoing projects and the completion of certain expansion activities.

Acquisitions and Investments

Net cash outflows related to acquisitions and investments were \$48 million in 2016, \$34 million in 2015 and \$95 million in 2014. The cash outflows in 2016 were driven primarily by the acquisition of the rights to vancomycin from Celerity. The cash outflows in 2015 were driven by the acquisition of the rights to cefazolin injection in GALAXY Container (2g/100mL) from Celerity. The cash outflows in 2014 were driven by the acquisitions of IC Net International Ltd and certain investments.

Refer to Note 5 in Item 8 for further information about the company's significant acquisitions and other arrangements.

Divestitures and Other Investing Activities

Net cash inflows relating to divestitures and other investing activities were \$37 million in 2016, \$84 million in 2015 and \$99 million in 2014. The decrease from 2015 to 2016 was primarily driven by the sale of certain investments and other assets in 2015. Cash inflows in 2014 primarily related to proceeds from the divestiture of Baxter's legacy CRRT business and the sale of certain investments.

Cash Flows from Financing Activities

Debt Issuances, Net of Payments of Obligations

Net cash outflows related to debt and other financing obligations totaled \$56 million in 2016 primarily related to a \$190 million repayment of the company's 0.95% senior unsecured notes that matured in June 2016, a \$130 million repayment of the company's 5.9% senior unsecured notes that matured in September 2016 and the redemption of approximately \$1 billion in aggregate principal amount of senior notes in September 2016, as well as the repayment of other short-term obligations. The company also had \$300 million of net repayments related to its commercial paper program. These cash outflows were partially offset by issuances of debt totaling \$1.6 billion of senior notes in August 2016. Refer to Note 8 in Item 8 for additional details regarding the debt transactions in 2016.

Net cash inflows related to debt and other financing obligations totaled \$2.4 billion in 2015 driven by approximately \$6.9 billion in issuances of debt primarily related to the Baxalta senior notes and borrowings under the company's revolving credit facilities. The company purchased an aggregate of approximately \$2.7 billion in principal amount of its notes in 2015. Additionally, the company repaid \$600 million of 4.625% senior unsecured notes that matured in March 2015 and borrowings under the company's Euro-denominated revolving credit facility. The company issued and redeemed commercial paper throughout the year, and had \$300 million outstanding as of December 31, 2015.

Net cash outflows related to debt and other financing obligations totaled \$113 million in 2014 driven by approximately \$1 billion in repayments, which included \$500 million of floating rate senior unsecured notes that matured in December 2014 as well as \$350 million of 4.0% senior unsecured notes that matured in March 2014. The company issued and redeemed commercial paper throughout the year, and had \$875 million outstanding as of December 31, 2014.

The company's debt instruments discussed above are unsecured and contain certain covenants, including restrictions relating to the company's issuance of secured debt.

Other Financing Activities

In connection with the separation, Baxter transferred \$2.1 billion of cash to Baxalta in 2015.

Cash dividend payments totaled \$0.3 billion in 2016, \$0.9 billion in 2015 and \$1.1 billion in 2014. The decrease in cash dividend payments in 2016 and 2015 was primarily due to the decrease of the quarterly dividend after the separation of Baxalta, from \$0.52 per share for quarterly dividends beginning after May 2014 to \$0.115 per quarterly dividends beginning after July 2015. The Baxter cash dividend was increased to \$0.13 per share for quarterly dividends beginning after May 2016.

Proceeds and realized excess tax benefits from stock issued under employee benefit plans totaled \$325 million, \$200 million and \$369 million in 2016, 2015 and 2014, respectively. Total realized excess tax benefits, which were \$39 million in 2016, \$7 million in 2015 and \$24 million in 2014, are presented in the consolidated statements of cash flows as an inflow in the financing section and an outflow in the operating section.

In 2016, the company executed an equity-for-equity exchange of Retained Shares for 11.5 million outstanding Baxter shares. As authorized by the Board of Directors, the company repurchases its stock depending on the company's cash flows, net debt level and market conditions. In July 2012, the Board of Directors authorized the repurchase of up to \$2.0 billion of the company's common stock. The Board of Directors increased this authority by an additional \$1.5 billion in November 2016. The company paid \$287 million in cash to repurchase approximately 6.3 million shares pursuant to this authority in 2016 and had \$1.7 billion remaining available under this authorization as of December 31, 2016. The company did not repurchase any stock during 2015.

Credit Facilities, Access to Capital and Credit Ratings

Credit Facilities

As of December 31, 2016, the company's U.S. dollar-denominated revolving credit facility and Euro-denominated senior revolving credit facility had a maximum capacity of \$1.5 billion and approximately €200 million, respectively. As of December 31, 2016, the company was in compliance with the financial covenants in these agreements. The non-performance of any financial institution supporting either of the credit facilities would reduce the maximum capacity of these facilities by each institution's respective commitment.

Effective July 1, 2015, the company terminated its \$1.5 billion U.S. dollar-denominated revolving credit facility and €300 million Euro-denominated revolving credit facility, which were set to mature in December 2015, in connection with the separation and distribution. In connection with such terminations, the company entered into credit agreements providing for a senior U.S. dollar-denominated revolving credit facility in an aggregate principal amount of up to \$1.5 billion maturing in 2020, as well as a Euro-denominated senior revolving credit facility in an aggregate principal amount of up to €200 million maturing in 2020. The company may, at its option, seek to increase the aggregate commitment under the new U.S. facility by up to an additional \$750 million. The new facilities enable the company to borrow funds on an unsecured basis at variable interest rates, and contain various covenants, including a maximum net leverage ratio and maximum interest coverage ratio.

Additionally, as of December 31, 2015, the company had a third revolving credit facility, with a maximum capacity of \$1.8 billion, which was scheduled to mature on the earlier of March 28, 2016 and the date on which commitments under the facility have been reduced to zero or terminated in whole pursuant to the terms thereof. On January 27, 2016, Baxter exchanged all 37.6 million shares of Baxalta common stock for the \$1.45 billion aggregate principal amount outstanding under this revolving credit facility. This exchange extinguished all outstanding indebtedness under the facility, at which time the facility was terminated. In connection with the exchange of Baxalta common stock, Baxter recognized \$1.2 billion of realized gains in 2016.

The company also maintains other credit arrangements, as described in Note 8 in Item 8.

Access to Capital

The company intends to fund short-term and long-term obligations as they mature through cash on hand, future cash flows from operations or by issuing additional debt. The company had \$2.8 billion of cash and equivalents as of December 31, 2016, with adequate cash available to meet operating requirements in each jurisdiction in which the company operates. The company invests its excess cash in certificates of deposit and money market funds, and diversifies the concentration of cash among different financial institutions.

The company's ability to generate cash flows from operations, issue debt or enter into other financing arrangements on acceptable terms could be adversely affected if there is a material decline in the demand for the company's products or in the solvency of its

customers or suppliers, deterioration in the company's key financial ratios or credit ratings or other significantly unfavorable changes in conditions. However, the company believes it has sufficient financial flexibility to issue debt, enter into other financing arrangements and attract long-term capital on acceptable terms to support the company's growth objectives.

The company continues to do business with foreign governments in certain countries, including Greece, Spain, Portugal and Italy, which have experienced deterioration in credit and economic conditions. As of December 31, 2016, the company's net accounts receivable from the public sector in Greece, Spain, Portugal and Italy totaled \$137 million.

While these economic conditions have not significantly impacted the company's ability to collect receivables, global economic conditions and liquidity issues in certain countries have resulted, and may continue to result, in delays in the collection of receivables and credit losses.

Credit Ratings

The company's credit ratings at December 31, 2016 were as follows:

	Standard & Poor's	Fitch	Moody's
Ratings			
Senior debt	A-	BBB+	Baa2
Short-term debt	A2	F2	P2
Outlook	Stable	Stable	Stable

Contractual Obligations

As of December 31, 2016, the company had contractual obligations, excluding accounts payable and accrued liabilities, payable or maturing in the following periods.

(in millions)	Total	Less than one year	One to three years	Three to five years	More than five years
Long-term debt and capital lease obligations, including current maturities	\$ 2,794	\$ 3	\$ 6	\$ 700	\$ 2,085
Interest on short- and long-term debt and capital lease obligations ¹	1,496	84	169	163	1,080
Operating leases	663	129	193	125	216
Other long-term liabilities ²	443	—	114	43	286
Purchase obligations ³	450	275	153	20	2
Contractual obligations⁴	\$ 5,846	\$ 491	\$ 635	\$ 1,051	\$ 3,669

¹ Interest payments on debt and capital lease obligations are calculated for future periods using interest rates in effect at the end of 2016. Projected interest payments include the related effects of interest rate swap agreements. Certain of these projected interest payments may differ in the future based on changes in floating interest rates, foreign currency fluctuations or other factors or events. The projected interest payments only pertain to obligations and agreements outstanding at December 31, 2016. Refer to Note 8 and Note 9 in Item 8 for further discussion regarding the company's debt instruments and related interest rate agreements outstanding at December 31, 2016.

² The primary components of other long-term liabilities in the company's consolidated balance sheet are liabilities relating to pension and other postemployment benefit plans, litigation, and foreign currency hedges. The company projected the timing of the future cash payments based on contractual maturity dates (where applicable) and estimates of the timing of payments (for liabilities with no contractual maturity dates). The actual timing of payments could differ from the estimates.

The company contributed \$772 million, \$157 million and \$74 million to its defined benefit pension plans in 2016, 2015 and 2014, respectively. The timing of funding in the future is uncertain and is dependent on future movements in interest rates and investment returns, changes in laws and regulations, and other variables. Therefore, the table above excludes pension plan cash outflows. The pension plan balance included in other long-term liabilities (and excluded from the table above) totaled \$1.5 billion at December 31, 2016.

³ Includes the company's significant contractual unconditional purchase obligations. For cancelable agreements, any penalty due upon cancellation is included. These commitments do not exceed the company's projected requirements and are in the normal course of business. Examples include firm commitments for raw material purchases, utility agreements and service contracts.

- 4 Excludes contingent liabilities and uncertain tax positions. These amounts have been excluded from the contractual obligations above due to uncertainty regarding the timing and amount of future payments. Refer to Notes 10 and 11 in Item 8 for additional information regarding these commitments.

Off-Balance Sheet Arrangements

Baxter periodically enters into off-balance sheet arrangements. Certain contingencies arise in the normal course of business, and are not recorded in the consolidated balance sheet in accordance with GAAP (such as contingent joint development and commercialization arrangement payments). Also, upon resolution of uncertainties, the company may incur charges in excess of presently established liabilities for certain matters (such as contractual indemnifications). For a discussion of the company's significant off-balance sheet arrangements, refer to Note 10 in Item 8 for information regarding receivable securitizations, Note 11 in Item 8 regarding joint development and commercialization arrangements and indemnifications, and Note 16 in Item 8 regarding legal contingencies.

FINANCIAL INSTRUMENT MARKET RISK

The company operates on a global basis and is exposed to the risk that its earnings, cash flows and equity could be adversely impacted by fluctuations in foreign exchange and interest rates. The company's hedging policy attempts to manage these risks to an acceptable level based on the company's judgment of the appropriate trade-off between risk, opportunity and costs. Refer to Note 9 and Note 10 in Item 8 for further information regarding the company's financial instruments and hedging strategies.

Currency Risk

The company is primarily exposed to foreign exchange risk with respect to revenues generated outside of the United States denominated in the Euro, British Pound, Chinese Yuan, Korean Won, Australian Dollar, Canadian Dollar, Japanese Yen, Colombian Peso, Brazilian Real, Swedish Krona, Mexican Peso, and New Zealand Dollar. The company manages its foreign currency exposures on a consolidated basis, which allows the company to net exposures and take advantage of any natural offsets. In addition, the company uses derivative and nonderivative financial instruments to further reduce the net exposure to foreign exchange. Gains and losses on the hedging instruments offset losses and gains on the hedged transactions and reduce the earnings and stockholders' equity volatility relating to foreign exchange. Financial market and currency volatility may limit the company's ability to cost-effectively hedge these exposures.

The company may use options, forwards and cross-currency swaps to hedge the foreign exchange risk to earnings relating to forecasted transactions denominated in foreign currencies and recognized assets and liabilities. The maximum term over which the company has cash flow hedge contracts in place related to forecasted transactions at December 31, 2016 is 12 months. The company also enters into derivative instruments to hedge certain intercompany and third-party receivables and payables and debt denominated in foreign currencies.

Currency restrictions enacted in Venezuela require Baxter to obtain approval from the Venezuelan government to exchange Venezuelan bolivars for U.S. dollars and require such exchange to be made at the official exchange rate established by the government. In the first quarter of 2016, the Venezuelan government moved from the three-tier exchange rate system to a two-tiered exchange rate system and the official rate for food and medicine imports was adjusted from 6.3 to 10 bolivars per U.S. dollar. This devaluation resulted in a charge of \$9 million during the first quarter of 2016. As of December 31, 2016, the company's exposure to Venezuelan operations was approximately \$12 million.

As part of its risk-management program, the company performs sensitivity analyses to assess potential changes in the fair value of its foreign exchange instruments relating to hypothetical and reasonably possible near-term movements in foreign exchange rates.

A sensitivity analysis of changes in the fair value of foreign exchange option and forward contracts outstanding at December 31, 2016, while not predictive in nature, indicated that if the U.S. Dollar uniformly weakened by 10% against all currencies, on a net-of-tax basis, the net asset balance of \$13 million with respect to those contracts would decrease by \$34 million, resulting in a net liability position. A similar analysis performed with respect to option and forward contracts outstanding at December 31, 2015 indicated that, on a net-of-tax basis, the net asset balance of \$5 million would decrease by \$17 million.

The sensitivity analysis model recalculates the fair value of the foreign exchange option and forward contracts outstanding at December 31, 2016 by replacing the actual exchange rates at December 31, 2016 with exchange rates that are 10% weaker compared to the actual exchange rates for each applicable currency. All other factors are held constant. These sensitivity analyses disregard the possibility that currency exchange rates can move in opposite directions and that gains from one currency may or may not be offset by

losses from another currency. The analyses also disregard the offsetting change in value of the underlying hedged transactions and balances.

Interest Rate and Other Risks

The company is also exposed to the risk that its earnings and cash flows could be adversely impacted by fluctuations in interest rates. The company's policy is to manage interest costs using a mix of fixed- and floating-rate debt that the company believes is appropriate. To manage this mix in a cost-efficient manner, the company periodically enters into interest rate swaps in which the company agrees to exchange, at specified intervals, the difference between fixed and floating interest amounts calculated by reference to an agreed-upon notional amount. The company also periodically uses forward-starting interest rate swaps and treasury rate locks to hedge the risk to earnings associated with fluctuations in interest rates relating to anticipated issuances of term debt.

As part of its risk management program, the company performs sensitivity analyses to assess potential gains and losses in earnings relating to hypothetical movements in interest rates. A 19 basis-point increase in interest rates (approximately 10% of the company's weighted-average interest rate during 2016) affecting the company's financial instruments, including debt obligations and related derivatives, would have an immaterial effect on the company's 2016, 2015 and 2014 earnings and on the fair value of the company's fixed-rate debt as of the end of each fiscal year.

With respect to the company's investments in affiliates, the company believes any reasonably possible near-term losses in earnings, cash flows and fair values would not be material to the company's consolidated financial position.

CHANGES IN ACCOUNTING STANDARDS

Refer to Note 1 in Item 8 for information on changes in accounting standards.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in accordance with GAAP requires the company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. A summary of the company's significant accounting policies is included in Note 1 in Item 8. Certain of the company's accounting policies are considered critical because these policies are the most important to the depiction of the company's financial statements and require significant, difficult or complex judgments by the company, often requiring the use of estimates about the effects of matters that are inherently uncertain. Actual results that differ from the company's estimates could have an unfavorable effect on the company's results of operations and financial position. The following is a summary of accounting policies that the company considers critical to the consolidated financial statements.

Revenue Recognition and Related Provisions and Allowances

The company's policy is to recognize revenues from product sales and services when earned. Specifically, revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred (or services have been rendered), the price is fixed or determinable, and collectability is reasonably assured. For product sales, revenue is not recognized until title and risk of loss have transferred to the customer. The shipping terms for the majority of the company's revenue arrangements are FOB destination. The company sometimes enters into arrangements in which it commits to delivering multiple products or services to its customers. In these cases, total arrangement consideration is allocated to the deliverables based on their relative selling prices. Then the allocated consideration is recognized as revenue in accordance with the principles described above. Selling prices are determined by applying a selling price hierarchy. Selling prices are determined using vendor specific objective evidence (VSOE), if it exists. Otherwise, selling prices are determined using third party evidence (TPE). If neither VSOE nor TPE is available, the company uses its best estimate of selling prices.

Provisions for rebates, chargebacks to wholesalers and distributors, returns, and discounts (collectively, "sales deductions") are provided for at the time the related sales are recorded, and are reflected as a reduction of sales. The sales deductions are based primarily on estimates of the amounts earned or that will be claimed on such sales.

The company periodically and systematically evaluates the collectability of accounts receivable and determines the appropriate reserve for doubtful accounts. In determining the amount of the reserve, the company considers historical credit losses, the past-due status of receivables, payment history and other customer-specific information, and any other relevant factors or considerations.

The company also provides for the estimated costs that may be incurred under its warranty programs when the cost is both probable and reasonably estimable, which is at the time the related revenue is recognized. The cost is determined based on actual company experience for the same or similar products as well as other relevant information. Estimates of future costs under the company's

warranty programs could change based on developments in the future. The company is not able to estimate the probability or amount of any future developments that could impact the reserves, but believes presently established reserves are adequate.

Pension and Other Postemployment Benefit (OPEB) Plans

The company provides pension and other postemployment benefits to certain of its employees. These employee benefit expenses are reported in the same line items in the consolidated income statement as the applicable employee's compensation expense. The valuation of the funded status and net periodic benefit cost for the plans is calculated using actuarial assumptions. These assumptions are reviewed annually, and revised if appropriate. The significant assumptions include the following:

- interest rates used to discount pension and OPEB plan liabilities;
- the long-term rate of return on pension plan assets;
- rates of increases in employee compensation (used in estimating liabilities);
- anticipated future healthcare trend rates (used in estimating the OPEB plan liability); and
- other assumptions involving demographic factors such as retirement, mortality and turnover (used in estimating liabilities).

Selecting assumptions involves an analysis of both short-term and long-term historical trends and known economic and market conditions at the time of the valuation (also called the measurement date). The use of different assumptions would result in different measures of the funded status and net cost. Actual results in the future could differ from expected results. The company is not able to estimate the probability of actual results differing from expected results, but believes its assumptions are appropriate.

The company's key assumptions are listed in Note 13 in Item 8. The most critical assumptions relate to the plans covering U.S. and Puerto Rico employees, because these plans are the most significant to the company's consolidated financial statements.

Discount Rate Assumption

Effective for the December 31, 2016 measurement date, the company utilized discount rates of 4.09% and 3.89% to measure its benefit obligations for the U.S. and Puerto Rico pension plans and OPEB plan, respectively. The company used a broad population of approximately 200 Aa-rated corporate bonds as of December 31, 2016 to determine the discount rate assumption. All bonds were denominated in U.S. Dollars, with a minimum amount outstanding of \$50 million. This population of bonds was narrowed from a broader universe of approximately 700 Moody's Aa rated, non-callable (or callable with make-whole provisions) bonds by eliminating the top 10th percentile and bottom 40th percentile to adjust for any pricing anomalies and to represent the bonds Baxter would most likely select if it were to actually annuitize its pension and OPEB plan liabilities. This portfolio of bonds was used to generate a yield curve and associated spot rate curve to discount the projected benefit payments for the U.S. and Puerto Rico plans. The discount rate is the single level rate that produces the same result as the spot rate curve.

For plans in Canada, Japan, the United Kingdom and the Eurozone, the company uses a method essentially the same as that described for the U.S. and Puerto Rico plans. For the company's other international plans, the discount rate is generally determined by reviewing country- and region-specific government and corporate bond interest rates.

To understand the impact of changes in discount rates on pension and OPEB plan cost, the company performs a sensitivity analysis. Holding all other assumptions constant, for each 50 basis point (i.e., one-half of one percent) increase in the discount rate, global pre-tax pension and OPEB plan cost would decrease by approximately \$36 million, and for each 50 basis point decrease in the discount rate, global pre-tax pension and OPEB plan cost would increase by approximately \$40 million.

Effective January 1, 2016, the company changed its approach used to calculate the service and interest components of net periodic benefit cost. Previously, the company calculated the service and interest components utilizing a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation. The company elected an alternative approach that utilizes a full yield curve approach in the estimation of these components by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to their underlying projected cash flows. The company believes this approach provides a more precise measurement of service and interest costs by improving the correlation between projected benefit cash flows and their corresponding spot rates. The company accounted for this change prospectively as a change in estimate. As a result of this change, the service cost and interest cost for these plans was reduced by \$40 million in 2016 compared to the previous method.

Return on Plan Assets Assumption

In measuring the net periodic cost for 2016, the company used a long-term expected rate of return of 7.00% for the pension plans covering U.S. and Puerto Rico employees. This assumption will decrease to 6.50% in 2017. This assumption is not applicable to the company's OPEB plan because it is not funded.

The company establishes the long-term asset return assumption based on a review of historical compound average asset returns, both company-specific and relating to the broad market (based on the company's asset allocation), as well as an analysis of current market and economic information and future expectations. The current asset return assumption is supported by historical market experience for both the company's actual and targeted asset allocation. In calculating net pension cost, the expected return on assets is applied to a calculated value of plan assets, which recognizes changes in the fair value of plan assets in a systematic manner over five years. The difference between this expected return and the actual return on plan assets is a component of the total net unrecognized gain or loss and is subject to amortization in the future.

To understand the impact of changes in the expected asset return assumption on net cost, the company performs a sensitivity analysis. Holding all other assumptions constant, for each 50 basis point increase (decrease) in the asset return assumption, global pre-tax pension plan cost would decrease (increase) by approximately \$22 million.

Other Assumptions

For the U.S. and Puerto Rico plans, beginning with the December 31, 2014 measurement date, the company used the RP 2014 combined mortality table adjusted to reflect Baxter specific past experience with improvements projected using the generational BB-2D projection scale adjusted to a long term improvement of 0.8% in 2027. For all other pension plans, the company utilized country- and region-specific mortality tables to calculate the plans' benefit obligations. The company periodically analyzes and updates its assumptions concerning demographic factors such as retirement, mortality and turnover, considering historical experience as well as anticipated future trends.

The assumptions relating to employee compensation increases and future healthcare costs are based on historical experience, market trends, and anticipated future company actions. Refer to Note 13 in Item 8 for information regarding the sensitivity of the OPEB plan obligation and the total of the service and interest cost components of OPEB plan cost to potential changes in future healthcare trend rates.

Legal Contingencies

The company is involved in product liability, patent, commercial, regulatory and other legal proceedings that arise in the normal course of business. Refer to Note 16 in Item 8 for further information. The company records a liability when a loss is considered probable and the amount can be reasonably estimated. If the reasonable estimate of a probable loss is a range, and no amount within the range is a better estimate, the minimum amount in the range is accrued. If a loss is not probable or a probable loss cannot be reasonably estimated, no liability is recorded. The company has established reserves for certain of its legal matters. At December 31, 2016, total legal liabilities were \$53 million.

The company's loss estimates are generally developed in consultation with outside counsel and are based on analyses of potential outcomes. With respect to the recording of any insurance recoveries, after completing the assessment and accounting for the company's legal contingencies, the company separately and independently analyzes its insurance coverage and records any insurance recoveries that are probable of occurring at the gross amount that is expected to be collected. In performing the assessment, the company reviews available information, including historical company-specific and market collection experience for similar claims, current facts and circumstances pertaining to the particular insurance claim, the financial viability of the applicable insurance company or companies, and other relevant information.

While the liability of the company in connection with certain claims cannot be estimated and although the resolution in any reporting period of one or more of these matters could have a significant impact on the company's results of operations and cash flows for that period, the outcome of these legal proceedings is not expected to have a material adverse effect on the company's consolidated financial position. While the company believes it has valid defenses in these matters, litigation is inherently uncertain, excessive verdicts do occur, and the company may in the future incur material judgments or enter into material settlements of claims.

Deferred Tax Asset Valuation Allowances and Reserves for Uncertain Tax Positions

The company maintains valuation allowances unless it is more likely than not that all or a portion of the deferred tax asset will be realized. Changes in valuation allowances are included in the company's tax provision in the period of change. In determining whether a valuation allowance is warranted, the company evaluates factors such as prior earnings history, expected future earnings, carryback

and carryforward periods, and tax strategies that could potentially enhance the likelihood of realization of a deferred tax asset. The realizability assessments made at a given balance sheet date are subject to change in the future, particularly if earnings of a subsidiary are significantly higher or lower than expected, or if the company takes operational or tax planning actions that could impact the future taxable earnings of a subsidiary.

In the normal course of business, the company is audited by federal, state and foreign tax authorities, and is periodically challenged regarding the amount of taxes due. These challenges relate to the timing and amount of deductions and the allocation of income among various tax jurisdictions. The company believes its tax positions comply with applicable tax law and the company intends to defend its positions. In evaluating the exposure associated with various tax filing positions, the company records reserves for uncertain tax positions in accordance with GAAP, based on the technical support for the positions, the company's past audit experience with similar situations, and potential interest and penalties related to the matters. The company's results of operations and effective tax rate in a given period could be impacted if, upon final resolution with taxing authorities, the company prevailed in positions for which reserves have been established, or was required to pay amounts in excess of established reserves.

Valuation of Intangible Assets, Including IPR&D

The company acquires intangible assets and records them at fair value. Valuations are generally completed for business acquisitions using a discounted cash flow analysis, incorporating the stage of completion and consideration of market participant assumptions. The most significant estimates and assumptions inherent in a discounted cash flow analysis include the amount and timing of projected future cash flows, the discount rate used to measure the risks inherent in the future cash flows, the assessment of the asset's life cycle, and the competitive and other trends impacting the asset, including consideration of technical, legal, regulatory, economic and other factors. Each of these factors and assumptions can significantly affect the value of the intangible asset.

Acquired in-process R&D (IPR&D) is the value assigned to acquired technology or products under development which have not received regulatory approval and have no alternative future use. Acquired IPR&D included in a business combination is capitalized as an indefinite-lived intangible asset. Development costs incurred after the acquisition are expensed as incurred. Upon receipt of regulatory approval of the related technology or product, the indefinite-lived intangible asset is then accounted for as a finite-lived intangible asset and amortized on a straight-line basis over its estimated useful life. If the R&D project is abandoned, the indefinite-lived asset is charged to expense.

R&D acquired in transactions that are not business combinations is expensed immediately. For such transactions, payments made to third parties on or after regulatory approval are capitalized and amortized over the remaining useful life of the related asset, and are classified as intangible assets.

Due to the inherent uncertainty associated with R&D projects, there is no assurance that actual results will not differ materially from the underlying assumptions used to prepare discounted cash flow analyses, nor that the R&D project will result in a successful commercial product.

Impairment of Assets

Goodwill and other indefinite-lived intangible assets are subject to impairment reviews annually, and whenever indicators of impairment exist. The company assesses goodwill for impairment based on its reporting units, which are the same as its operating segments, Renal and Hospital Products. As of December 31, 2016, the date of the company's annual impairment review, the fair value of the company's reporting units were in excess of their carrying values. The company performs a qualitative assessment of other indefinite-lived intangible assets, including IPR&D, at least annually. If the intangible asset is determined to be more likely than not impaired as a result of the assessment, the company completes a quantitative impairment test. Intangible assets with definite lives and other long-lived assets (such as fixed assets) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Refer to Note 1 in Item 8 for further information. The company's impairment reviews are based on an estimated future cash flow approach that requires significant judgment with respect to future volume, revenue and expense growth rates, changes in working capital use, foreign currency exchange rates, the selection of an appropriate discount rate, asset groupings, and other assumptions and estimates. The estimates and assumptions used are consistent with the company's business plans and when applicable, market participant's views of the company and similar companies. The use of alternative estimates and assumptions could increase or decrease the estimated fair values of the assets, and potentially result in different impacts to the company's results of operations. Actual results may differ from the company's estimates.

Stock-Based Compensation Plans

Stock-based compensation cost is estimated at the grant date based on the fair value of the award, and the cost is recognized as expense ratably over the substantive vesting period. The company's stock compensation costs primarily relate to awards of stock

options, restricted stock units (RSUs), and performance share units (PSUs). The company uses the Black-Scholes model for estimating the fair value of stock options, and significant assumptions include long-term projections regarding stock price volatility, employee exercise, post-vesting termination and pre-vesting forfeiture behaviors, interest rates and dividend yields. The company's expected volatility assumption is based on a weighted-average of the historical volatility of Baxter's stock and the implied volatility from traded options on Baxter's stock, with historical volatility more heavily weighted. The expected life assumption is primarily based on the vesting terms of the stock option, historical employee exercise patterns and employee post-vesting termination behavior. The risk-free interest rate for the expected life of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The dividend yield reflects historical experience as well as future expectations over the expected life of the option.

The fair value of RSUs is equal to the quoted price of the company's common stock on the date of grant.

PSUs granted in 2016 are based either on adjusted operating margin, return on invested capital (ROIC), or are based upon Baxter stock performance relative to the company's peer group. The vesting condition for such PSUs based on adjusted operating margin or ROIC have annual performance targets set at the beginning of the year for each tranche of the award during the three-year service period. The holder of the adjusted operating margin or ROIC PSUs is entitled to receive a number of shares of common stock equal to a percentage, ranging from 0% to 200%, of the adjusted operating margin or ROIC PSUs granted, depending on the actual results compared to the annual performance targets as such results may be adjusted for individual performance. Compensation cost for the adjusted operating margin or ROIC PSUs is measured based on the fair value of the awards on the date that the specific vesting terms for each tranche of the award are established. The fair value of the awards is determined based on the quoted price of the company's stock on the grant date for each tranche of the award. The compensation cost for adjusted operating margin or ROIC PSUs is adjusted at each reporting date to reflect the estimated probability of achieving the adjusted operating margin or ROIC vesting condition. The probability of achieving the operating margin vesting condition is such that the compensation cost has been adjusted to reflect 200% attainment as of the year ended December 31, 2016. The vesting condition for PSUs based on Baxter stock performance relative to the company's peer group is fair valued using a Monte Carlo model. A Monte Carlo model uses stock price volatility and other variables to estimate the probability of satisfying the market conditions and the resulting fair value of the award. Refer to Note 12 in Item 8 for additional information.

CERTAIN REGULATORY MATTERS

In January 2014, the company received a Warning Letter from FDA primarily directed to quality systems for the company's Round Lake, Illinois, facility, particularly in that facility's capacity as a specification developer for certain of the company's medical devices. This Warning Letter was lifted in February 2017.

The company received a Warning Letter in December 2013 that included observations related to the company's ambulatory infuser business in Irvine, California, which previously had been subject to agency action.

In June 2013, the company received a Warning Letter from FDA regarding operations and processes at its North Cove, North Carolina and Jayuya, Puerto Rico facilities and in November 2015 attended a Regulatory Meeting with FDA concerning the Jayuya facility. The Warning Letter addresses observations related to Current Good Manufacturing Practice (CGMP) violations at the two facilities.

In June 2010, the company received a Warning Letter from FDA in connection with an inspection of its McGaw Park, Illinois facility, which previously supported the Renal franchise. The company's Round Lake facility now provides the related capacity for the Renal franchise. The Warning Letter pertains to the processes by which the company analyzes and addresses product complaints through corrective and preventative action, and reports relevant information to FDA. This Warning Letter was lifted in February 2017.

On October 9, 2014, the company had a Regulatory Meeting with FDA to discuss the Warning Letters described above. At the meeting, the company agreed to work closely with FDA to provide regular updates on its progress to meet all requirements and resolve all matters identified in the Warning Letters described above.

Refer to Item 1A of this Annual Report on Form 10-K for additional discussion of regulatory matters and how they may impact the company.

FORWARD-LOOKING INFORMATION

This annual report includes forward-looking statements. Use of the words "may," "will," "would," "could," "should," "believes," "estimates," "projects," "potential," "expects," "plans," "seeks," "intends," "evaluates," "pursues," "anticipates," "continues," "designs," "impacts," "affects," "forecasts," "target," "outlook," "initiative," "objective," "designed," "priorities," "goal," or the negative of those words or other similar expressions is intended to identify forward-looking statements that represent our current judgment about possible future events. These forward-looking statements may include statements with respect to accounting estimates

and assumptions, litigation-related matters including outcomes, future regulatory filings and the company's R&D pipeline, strategic objectives, credit exposure to foreign governments, potential developments with respect to credit ratings, investment of foreign earnings, estimates of liabilities including those related to uncertain tax positions, contingent payments, future pension plan contributions, costs, discount rates and rates of return, the company's exposure to financial market volatility and foreign currency and interest rate risks, potential tax liability associated with the separation of the company's biopharmaceuticals and medical products businesses (including the 2016 disposition of the company's retained stake in Baxalta), the impact of competition, future sales growth, business development activities, business optimization initiatives, cost saving initiatives, future capital and R&D expenditures, future debt issuances, manufacturing expansion, the sufficiency of the company's facilities and financial flexibility, the adequacy of credit facilities, tax provisions and reserves, the effective tax rate and all other statements that do not relate to historical facts.

These forward-looking statements are based on certain assumptions and analyses made in light of the company's experience and perception of historical trends, current conditions, and expected future developments as well as other factors that the company believes are appropriate in the circumstances. While these statements represent the company's current judgment on what the future may hold, and the company believes these judgments are reasonable, these statements are not guarantees of any events or financial results. Whether actual future results and developments will conform to expectations and predictions is subject to a number of risks and uncertainties, including the following factors, many of which are beyond our control:

- failure to achieve our long-term financial improvement goals;
- demand for and market acceptance risks for and competitive pressures related to new and existing products, and the impact of those products on quality and patient safety concerns;
- product development risks, including satisfactory clinical performance, the ability to manufacture at appropriate scale, and the general unpredictability associated with the product development cycle;
- product quality or patient safety issues, leading to product recalls, withdrawals, launch delays, sanctions, seizures, litigation, or declining sales;
- future actions of FDA, EMA or any other regulatory body or government authority that could delay, limit or suspend product development, manufacturing or sale or result in seizures, recalls, injunctions, monetary sanctions or criminal or civil liabilities;
- failures with respect to the company's compliance programs;
- future actions of third parties, including third-party payers, as healthcare reform and other similar measures are implemented, modified or repealed in the United States and globally;
- the impact of ongoing U.S. healthcare reform and other similar actions undertaken by foreign governments with respect to pricing, reimbursement, taxation and rebate policies;
- additional legislation, regulation and other governmental pressures in the United States or globally, which may affect pricing, reimbursement, taxation and rebate policies of government agencies and private payers or other elements of the company's business;
- the impact of competitive products and pricing, including generic competition, drug reimportation and disruptive technologies;
- global regulatory, trade and tax policies;
- the company's ability to identify business development and growth opportunities and to successfully execute on business development strategies;
- the company's ability to finance and develop new products or enhancements, on commercially acceptable terms or at all;
- the availability and pricing of acceptable raw materials and component supply;
- inability to create additional production capacity in a timely manner or the occurrence of other manufacturing or supply difficulties;
- the ability to protect or enforce the company's owned or in-licensed patent or other proprietary rights (including trademarks, copyrights, trade secrets and know-how) or patents of third parties preventing or restricting the company's manufacture, sale or use of affected products or technology;
- the impact of any future tax liability with respect to the separation and distribution, including with respect to disposition of the Retained Shares;

- any failure by Baxalta or Shire to satisfy its obligation under the separation agreements, including the tax matters agreement, or the Letter Agreement;
- the impact of global economic conditions on the company and its customers and suppliers, including foreign governments in certain countries in which the company operates;
- fluctuations in foreign exchange and interest rates;
- any changes in law concerning the taxation of income, including income earned outside the United States, which may be a part of comprehensive tax reform;
- actions by tax authorities in connection with ongoing tax audits;
- breaches or failures of the company's information technology systems;
- loss of key employees or inability to identify and recruit new employees;
- the outcome of pending or future litigation;
- the adequacy of the company's cash flows from operations to meet its ongoing cash obligations and fund its investment program; and
- other factors identified elsewhere in this Annual Report on Form 10-K including those factors described in Item 1A and other filings with the Securities and Exchange Commission, all of which are available on the company's website.

Actual results may differ materially from those projected in the forward-looking statements. The company does not undertake to update its forward-looking statements.

Item 7A. *Quantitative and Qualitative Disclosures About Market Risk.*

Incorporated by reference to the section entitled "Financial Instrument Market Risk" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this Annual Report on Form 10-K.

Item 8. *Financial Statements and Supplementary Data.*

CONSOLIDATED BALANCE SHEETS

as of December 31 (in millions, except share information)

	2016	2015
Current assets		
Cash and equivalents	\$ 2,801	\$ 2,213
Accounts and other current receivables, net	1,691	1,731
Inventories	1,430	1,604
Prepaid expenses and other	602	855
Investment in Baxalta common stock	—	5,148
Current assets held for disposition	50	245
Total current assets	6,574	11,796
Property, plant and equipment, net	4,289	4,386
Other assets		
Goodwill	2,595	2,687
Other intangible assets, net	1,111	1,349
Other	977	744
Total other assets	4,683	4,780
Total assets	\$ 15,546	\$ 20,962
Current liabilities		
Short-term debt	\$ —	\$ 1,775
Current maturities of long-term debt and lease obligations	3	810
Accounts payable and accrued liabilities	2,612	2,666
Current income taxes payable	126	453
Current liabilities held for disposition	3	46
Total current liabilities	2,744	5,750
Long-term debt and lease obligations	2,779	3,922
Other long-term liabilities	1,743	2,425
Equity		
Common stock, \$1 par value, authorized 2,000,000,000 shares, issued 683,494,944 shares in 2016 and 2015	683	683
Common stock in treasury, at cost, 143,890,064 shares in 2016 and 135,839,938 shares in 2015	(7,995)	(7,646)
Additional contributed capital	5,958	5,902
Retained earnings	14,200	9,683
Accumulated other comprehensive (loss) income	(4,556)	224
Total Baxter shareholders' equity	8,290	8,846
Noncontrolling interests	(10)	19
Total equity	8,280	8,865
Total liabilities and equity	\$ 15,546	\$ 20,962

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

years ended December 31 (in millions, except per share data)	2016	2015	2014
Net sales	\$ 10,163	\$ 9,968	\$ 10,719
Cost of sales	6,053	5,822	6,138
Gross margin	4,110	4,146	4,581
Marketing and administrative expenses	2,739	3,094	3,315
Research and development expenses	647	603	610
Operating income	724	449	656
Net interest expense	66	126	145
Other (income) expense, net	(4,296)	(105)	21
Income from continuing operations before income taxes	4,954	428	490
Income tax (benefit) expense	(12)	35	33
Income from continuing operations	4,966	393	457
(Loss) income from discontinued operations, net of tax	(1)	575	2,040
Net income	\$ 4,965	\$ 968	\$ 2,497
Income from continuing operations per common share			
Basic	\$ 9.10	\$ 0.72	\$ 0.84
Diluted	\$ 9.01	\$ 0.72	\$ 0.83
(Loss) income from discontinued operations per common share			
Basic	\$ (0.01)	\$ 1.06	\$ 3.77
Diluted	\$ 0.00	\$ 1.04	\$ 3.73
Net income per common share			
Basic	\$ 9.09	\$ 1.78	\$ 4.61
Diluted	\$ 9.01	\$ 1.76	\$ 4.56
Weighted-average number of common shares outstanding			
Basic	546	545	542
Diluted	551	549	547

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

years ended December 31 (in millions)	2016	2015	2014
Net income	\$ 4,965	\$ 968	\$ 2,497
Other comprehensive (loss) income, net of tax:			
Currency translation adjustments, net of tax benefit of (\$39) in 2016, (\$107) in 2015 and (\$132) in 2014	(247)	(1,094)	(1,332)
Pension and other employee benefits, net of tax (benefit) expense of (\$36) in 2016, \$104 in 2015 and (\$193) in 2014	(97)	165	(400)
Hedging activities, net of tax (benefit) expense of (\$2) in 2016, \$9 in 2015 and \$14 in 2014	(4)	15	24
Available-for-sale securities, net of tax expense (benefit) of zero in 2016, \$6 in 2015 and (\$2) in 2014	(4,432)	4,438	34
Total other comprehensive income (loss), net of tax	(4,780)	3,524	(1,674)
Comprehensive income	\$ 185	\$ 4,492	\$ 823

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

years ended December 31 (in millions) (brackets denote cash outflows)

	2016	2015	2014
Cash flows from operations			
Net income	\$ 4,965	\$ 968	\$ 2,497
Adjustments to reconcile income from continuing operations to net cash from operating activities:			
Loss (income) from discontinued operations, net of tax	1	(575)	(2,040)
Depreciation and amortization	800	759	792
Deferred income taxes	(302)	(50)	(117)
Stock compensation	115	126	126
Realized excess tax benefits from stock issued under employee benefit plans	(39)	(7)	(15)
Net periodic pension benefit and OPEB costs	116	227	219
Business optimization items	285	130	(6)
Net realized gains on Baxalta common stock	(4,387)	—	—
Infusion pump and other product-related charges	(18)	(28)	93
Other	264	42	19
Changes in balance sheet items			
Accounts and other current receivables, net	15	(4)	(93)
Inventories	80	(118)	(143)
Accounts payable and accrued liabilities	(197)	236	(37)
Business optimization and infusion pump payments	(189)	(112)	(124)
Other	115	(341)	(17)
Cash flows from operations – continuing operations	1,624	1,253	1,154
Cash flows from operations – discontinued operations	30	518	2,061
Cash flows from operations	1,654	1,771	3,215
Cash flows from investing activities			
Capital expenditures	(719)	(911)	(925)
Acquisitions and investments, net of cash acquired	(48)	(34)	(95)
Divestitures and other investing activities	37	84	99
Cash flows from investing activities – continuing operations	(730)	(861)	(921)
Cash flows from investing activities – discontinued operations	15	(946)	(621)
Cash flows from investing activities	(715)	(1,807)	(1,542)
Cash flows from financing activities			
Issuances of debt	1,641	6,868	41
Payments of obligations	(1,381)	(3,786)	(1,029)
Debt extinguishment costs	(16)	(114)	—
(Decrease) increase in debt with original maturities of three months or less, net	(300)	(575)	875
Transfer of cash and equivalents to Baxalta	—	(2,122)	—
Cash dividends on common stock	(268)	(910)	(1,095)
Proceeds and realized excess tax benefits from stock issued under employee benefit plans	325	200	369
Purchases of treasury stock	(292)	—	(550)
Other	(33)	(42)	(13)
Cash flows from financing activities	(324)	(481)	(1,402)
Effect of foreign exchange rate changes on cash and equivalents	(27)	(195)	(79)
Increase (decrease) in cash and equivalents	588	(712)	192
Cash and equivalents at beginning of year	2,213	2,925	2,733
Cash and equivalents at end of year	\$ 2,801	\$ 2,213	\$ 2,925
Supplemental schedule of non-cash investing and financing activities			
Net proceeds on Retained Shares transactions	\$ 4,387	\$ —	\$ —
Payment of obligations in exchange for Retained Shares	\$ 3,646	\$ —	\$ —
Exchange of Baxter shares with Retained Shares	\$ 611	\$ —	\$ —
Other supplemental information			
Interest paid, net of portion capitalized	\$ 99	\$ 178	\$ 208
Income taxes paid	\$ 500	\$ 466	\$ 726

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

as of and for the years ended December 31 (in millions)	2016		2015		2014	
	Shares	Amount	Shares	Amount	Shares	Amount
Common stock						
Balance, beginning and end of year	683	\$ 683	683	\$ 683	683	\$ 683
Common stock in treasury						
Beginning of year	136	(7,646)	141	(7,993)	140	(7,914)
Purchases of common stock	18	(902)	—	—	8	(550)
Stock issued under employee benefit plans and other	(10)	553	(5)	347	(7)	471
End of year	144	(7,995)	136	(7,646)	141	(7,993)
Additional contributed capital						
Beginning of year		5,902		5,853		5,818
Stock issued under employee benefit plans and other		43		49		35
Other		13		—		—
End of year		5,958		5,902		5,853
Retained earnings						
Beginning of year		9,683		13,227		11,852
Net income		4,965		968		2,497
Dividends declared on common stock		(276)		(695)		(1,116)
Stock issued under employee benefit plans		(190)		(90)		(6)
Distribution of Baxalta		18		(3,727)		—
End of year		14,200		9,683		13,227
Accumulated other comprehensive income (loss)						
Beginning of year		224		(3,650)		(1,976)
Other comprehensive income (loss)		(4,780)		3,524		(1,674)
Distribution of Baxalta		—		350		—
End of year		(4,556)		224		(3,650)
Total Baxter shareholders' equity		\$ 8,290		\$ 8,846		\$ 8,120
Noncontrolling interests						
Beginning of year		\$ 19		\$ 36		\$ 23
Change in noncontrolling interests		(29)		(17)		13
End of year		\$ (10)		\$ 19		\$ 36
Total equity		\$ 8,280		\$ 8,865		\$ 8,156

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Baxter International Inc., through its subsidiaries, provides a broad portfolio of essential renal and hospital products, including acute and chronic dialysis; sterile IV solutions; infusion systems and devices; parenteral nutrition therapies; premixed and oncolytic injectables; biosurgery products and anesthetics; drug reconstitution systems; and pharmacy automation, software and services. The company's global footprint and the critical nature of its products and services play a key role in expanding access to healthcare in emerging and developed countries. These products are used by hospitals, kidney dialysis centers, nursing homes, rehabilitation centers, doctors' offices and by patients at home under physician supervision. The company operates in two segments, Renal and Hospital Products, which are described in Note 17.

Use of Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles (GAAP) requires the company to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ from those estimates.

Basis of Presentation

The consolidated financial statements include the accounts of Baxter and its majority-owned subsidiaries that Baxter controls, after elimination of intercompany transactions.

On July 1, 2015, Baxter completed the distribution of approximately 80.5% of the outstanding common stock of Baxalta Incorporated (Baxalta), to Baxter shareholders (the Distribution). The Distribution was made to Baxter's shareholders of record as of the close of business on June 17, 2015 (the Record Date), who received one share of Baxalta common stock for each Baxter common share held as of the Record Date. As a result of the Distribution, Baxalta became an independent public company trading under the symbol "BXL" on the New York Stock Exchange.

In 2016, Baxter disposed of its remaining 19.5% interest in Baxalta through a series of transactions including debt-for-equity exchanges, an equity-for-equity exchange and a contribution to its U.S. pension plan. As a result of these transactions, the company extinguished approximately \$3.65 billion in company indebtedness, repurchased 11,526,638 Baxter shares and contributed 17,145,570 Baxalta shares to its U.S. pension plan. On June 3, 2016, Baxalta became a wholly-owned subsidiary of Shire plc (Shire).

References in this report to Baxalta prior to the Merger closing date refers to Baxalta as a stand-alone public company. References in this report to Baxalta subsequent to the Merger closing date refer to Baxalta as a subsidiary of Shire.

As a result of the separation, the consolidated statements of income, consolidated balance sheets, consolidated statements of cash flow, and related financial information reflect Baxalta's operations, assets and liabilities, and cash flows as discontinued operations for all periods presented. Refer to Note 2 for additional information regarding the separation of Baxalta.

Revenue Recognition

The company recognizes revenues from product sales and services when earned. Specifically, revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred (or services have been rendered), the price is fixed or determinable, and collectability is reasonably assured. For product sales, revenue is not recognized until title and risk of loss have transferred to the customer. The shipping terms for the majority of the company's revenue arrangements are FOB destination. The recognition of revenue is delayed if there are significant post-delivery obligations, such as training, installation or other services. Provisions for discounts, rebates to customers, chargebacks to wholesalers and returns are provided for at the time the related sales are recorded, and are reflected as a reduction to gross sales to arrive at net sales.

The company sometimes enters into arrangements in which it commits to delivering multiple products or services to its customers. In these cases, total arrangement consideration is allocated to the deliverables based on their relative selling prices. Then the allocated consideration is recognized as revenue in accordance with the principles described above. Selling prices are determined by applying a selling price hierarchy and by using vendor specific objective evidence (VSOE), if it exists. Otherwise, selling prices are determined using third party evidence (TPE). If neither VSOE nor TPE is available, the company uses its best estimate of selling prices.

Accounts Receivable and Allowance for Doubtful Accounts

In the normal course of business, the company provides credit to its customers, performs credit evaluations of these customers and maintains reserves for potential credit losses. In determining the amount of the allowance for doubtful accounts, the company considers, among other items, historical credit losses, the past-due status of receivables, payment histories and other customer-specific information. Receivables are written off when the company determines they are uncollectible. The allowance for doubtful accounts was \$127 million at December 31, 2016 and \$110 million at December 31, 2015.

Product Warranties

The company provides for the estimated costs relating to product warranties at the time the related revenue is recognized. The cost is determined based on actual company experience for the same or similar products, as well as other relevant information. Product warranty liabilities are adjusted based on changes in estimates.

Cash and Equivalents

Cash and equivalents include cash, certificates of deposit and money market funds with an original maturity of three months or less.

Inventories

as of December 31 (in millions)	2016	2015
Raw materials	\$ 319	\$ 374
Work in process	122	142
Finished goods	989	1,088
Inventories	\$ 1,430	\$ 1,604

Inventories are stated at the lower of cost (first-in, first-out method) or market value. Market value for raw materials is based on replacement costs, and market value for work in process and finished goods is based on net realizable value. The company reviews inventories on hand at least quarterly and records provisions for estimated excess, slow-moving and obsolete inventory, as well as inventory with a carrying value in excess of net realizable value.

Property, Plant and Equipment, Net

as of December 31 (in millions)	2016	2015
Land	\$ 118	\$ 116
Buildings and leasehold improvements	1,486	1,389
Machinery and equipment	5,551	5,414
Equipment with customers	1,297	1,238
Construction in progress	710	833
Total property, plant and equipment, at cost	9,162	8,990
Accumulated depreciation	(4,873)	(4,604)
Property, plant and equipment (PP&E), net	\$ 4,289	\$ 4,386

Depreciation expense is calculated using the straight-line method over the estimated useful lives of the related assets, which range from 20 to 50 years for buildings and improvements and from three to 15 years for machinery and equipment. Leasehold improvements are amortized over the life of the related facility lease (including any renewal periods, if appropriate) or the asset, whichever is shorter. Baxter capitalizes certain computer software and software development costs incurred in connection with developing or obtaining software for internal use as part of machinery and equipment. Capitalized software costs are amortized on a straight-line basis over the estimated useful lives of the software, and are included in depreciation expense. Straight-line and accelerated methods of depreciation are used for income tax purposes. Depreciation expense was \$632 million in 2016, \$597 million in 2015 and \$613 million in 2014. Depreciation expense in 2016 included accelerated depreciation of \$48 million related to business optimization and separation costs.

Acquisitions

Results of operations of acquired companies are included in the company's results of operations as of the respective acquisition dates. The purchase price of each acquisition is allocated to the net assets acquired based on estimates of their fair values at the date of the acquisition. Any purchase price in excess of these net assets is recorded as goodwill. The allocation of purchase price in certain cases may be subject to revision based on the final determination of fair values during the measurement period, which may be up to one year from the acquisition date.

Contingent consideration is recognized at the estimated fair value on the acquisition date. Subsequent changes to the fair value of contingent payments are recognized in earnings as a component of other income (expense), net. Contingent payments related to acquisitions may consist of development, regulatory and commercial milestone payments, in addition to sales-based payments, and are valued using discounted cash flow techniques. The fair value of development, regulatory and commercial milestone payments reflects management's expectations of probability of payment, and increases or decreases as the probability of payment or expectation of timing of payments changes. The fair value of sales-based payments is based upon probability-weighted future revenue estimates and increases or decreases as revenue estimates or expectation of timing of payments changes.

Research and Development

Research and development (R&D) costs, including R&D acquired in transactions that are not business combinations, are expensed as incurred. Pre-regulatory approval contingent milestone obligations to counterparties in collaborative arrangements which include acquired R&D are expensed when the milestone is achieved. Contingent milestone payments made to such counterparties on or after regulatory approval are capitalized and amortized over the remaining useful life of the related product. Amounts capitalized for such payments are included in other intangible assets, net of accumulated amortization.

Acquired in-process R&D (IPR&D) is the value assigned to technology or products under development acquired in a business combination which have not received regulatory approval and have no alternative future use.

Acquired IPR&D is capitalized as an indefinite-lived intangible asset. Development costs incurred after the acquisition are expensed as incurred. Upon receipt of regulatory approval of the related technology or product, the indefinite-lived intangible asset is accounted for as a finite-lived intangible asset and amortized on a straight-line basis over the estimated economic life of the related technology or product, subject to annual impairment reviews as discussed below. If the R&D project is abandoned, the indefinite-lived asset is charged to expense.

Collaborative Arrangements

The company enters into collaborative arrangements in the normal course of business. These collaborative arrangements take a number of forms and structures, and are designed to enhance and expedite long-term sales and profitability growth. These arrangements may provide that Baxter obtain commercialization rights to a product under development, and require Baxter to make upfront payments, contingent milestone payments, profit-sharing, and/or royalty payments. Baxter may be responsible for ongoing costs associated with the arrangements, including R&D cost reimbursements to the counterparty. See above regarding the accounting treatment of upfront and contingent payments. Any royalty and profit-sharing payments during the commercialization phase are expensed as cost of sales when they become due and payable.

Business Optimization Charges

The company records liabilities for costs associated with exit or disposal activities in the period in which the liability is incurred. Employee termination costs are primarily recorded when actions are probable and estimable. Costs for one-time termination benefits in which the employee is required to render service until termination in order to receive the benefits are recognized ratably over the future service period. Refer to the discussion below regarding the accounting for asset impairment charges.

Goodwill, Intangible Assets, and Other Long-Lived Assets

Goodwill is not amortized, but is subject to an impairment review annually and whenever indicators of impairment exist. Goodwill would be impaired if the carrying amount of a reporting unit exceeded the fair value of that reporting unit, calculated as the present value of estimated cash flows discounted using a risk-free market rate adjusted for a market participant's view of similar companies and perceived risks in the cash flows. The implied fair value of goodwill is then determined by subtracting the fair value of all identifiable net assets other than goodwill from the fair value of the reporting unit, with an impairment charge recorded for the excess, if any, of carrying amount of goodwill over the implied fair value.

Indefinite-lived intangible assets, such as IPR&D acquired in business combinations and certain trademarks with indefinite lives, are subject to an impairment review annually and whenever indicators of impairment exist. Indefinite-lived intangible assets are impaired if the carrying amount of the asset exceeded the fair value of the asset.

The company reviews the carrying amounts of long-lived assets, other than goodwill and intangible assets not subject to amortization, for potential impairment when events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In evaluating recoverability, the company groups assets and liabilities at the lowest level such that the identifiable cash flows relating to the group are largely independent of the cash flows of other assets and liabilities. The company then compares the carrying amounts of the assets or asset groups with the related estimated undiscounted future cash flows. In the event impairment exists, an impairment charge is recorded as the amount by which the carrying amount of the asset or asset group exceeds the fair value.

Shipping and Handling Costs

Shipping costs, which are costs incurred to physically move product from Baxter's premises to the customer's premises, are classified as marketing and administrative expenses. Handling costs, which are costs incurred to store, move and prepare products for shipment, are classified as cost of sales. Approximately \$311 million in 2016, \$272 million in 2015 and \$319 million in 2014 of shipping costs were classified in marketing and administrative expenses.

Income Taxes

Deferred taxes are recognized for the future tax effects of temporary differences between financial and income tax reporting based on enacted tax laws and rates. The company maintains valuation allowances unless it is more likely than not that the deferred tax asset will be realized. With respect to uncertain tax positions, the company determines whether the position is more likely than not to be sustained upon examination, based on the technical merits of the position. Any tax position that meets the more likely than not recognition threshold is measured and recognized in the consolidated financial statements at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The liability relating to uncertain tax positions is classified as current in the consolidated balance sheets to the extent the company anticipates making a payment within one year. Interest and penalties associated with income taxes are classified in the income tax expense line in the consolidated statements of income.

Foreign Currency Translation

Currency translation adjustments (CTA) related to foreign operations are included in other comprehensive income (OCI). For foreign operations in highly inflationary economies, translation gains and losses are included in other expense (income), net, and were not material in 2016, 2015 and 2014.

Derivatives and Hedging Activities

All derivative instruments are recognized as either assets or liabilities at fair value in the consolidated balance sheets and are classified as short-term or long-term based on the scheduled maturity of the instrument. Based upon the exposure being hedged, the company designates its hedging instruments as cash flow or fair value hedges.

For each derivative instrument that is designated and effective as a cash flow hedge, the gain or loss on the derivative is accumulated in accumulated other comprehensive income (AOCI) and then recognized in earnings consistent with the underlying hedged item. Option premiums or net premiums paid are initially recorded as assets and reclassified to OCI over the life of the option, and then recognized in earnings consistent with the underlying hedged item. Cash flow hedges are classified in net sales, cost of sales, and net interest expense, and primarily related to forecasted third-party sales denominated in foreign currencies, forecasted intercompany sales denominated in foreign currencies and anticipated issuances of debt, respectively.

For each derivative instrument that is designated and effective as a fair value hedge, the gain or loss on the derivative is recognized into earnings, offsetting the loss or gain on the underlying hedged item. Fair value hedges are classified in net interest expense, as they hedge the interest rate risk associated with certain of the company's fixed-rate debt.

For derivative instruments that are not designated as hedges, the change in fair value is recorded directly to other expense (income), net.

If it is determined that a derivative or nonderivative hedging instrument is no longer highly effective as a hedge, the company discontinues hedge accounting prospectively. If the company removes the cash flow hedge designation because the hedged forecasted transactions are no longer probable of occurring, any gains or losses are immediately reclassified from AOCI to earnings. Gains or

losses relating to terminations of effective cash flow hedges in which the forecasted transactions are still probable of occurring are deferred and recognized consistent with the income or loss recognition of the underlying hedged items. If the company terminates a fair value hedge, an amount equal to the cumulative fair value adjustment to the hedged items at the date of termination is amortized to earnings over the remaining term of the hedged item.

Derivatives, including those that are not designated as a hedge, are principally classified in the operating section of the consolidated statements of cash flows in the same category as the related consolidated balance sheet account.

Refer to Note 9 for further information regarding the company's derivative and hedging activities.

New Accounting Standards

Recently issued accounting standards not yet adopted

In March 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-09, Improvements to Employee Share-Based Payment Accounting, which amends ASC Topic 718, Compensation – Stock Compensation. The updated guidance requires all tax effects related to share-based payments be recorded in income tax expense in the consolidated statement of income. Current guidance requires that the tax effects of deductions in excess of share-based compensation costs (windfall tax benefits) be recorded in additional paid-in capital, and tax deficiencies (shortfalls) be recorded in additional paid-in capital to the extent of previously recognized windfall tax benefits, with the remainder recorded in income tax expense. The new guidance also requires all tax-related cash flows resulting from share-based payments to be reported as operating activities in the consolidated statement of cash flows, rather than the current requirement to present windfall tax benefits as an inflow from financing activities and an outflow from operating activities. The guidance is effective for the company beginning January 1, 2017. The impact of the standard is dependent on the timing and value of award exercises and vesting. The company has evaluated the impact of this standard on its consolidated financial statements for 2016, and determined that net income and operating cash flow for the year would have each increased by approximately \$39 million if the company had adopted the new standard January 1, 2016.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). Under the new guidance, lessees are required to recognize a right-of-use asset and a lease liability on the balance sheet for all leases, other than those that meet the definition of a short-term lease. This update will establish a lease asset and lease liability by lessees for those leases classified as operating under current GAAP. Leases will be classified as either operating or finance under the new guidance. Operating leases will result in straight-line expense in the income statement, similar to current operating leases, and finance leases will result in more expense being recognized in the earlier years of the lease term, similar to current capital leases. This ASU is effective for the company beginning January 1, 2019. The company is currently evaluating the impact of this standard on its consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which amends the existing accounting standards for revenue recognition. ASU No. 2014-09 is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled when products are transferred to customers. ASU No. 2014-09 will be effective for the company beginning on January 1, 2018. The standard may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The company has completed an assessment of the new standard and is in the process of finalizing its detailed implementation plan and evaluating the disclosure requirements under the new standard. Based on the work performed to date, the company does not expect the adoption of the new standard to have a material impact on the consolidated financial statements. The company has not finalized its transition method for adoption.

Recently adopted accounting pronouncements

As of January 1, 2016, the company adopted ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs, which amended ASC 835-30, Interest – Imputation of Interest. This guidance requires that debt issuance costs related to a recognized debt liability be presented as a direct deduction from the carrying amount of the related debt liability. As a result of the adoption, the company reclassified debt issuance costs of \$13 million from other assets to long-term debt in the company's consolidated balance sheet as of December 31, 2015. The adoption of this guidance did not impact the company's consolidated statements of income, comprehensive income, changes in equity or cash flows.

As of January 1, 2016, the company adopted ASU No. 2015-05, Intangibles — Goodwill and Other — Internal-Use Software (Subtopic 350-40), Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. This update provides guidance on determining whether a cloud-based computer arrangement includes a software license. If it is determined that the arrangement includes a software license, then the customer is to account for that element in a manner that is consistent with the acquisition of other software licenses. If it is determined that the arrangement does not include a software license, then it is to be accounted for as a service

contract. The company elected to adopt the amendments prospectively to all arrangements entered into or materially modified after the effective date. The adoption of ASU No. 2015-05 did not have a material impact on the company's consolidated financial statements.

As of July 1, 2016, the company adopted ASU No. 2016-15, Statement of Cash Flows (Topic 230). The guidance requires that the cash payments for debt prepayment or debt extinguishment costs be classified as cash outflows for financing activities. As a result of the adoption, in the third quarter of 2016 the company reclassified certain debt repayments and debt extinguishment costs from operating to financing activities which resulted in a decrease in financing cash flows of \$16 million and \$124 million for 2016 and 2015, respectively. The adoption of this guidance did not impact the company's consolidated statements of income, consolidated balance sheets, comprehensive income or changes in equity.

NOTE 2

SEPARATION OF BAXALTA INCORPORATED

After giving effect to the Distribution, the company retained 19.5% of the outstanding common stock, or 131,902,719 shares of Baxalta (Retained Shares). Effective January 27, 2016, Baxter completed a debt-for-equity exchange through the transfer of 37,573,040 Retained Shares in exchange for the extinguishment of the \$1.45 billion aggregate principal amount of indebtedness outstanding under the company's prior U.S. dollar denominated revolving credit facility, which was terminated in connection with the closing of this exchange. On March 16, 2016, the company completed a debt-for-equity exchange, in which Baxter exchanged 63,823,582 Retained Shares for the extinguishment of \$2.2 billion in aggregate principal amount of Baxter indebtedness. On May 6, 2016, the company contributed 17,145,570 Retained Shares to Baxter's U.S. pension fund. On May 26, 2016, the company completed an equity-for-equity exchange by exchanging 13,360,527 Retained Shares for 11,526,638 shares of Baxter. The company held no shares of Baxalta as of December 31, 2016. Refer to Note 10 for additional details regarding these transactions.

The following table is a summary of the operating results of Baxalta, which have been reflected as discontinued operations for the years ended December 31, 2016, 2015 and 2014.

Years ended December 31 (in millions)	2016	2015	2014
Major classes of line items constituting income from discontinued operations before income taxes			
Net sales	\$ 148	\$ 2,895	\$ 6,523
Cost of sales	(139)	(1,214)	(2,475)
Marketing and administrative expenses	(20)	(547)	(769)
Research and development expenses	—	(389)	(822)
Other income and expense items that are not major	1	7	105
Total (loss) income from discontinued operations before income taxes	(10)	752	2,562
Gain on disposal of discontinued operations	19	—	—
Income tax expense	10	177	522
Total (loss) income from discontinued operations	\$ (1)	\$ 575	\$ 2,040

For a portion of Baxalta's operations, the legal transfer of Baxalta's assets and liabilities did not occur with the separation of Baxalta on July 1, 2015 due to the time required to transfer marketing authorizations and other regulatory requirements in certain countries. Under the terms of the International Commercial Operations Agreement (ICOA), Baxalta is subject to the risks and entitled to the benefits generated by these operations and assets until legal transfer; therefore, the net economic benefit and any cash collected by these entities are transferred to Baxalta. Separation of the remaining three countries is expected to occur by 2018.

The assets and liabilities of Baxalta have been classified as held for disposition as of December 31, 2016 and 2015. These amounts consist of the following carrying amounts in each major class.

As of December 31 (in millions)	2016	2015
Carrying amounts of major classes of assets included as part of discontinued operations		
Accounts and other current receivables, net	\$ 48	\$ 228
Inventories	—	8
Property, plant, and equipment, net	1	2
Other	1	7
Total assets of the disposal group	\$ 50	\$ 245
Carrying amounts of major classes of liabilities included as part of discontinued operations		
Accounts payable and accrued liabilities	\$ 3	\$ 46
Total liabilities of the disposal group	\$ 3	\$ 46

As of December 31, 2016 and 2015, Baxter recorded a liability of \$46 million and \$190 million, respectively, for its obligation to transfer these net assets to Baxalta. In 2016, the company transferred \$161 million of net assets to Baxalta resulting in a gain of \$19 million, which is recorded within income from discontinued items, net of tax.

Baxter and Baxalta entered into several additional agreements in connection with the July 1, 2015 separation, including a transition services agreement (TSA), separation and distribution agreement, manufacturing and supply agreements (MSA), tax matters agreement, an employee matters agreement, a long-term services agreement, and a shareholder's and registration rights agreement.

Pursuant to the TSA, Baxter and Baxalta and their respective subsidiaries are providing to each other, on an interim, transitional basis, various services. Services being provided by Baxter include, among others, finance, information technology, human resources, quality supply chain and certain other administrative services. The services generally commenced on the Distribution date and are expected to terminate within 24 months (or 36 months in the case of certain information technology services) of the Distribution date. Billings by Baxter under the TSA are recorded as a reduction of the costs to provide the respective service in the applicable expense category, primarily in marketing and administrative expenses, in the consolidated statements of income. In 2016 and 2015, the company recognized approximately \$101 million and \$75 million, respectively, as a reduction to marketing and administrative expenses related to the TSA.

Pursuant to the MSA, Baxalta or Baxter, as the case may be, manufactures, labels, and packages products for the other party. The terms of the agreements range in initial duration from five to 10 years. In 2016 and 2015, Baxter recognized approximately \$39 million and \$37 million, respectively, in sales to Baxalta. In addition, in 2016 and 2015, Baxter recognized approximately \$189 million and \$100 million, respectively, in cost of sales related to purchases from Baxalta pursuant to the MSA. The cash flows associated with these agreements are included in cash flows from operations — continuing operations.

In December 2015, Baxter sold to Baxalta certain assets for approximately \$28 million with no resulting impact to net income.

Cash inflows of \$30 million were reported in cash flows from operations – discontinued operations in 2016. These relate to non-assignable tenders whereby Baxter remains the seller of Baxalta products, transactions related to importation services Baxter provides in certain countries, in addition to trade payables settled by Baxter on Baxalta's behalf after the local separation.

NOTE 3

SUPPLEMENTAL FINANCIAL INFORMATION

Prepaid Expenses and Other

as of December 31 (in millions)	2016	2015
Prepaid value added taxes	\$ 114	\$ 118
Prepaid income taxes	147	302
Other	341	435
Prepaid expenses and other	\$ 602	\$ 855

Other Long-Term Assets

as of December 31 (in millions)	2016		2015	
Deferred income taxes	\$	629	\$	354
Other long-term receivables		181		176
All other		167		214
Other long-term assets	\$	977	\$	744

Accounts Payable and Accrued Liabilities

as of December 31 (in millions)	2016		2015	
Accounts payable, principally trade	\$	791	\$	716
Common stock dividends payable		70		137
Employee compensation and withholdings		542		481
Property, payroll and certain other taxes		143		166
Infusion pump reserves		—		52
Business optimization reserves		153		98
Accrued rebates		206		192
Separation-related reserves		46		190
All other		661		634
Accounts payable and accrued liabilities	\$	2,612	\$	2,666

Other Long-Term Liabilities

as of December 31 (in millions)	2016		2015	
Pension and other employee benefits	\$	1,492	\$	2,041
Deferred tax liabilities		93		195
Litigation reserves		19		24
Business optimization reserves		11		18
Contingent payment liabilities		15		20
All other		113		127
Other long-term liabilities	\$	1,743	\$	2,425

Net Interest Expense

years ended December 31 (in millions)	2016		2015		2014	
Interest costs	\$	107	\$	197	\$	237
Interest costs capitalized		(18)		(51)		(70)
Interest expense		89		146		167
Interest income		(23)		(20)		(22)
Net interest expense	\$	66	\$	126	\$	145

Other (Income) Expense, net

years ended December 31 (in millions)	2016		2015		2014	
Foreign exchange	\$	(28)	\$	(113)	\$	(8)
Net loss on debt extinguishment		153		130		—
Net realized gains on Retained Shares transaction		(4,387)		—		—
Gain on litigation settlement		—		(52)		—
Gain on sale of investments and other assets		(3)		(38)		(20)
All other		(31)		(32)		49
Other (income) expense, net	\$	(4,296)	\$	(105)	\$	21

NOTE 4

EARNINGS PER SHARE

The numerator for both basic and diluted earnings per share (EPS) is either net income, income from continuing operations, or income from discontinued operations. The denominator for basic EPS is the weighted-average number of common shares outstanding during the period. The dilutive effect of outstanding stock options, restricted stock units (RSUs) and performance share units (PSUs) is reflected in the denominator for diluted EPS using the treasury stock method.

The following table is a reconciliation of basic shares to diluted shares.

years ended December 31 (in millions)	2016	2015	2014
Basic shares	546	545	542
Effect of dilutive securities	5	4	5
Diluted shares	551	549	547

The effect of dilutive securities included unexercised stock options, unvested RSUs and contingently issuable shares related to granted PSUs. All outstanding equity awards were dilutive as of December 31, 2016, while the computation of diluted EPS excluded 18 million and 9 million equity awards in 2015 and 2014, respectively, because their inclusion would have had an anti-dilutive effect on diluted EPS. Refer to Note 12 for additional information regarding items impacting basic shares.

NOTE 5

ACQUISITIONS AND OTHER ARRANGEMENTS

Claris Injectables Limited

In December 2016, Baxter entered into a definitive agreement to acquire Claris Injectables Limited (Claris), a wholly owned subsidiary of Claris Lifesciences Limited, for total consideration of approximately \$625 million. Upon closing, Claris will add capabilities in production of essential generic injectable medicines, such as anesthesia and analgesics, renal, anti-infectives and critical care in a variety of presentations including bags, vials and ampoules. The Boards of Directors of both companies have approved the proposed acquisition, which is expected to close in the second half of 2017. Closing of the deal is subject to satisfaction of regulatory approvals and other closing conditions, including achievement of a specified revenue target.

JW Holdings Corporation

In July 2013, Baxter entered into a collaboration agreement with JW Holdings Corporation (JW Holdings) for parenteral nutritional products containing a novel formulation of omega 3 lipids. Baxter has exclusive rights to co-develop and distribute the products globally, with the exception of Korea. In 2013, Baxter recognized an R&D charge of \$25 million related to an upfront payment. As of December 31, 2016, Baxter had the potential to make future payments of up to \$8 million relating to the achievement of regulatory milestones, in addition to future royalty payments.

Celerity Pharmaceuticals, LLC

In September 2013, Baxter entered into an agreement with Celerity Pharmaceutical, LLC (Celerity), a company of Water Street Healthcare Partners III, LLP, to develop certain acute care generic injectable premix and oncolytic molecules through regulatory approval. Baxter transferred its rights in these molecules to Celerity and Celerity assumed ownership and responsibility for development of the molecules. Baxter is obligated to purchase the individual product rights from Celerity if the products obtain regulatory approval. In 2015, Baxter paid \$14 million to acquire the rights to cefazolin injection in GALAXY Container (2 g/100 mL). In 2016, Baxter paid approximately \$23 million to acquire the rights to vancomycin injection 0.9% Sodium Chloride (Normal Saline) in 500 mg, 750 mg and 1 gram presentations. For both intangible assets, Baxter capitalized the purchase price as an intangible asset and is amortizing the asset over the estimated economic life of 12 years. As of December 31, 2016, Baxter's estimated future payments total up to \$273 million upon Celerity's achievement of specified regulatory approvals.

NOTE 6**GOODWILL AND OTHER INTANGIBLE ASSETS, NET****Goodwill**

The following table is a summary of the activity in goodwill by segment.

(in millions)	Renal	Hospital Products	Total
December 31, 2014	\$ 445	\$ 2,482	\$ 2,927
Additions	—	—	—
Currency translation and other adjustments	(37)	(203)	(240)
December 31, 2015	\$ 408	\$ 2,279	\$ 2,687
Additions	3	—	3
Currency translation and other adjustments	(14)	(81)	(95)
December 31, 2016	\$ 397	\$ 2,198	\$ 2,595

As a result of the separation of Baxalta in July 2015, the goodwill associated with Baxter's former BioScience segment has been eliminated. The remaining goodwill was allocated from the former Medical Products segment to the Renal and Hospital Products segments using the relative fair value approach.

As of December 31, 2016, there were no reductions in goodwill relating to impairment losses.

Other Intangible Assets, Net

The following table is a summary of the company's other intangible assets.

(in millions)	Developed technology, including patents	Other amortized intangible assets	Indefinite-lived intangible assets	Total
December 31, 2016				
Gross other intangible assets	\$ 1,690	\$ 384	\$ 57	\$ 2,131
Accumulated amortization	(855)	(165)	—	(1,020)
Other intangible assets, net	\$ 835	\$ 219	\$ 57	\$ 1,111
December 31, 2015				
Gross other intangible assets	\$ 1,742	\$ 393	\$ 86	\$ 2,221
Accumulated amortization	(729)	(143)	—	(872)
Other intangible assets, net	\$ 1,013	\$ 250	\$ 86	\$ 1,349

Intangible asset amortization expense was \$163 million in 2016, \$158 million in 2015 and \$169 million in 2014. The anticipated annual amortization expense for definite-lived intangible assets recorded as of December 31, 2016 is \$138 million in 2017, \$125 million in 2018, \$121 million in 2019, \$118 million in 2020 and \$114 million in 2021.

In 2016, the company recorded an impairment charge of \$27 million related to an indefinite-lived intangible asset (acquired IPR&D) in the company's Renal segment relating to its in-center hemodialysis program. The asset was written down to estimated fair value and recorded in research and development expenses. Additionally, the company recorded an impairment charge of \$51 million, of which \$41 million related to a developed technology asset, relating to the company's Hospital Products segment synthetic bone repair products business which was acquired from ApaTech Limited in 2010. The assets of the business were written down to estimated fair value and recorded in cost of sales.

In 2015, the company recorded impairments of approximately \$10 million related to acquired IPR&D and \$13 million related to developed technology.

NOTE 7**INFUSION PUMP AND BUSINESS OPTIMIZATION CHARGES****Infusion Pump Charges**

The company had undertaken a field corrective action with respect to the SIGMA Spectrum Infusion Pump, which is predominantly sold in the United States. The United States Food and Drug Administration (FDA) categorized the action as a Class 1 recall during the second quarter of 2014. Remediation primarily included software-related corrections and a replacement pump in a limited number of cases. In 2014, the company recorded a charge of \$93 million related primarily to cash costs associated with remediation efforts and utilized \$4 million in 2014. During 2015, the company refined its expectations relating to the costs associated with the remediation effort and recorded partial reversals of the cash and non-cash reserves totaling \$26 million and \$10 million, respectively. Additionally the company utilized \$13 million of the cash reserves during 2015. In 2016, the company recorded utilization of cash and non-cash reserves of \$22 million and \$3 million, respectively, as well as partial reversals of cash and non-cash reserves of \$11 million and \$1 million, respectively. As of December 31, 2016, the remediation efforts are substantially complete and the remaining costs and reserves are considered immaterial to the company.

From 2005 through 2014, the company recorded total charges and adjustments of \$863 million related to the COLLEAGUE and SYNDEO infusion pumps, including \$700 million of cash costs and \$163 million principally related to asset impairments.

The following table summarizes cash activity and reserve adjustments related to the company's COLLEAGUE and SYNDEO infusion pump reserves through December 31, 2016.

(in millions)

Charges and adjustments in 2005 through 2014	\$	700
Utilization in 2005 through 2014		(678)
Reserves at December 31, 2014		22
Reserve adjustments		(7)
Utilization		(8)
Reserves at December 31, 2015		7
Reserve adjustments		(4)
Utilization		(3)
Reserves at December 31, 2016	\$	—

As of December 31, 2016, the company has completed its field corrective actions related to the COLLEAGUE and SYNDEO infusion pumps.

Business Optimization Charges

Beginning in the second half of 2015, the company has initiated actions to transform the company's cost structure and enhance operational efficiency. These efforts include restructuring the organization, optimizing the manufacturing footprint, R&D operations and supply chain network, employing disciplined cost management, and centralizing and streamlining certain support functions. Through December 31, 2016 the company incurred cumulative pretax costs of \$407 million related to these actions. The costs consisted primarily of employee termination, implementation costs, and accelerated depreciation. The company expects to incur additional pretax costs of approximately \$390 million and capital expenditures of \$90 million through the completion of these initiatives. These costs will primarily include employee termination costs, implementation costs, and accelerated depreciation. Of this amount, the company expects that approximately 10 percent of the charges will be non-cash.

In addition to the programs above, the company recorded additional net business optimization charges of \$125 million in 2016. These charges primarily include employee termination costs, contract termination costs, asset impairments, and Gambro integration costs. Approximately 40% of these costs were non-cash. The company does not anticipate incurring any additional costs related to these programs in the future and expects them to be substantially completed by the end of 2017.

The company recorded the following charges related to business optimization programs in 2016, 2015, and 2014:

years ended December 31 (in millions)	2016	2015	2014
Restructuring charges, net	\$ 285	\$ 130	\$ (6)
Costs to implement business optimization programs	65	—	—
Gambro integration costs	26	73	144
Accelerated depreciation	33	—	—
Total business optimization charges	\$ 409	\$ 203	\$ 138

Included in the restructuring charges for 2016 were net employee termination costs of \$180 million which primarily consisted of a global workforce reduction program and \$27 million related to the impairment of acquired IPR&D as described in Note 6. Restructuring charges for 2016 also included \$54 million for costs associated with the discontinuation of the VIVIA home hemodialysis development program. These costs consist of contract termination costs of \$21 million, asset impairments of \$31 million and other exit costs of \$2 million.

Included in the restructuring charges for 2015 were net employee termination costs of \$83 million which primarily related to the global workforce reduction program mentioned above. Additionally, asset impairments of \$13 million and \$29 million were recorded related to a developed technology intangible assets and a manufacturing facility rationalization program, respectively.

Restructuring charges recorded in 2014 primarily related to employee and contract termination costs associated with legacy, non-transformational restructuring initiatives.

The company recorded the following components of restructuring costs in 2016, 2015 and 2014:

(in millions)	2016			
	COGS	SGA	R&D	Total
Employee termination costs	\$ 72	\$ 109	\$ 13	\$ 194
Contract termination costs	9	5	13	27
Asset impairments	38	—	40	78
Reserve adjustments				
Employee termination costs	(1)	(11)	(2)	(14)
Total restructuring charges	\$ 118	\$ 103	\$ 64	\$ 285

(in millions)	2015			
	COGS	SGA	R&D	Total
Employee termination costs	\$ 14	\$ 86	\$ 15	\$ 115
Contract termination costs	3	2	—	5
Asset impairment	40	—	2	42
Reserve adjustments				
Employee termination costs	(19)	(10)	(3)	(32)
Total restructuring charges	\$ 38	\$ 78	\$ 14	\$ 130

(in millions)	2014			
	COGS	SGA	R&D	Total
Employee termination costs	\$ 10	\$ 24	\$ —	\$ 34
Contract termination costs	2	6	2	10
Asset impairment	2	2	—	4
Reserve adjustments				
Employee termination costs	(19)	(31)	1	(49)
Contract termination costs	(3)	—	—	(3)
Asset impairment	(2)	—	—	(2)
Total restructuring charges	\$ (10)	\$ 1	\$ 3	\$ (6)

Costs to implement business optimization programs in 2016 were \$65 million. These costs consisted primarily of external consulting and employee salary and related costs. The costs were included within marketing and administrative and R&D expense.

Costs related to the integration of Gambro were included within marketing and administrative expense for all referenced periods.

In 2016, the company recognized accelerated depreciation, primarily associated with facilities to be closed of \$33 million. The costs were recorded in cost of sales.

The following table summarizes cash activity in the reserves related to the company's business optimization initiatives.

(in millions)		
Reserve at December 31, 2013	\$	244
2014 charges		44
Reserve adjustments		(54)
Utilization in 2014		(88)
CTA		(19)
Reserve at December 31, 2014		127
2015 charges		120
Reserve adjustments		(32)
Utilization in 2015		(89)
CTA		(10)
Reserve at December 31, 2015		116
2016 charges		221
Reserve adjustments		(14)
Utilization in 2016		(164)
CTA		5
Reserve at December 31, 2016	\$	164

Reserve adjustments primarily relate to employee termination cost reserves established in prior periods.

The company's restructuring reserves of \$164 million as of December 31, 2016 consisted of \$146 million of employee termination costs and the remaining reserves related to contract termination costs. The reserves are expected to be substantially utilized by the end of 2018.

NOTE 8**DEBT, CREDIT FACILITIES AND LEASE COMMITMENTS****Debt Outstanding**

At December 31, 2016 and 2015, the company had the following debt outstanding:

as of December 31 (in millions)	2016		2015	
Line of credit	\$	—	\$	1,450
Commercial paper		—		300
Other short-term debt		—		25
Short-term debt	\$	—	\$	1,775

as of December 31 (in millions)	Effective interest rate in 2016 ¹	2016 ²		2015 ²	
5.9% notes due 2016	5.8%	—			301
0.95% notes due 2016	1.2%	—			500
1.85% notes due 2017	2.1%	—			499
5.375% notes due 2018	5.7%	—			501
1.85% notes due 2018	2.1%	—			747
4.5% notes due 2019	4.5%	—			530
4.25% notes due 2020	4.2%	—			299
Variable-rate loan due 2020	1.0%	294			281
1.7% notes due 2021	1.6%	397			—
2.40% notes due 2022	2.5%	208			211
3.2% notes due 2023	3.1%	—			146
2.6% notes due 2026	2.2%	744			—
7.65% debentures due 2027	7.7%	5			5
6.625% debentures due 2028	6.7%	99			100
6.25% notes due 2037	5.8%	265			265
3.65% notes due 2042	3.7%	6			6
4.5% notes due 2043	4.5%	255			255
3.5% notes due 2046	3.0%	439			—
Other	—	70			86
Total debt and capital lease obligations		2,782			4,732
Current portion		(3)			(810)
Long-term portion		\$ 2,779		\$	3,922

¹ Excludes the effect of any related interest rate swaps.

² Book values include any discounts, premiums and adjustments related to hedging instruments.

Significant Debt Issuances

In August 2016, Baxter issued senior notes with a total aggregate principal amount of \$1.6 billion, comprised of \$400 million at a fixed coupon rate of 1.70% due in August 2021, \$750 million at a fixed coupon rate of 2.60% due in August 2026 and \$450 million at a fixed coupon rate of 3.50% due in August 2046.

In June 2015, the company's then wholly-owned subsidiary Baxalta issued senior notes with a total aggregate principal amount of \$5.0 billion. Approximately \$4.0 billion of the related net proceeds were distributed to Baxter in connection with the separation. After the separation, Baxter has no obligations as it relates to the Baxalta senior notes or any other Baxalta indebtedness. Refer to the debt tender offer section below in connection with this debt issuance.

Debt Redemption

In September 2016, Baxter redeemed an aggregate of approximately \$1 billion in principal amount of its 1.850% Senior Notes due 2017, 1.850% Senior Notes due 2018, 5.375% Senior Notes due 2018, 4.500% Senior Notes due 2019, 4.250% Senior Notes due 2020 and 3.200% Senior Notes due 2023. Baxter paid approximately \$1 billion, including accrued and unpaid interest and tender premium, to redeem such notes. As a result of the debt redemptions, the company recognized a loss on extinguishment of debt in the third quarter of 2016 of approximately \$52 million, which is included in other (income) expense, net.

Debt-for-Equity Exchanges

As of December 31, 2015, the company had drawn \$1.45 billion under its \$1.8 billion U.S. dollar-denominated revolving credit facility at a weighted average interest rate of 1.41%. On January 27, 2016, Baxter exchanged Retained Shares for the extinguishment of \$1.45 billion aggregate principal amount outstanding under its \$1.8 billion U.S. dollar-denominated revolving credit facility. This exchange extinguished the indebtedness under the facility, which was terminated in connection with such debt-for-equity exchange. There were no material prepayment penalties or breakage costs associated with the termination of the facility. Baxter recognized a net realized gain of \$1.25 billion related to the Retained Shares exchanged, which is included in other (income) expense, net in 2016.

On March 16, 2016, the company exchanged Retained Shares for the extinguishment of approximately \$2.2 billion in principal amount of its 0.950% Notes due May 2016, 5.900% Notes due August 2016, 1.850% Notes due January 2017, 5.375% Notes due May 2018, 1.850% Notes due June 2018, 4.500% Notes due August 2019 and 4.250% Notes due February 2020 purchased by certain third party purchasers in the previously announced debt tender offers. As a result, the company recognized a net loss on extinguishment of debt totaling \$101 million and a net realized gain of \$2.0 billion on the Retained Shares exchanged, which are included in other (income) expense, net in 2016.

Debt Maturities

In the second quarter of 2016, the company repaid the \$190 million outstanding balance of its 0.95% senior unsecured notes that matured in June 2016. In the third quarter of 2016, the company repaid the \$130 million outstanding balance of its 5.9% senior unsecured notes that matured in September 2016.

Debt Tender Offer

On July 6, 2015 and July 21, 2015 the company purchased an aggregate of approximately \$2.7 billion in principal amount of its 5.900% Notes due September 2016, 6.625% Debentures due February 2028, 6.250% Notes due December 2037, 3.650% Notes due August 2042, 4.500% Notes due June 2043, 3.200% Notes due June 2023, and 2.400% Notes due August 2022 pursuant to a debt tender offer. Baxter paid approximately \$2.9 billion, including accrued and unpaid interest and tender premium, to purchase such notes. As a result of the debt tender offers the company recognized a loss on extinguishment of debt in the third quarter of 2015 of \$130 million, which is included in other (income) expense, net within the Consolidated Statements of Income.

Credit Facilities

Effective July 1, 2015, the company terminated its \$1.5 billion U.S. dollar-denominated revolving credit facility and €300 million Euro denominated revolving credit facility and entered into credit agreements providing for a senior U.S. dollar-denominated revolving credit facility in an aggregate principal amount of up to \$1.5 billion maturing in 2020, as well as a Euro-denominated senior revolving credit facility in an aggregate principal amount of up to €200 million maturing in 2020. As of December 31, 2016 there were zero borrowings outstanding under the company's revolving credit facilities. The facilities enable the company to borrow funds on an unsecured basis at variable interest rates, and contain various covenants, including a maximum net leverage ratio and maximum interest coverage ratio.

The company also maintains other credit arrangements, which totaled \$271 million at December 31, 2016 and \$307 million at December 31, 2015. There were no borrowings outstanding under these arrangements at December 31, 2016 and \$25 million of borrowings outstanding at December 31, 2015.

At December 31, 2016, the company was in compliance with the financial covenants in these agreements. The non-performance of any financial institution supporting any of the credit facilities would reduce the maximum capacity of these facilities by each institution's respective commitment.

Commercial Paper

During 2016, the company issued and redeemed commercial paper, and no commercial paper was outstanding at December 31, 2016. There was a balance of \$300 million outstanding at December 31, 2015 with a weighted-average interest rate of 0.6%.

Leases

The company leases certain facilities and equipment under capital and operating leases expiring at various dates. The leases generally provide for the company to pay taxes, maintenance, insurance and certain other operating costs of the leased property. Most of the operating leases contain renewal options. For the years ending December 31, 2016, 2015, and 2014 operating lease rent expense was \$174 million, \$184 million and \$203 million, respectively.

Future Minimum Lease Payments and Debt Maturities

as of and for the years ended December 31 (in millions)	Operating leases	Debt maturities and capital leases
2017	\$ 129	\$ 3
2018	108	3
2019	85	3
2020	67	297
2021	58	403
Thereafter	216	2,085
Total obligations and commitments	663	2,794
Discounts, premiums, and adjustments relating to hedging instruments	—	(12)
Total debt and lease obligations	\$ 663	\$ 2,782

NOTE 9

DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITY

Foreign Currency and Interest Rate Risk Management

The company operates on a global basis and is exposed to the risk that its earnings, cash flows and equity could be adversely impacted by fluctuations in foreign exchange and interest rates. The company's hedging policy attempts to manage these risks to an acceptable level based on the company's judgment of the appropriate trade-off between risk, opportunity and costs.

The company is primarily exposed to foreign exchange risk with respect to recognized assets and liabilities, forecasted transactions and net assets denominated in the Euro, British Pound, Chinese Yuan, Korean Won, Australian Dollar, Canadian Dollar, Japanese Yen, Colombian Peso, Brazilian Real, Swedish Krona, Mexican Peso and New Zealand Dollar. The company manages its foreign currency exposures on a consolidated basis, which allows the company to net exposures and take advantage of any natural offsets. In addition, the company uses derivative and nonderivative instruments to further reduce the net exposure to foreign exchange. Gains and losses on the hedging instruments offset losses and gains on the hedged transactions and reduce the earnings and equity volatility resulting from foreign exchange. Financial market and currency volatility may limit the company's ability to cost-effectively hedge these exposures.

The company is also exposed to the risk that its earnings and cash flows could be adversely impacted by fluctuations in interest rates. The company's policy is to manage interest costs using a mix of fixed- and floating-rate debt that the company believes is appropriate. To manage this mix in a cost-efficient manner, the company periodically enters into interest rate swaps in which the company agrees to exchange, at specified intervals, the difference between fixed and floating interest amounts calculated by reference to an agreed-upon notional amount.

The company does not hold any instruments for trading purposes and none of the company's outstanding derivative instruments contain credit-risk-related contingent features.

Cash Flow Hedges

The company may use options, including collars and purchased options, forwards and cross-currency swaps to hedge the foreign exchange risk to earnings relating to forecasted transactions and recognized assets and liabilities. The company periodically uses

forward-starting interest rate swaps and treasury rate locks to hedge the risk to earnings associated with movements in interest rates relating to anticipated issuances of debt. Certain other firm commitments and forecasted transactions are also periodically hedged. Cash flow hedges primarily related to forecasted intercompany sales denominated in foreign currencies, and anticipated issuances of debt.

The notional amounts of foreign exchange contracts were \$561 million and \$378 million as of December 31, 2016 and 2015, respectively. The company did not have any interest rate contracts designated as cash flow hedges outstanding at December 31, 2016 and 2015. The maximum term over which the company has cash flow hedge contracts in place related to forecasted transactions at December 31, 2016 is 12 months.

Fair Value Hedges

The company uses interest rate swaps to convert a portion of its fixed-rate debt into variable-rate debt. These instruments hedge the company's earnings from changes in the fair value of debt due to fluctuations in the designated benchmark interest rate.

The total notional amount of interest rate contracts designated as fair value hedges was \$200 million and \$1.3 billion as of December 31, 2016 and 2015, respectively.

Dedesignations

If it is determined that a derivative or nonderivative hedging instrument is no longer highly effective as a hedge, the company discontinues hedge accounting prospectively. If the company removes the cash flow hedge designation because the hedged forecasted transactions are no longer probable of occurring, any gains or losses are immediately reclassified from AOCI to earnings. Gains or losses relating to terminations of effective cash flow hedges in which the forecasted transactions are still probable of occurring are deferred and recognized consistent with the loss or income recognition of the underlying hedged items.

There were no hedge dedesignations in 2016, 2015 or 2014 resulting from changes in the company's assessment of the probability that the hedged forecasted transactions would occur.

If the company terminates a fair value hedge, an amount equal to the cumulative fair value adjustment to the hedged items at the date of termination is amortized to earnings over the remaining term of the hedged item. In 2016, the company terminated a total notional value of \$765 million of interest rate contracts in connection with the March 2016 debt tender offers, resulting in a \$34 million reduction to the debt extinguishment loss. In 2015, the company terminated \$1.65 billion of interest rate contracts in connection with the July debt tender offers, which resulted in a \$33 million reduction to the debt extinguishment loss. There were no fair value hedges terminated during 2014.

Undesignated Derivative Instruments

The company uses forward contracts to hedge earnings from the effects of foreign exchange relating to certain of the company's intercompany and third-party receivables and payables denominated in a foreign currency. These derivative instruments are generally not formally designated as hedges and the terms of these instruments generally do not exceed one month.

The total notional amount of undesignated derivative instruments was \$822 million as of December 31, 2016 and \$580 million as of December 31, 2015.

Gains and Losses on Derivative Instruments

The following table summarizes the gains and losses on the company's derivative instruments for the years ended December 31, 2016, 2015, and 2014.

(in millions)	Gain (loss) recognized in OCI			Location of gain (loss) in income statement	Gain (loss) reclassified from AOCI into income		
	2016	2015	2014		2016	2015	2014
Cash flow hedges							
Interest rate contracts	\$ —	\$ —	\$ —	Other (income) expense, net	\$ 9	\$ —	\$ (1)
Foreign exchange contracts	—	(1)	1	Net sales	—	—	1
Foreign exchange contracts	1	4	51	Cost of sales	(3)	47	13
Total	\$ 1	\$ 3	\$ 52		\$ 6	\$ 47	\$ 13

(in millions)	Location of gain (loss) in income statement	Gain (loss) recognized in income		
		2016	2015	2014
Fair value hedges				
Interest rate contracts	Net interest expense	\$ 9	\$ (43)	\$ 68
Undesignated derivative instruments				
Foreign exchange contracts	Other (income) expense, net	\$ 4	\$ (13)	\$ 49

For the company's fair value hedges, equal and offsetting losses of \$9 million, gains of \$43 million and losses of \$68 million were recognized in net interest expense in 2016, 2015 and 2014, respectively, as adjustments to the underlying hedged items, fixed-rate debt. Ineffectiveness related to the company's cash flow and fair value hedges for the year ended December 31, 2016 was not material.

The following table summarizes net-of-tax activity in AOCI, a component of shareholders' equity, related to the company's cash flow hedges.

as of and for the years ended December 31 (in millions)	2016	2015	2014
Accumulated other comprehensive income (loss) balance at beginning of year	\$ 7	\$ 34	\$ 10
Gain in fair value of derivatives during the year	1	4	32
Amount reclassified to earnings during the year	(5)	(31)	(8)
Accumulated other comprehensive income balance at end of year	\$ 3	\$ 7	\$ 34

As of December 31, 2016, \$3 million of deferred, net after-tax gains on derivative instruments included in AOCI are expected to be recognized in earnings during the next 12 months, coinciding with when the hedged items are expected to impact earnings.

Fair Values of Derivative Instruments

The following table summarizes the classification and fair value amounts of derivative instruments reported in the consolidated balance sheet as of December 31, 2016.

(in millions)	Derivatives in asset positions		Derivatives in liability positions	
	Balance sheet location	Fair value	Balance sheet location	Fair value
Derivative instruments designated as hedges				
Interest rate contracts	Other long-term assets	\$ 7	Other long-term liabilities	\$ —
Foreign exchange contracts	Prepaid expenses and other	22	Accounts payable and accrued liabilities	1
Total derivative instruments designated as hedges		\$ 29		\$ 1
Undesignated derivative instruments				
Foreign exchange contracts	Prepaid expenses and other	\$ 1	Accounts payable and accrued liabilities	\$ 2
Total derivative instruments		\$ 30		\$ 3

The following table summarizes the classification and fair value amounts of derivative instruments reported in the consolidated balance sheet as of December 31, 2015.

(in millions)	Derivatives in asset positions		Derivatives in liability positions	
	Balance sheet location	Fair value	Balance sheet location	Fair value
Derivative instruments designated as hedges				
Interest rate contracts	Other long-term assets	\$ 46	Other long-term liabilities	\$ —
Foreign exchange contracts	Prepaid expenses and other	9	Accounts payable and accrued liabilities	1
Total derivative instruments designated as hedges		\$ 55		\$ 1
Undesignated derivative instruments				
Foreign exchange contracts	Prepaid expenses and other	\$ 1	Accounts payable and accrued liabilities	\$ 1
Total derivative instruments		\$ 56		\$ 2

While the company's derivatives are all subject to master netting arrangements, the company presents its assets and liabilities related to derivative instruments on a gross basis within the consolidated balance sheets. Additionally, the company is not required to post collateral for any of its outstanding derivatives. The following table provides information on the company's derivative positions as if they were presented on a net basis, allowing for the right of offset by counterparty.

(in millions)	December 31, 2016		December 31, 2015	
	Asset	Liability	Asset	Liability
Gross amounts recognized in the consolidated balance sheet	\$ 30	\$ 3	\$ 56	\$ 2
Gross amount subject to offset in master netting arrangements not offset in the consolidated balance sheet	(3)	(3)	(2)	(2)
Total	\$ 27	\$ —	\$ 54	\$ —

NOTE 10

FINANCIAL INSTRUMENTS AND RELATED FAIR VALUE MEASUREMENTS

Receivable Securitizations

For trade receivables originated in Japan, the company has entered into agreements with financial institutions in which the entire interest in and ownership of the receivable is sold. The company continues to service the receivables in its Japanese securitization arrangement. Servicing assets or liabilities are not recognized because the company receives adequate compensation to service the sold receivables. The Japanese securitization arrangement includes limited recourse provisions, which are not material.

The following is a summary of the activity relating to the securitization arrangement.

as of and for the years ended December 31 (in millions)	2016		2015		2014	
Sold receivables at beginning of year	\$	81	\$	104	\$	114
Proceeds from sales of receivables		348		361		464
Cash collections (remitted to the owners of the receivables)		(367)		(384)		(459)
Effect of currency exchange rate changes		6		—		(15)
Sold receivables at end of year	\$	68	\$	81	\$	104

The net losses relating to the sales of receivables were immaterial for each year.

Concentrations of Credit Risk

The company invests excess cash in certificates of deposit or money market funds and diversifies the concentration of cash among different financial institutions. With respect to financial instruments, where appropriate, the company has diversified its selection of counterparties, and has arranged collateralization and master-netting agreements to minimize the risk of loss.

The company continues to do business with foreign governments in certain countries, including Greece, Spain, Portugal and Italy, which have experienced deterioration in credit and economic conditions. As of December 31, 2016 and 2015, the company's net accounts receivable from the public sector in Greece, Spain, Portugal and Italy totaled \$137 million and \$211 million, respectively.

Global economic conditions and liquidity issues in certain countries have resulted, and may continue to result, in delays in the collection of receivables and credit losses. Global economic conditions, governmental actions and customer-specific factors may require the company to re-evaluate the collectability of its receivables and the company could potentially incur additional credit losses. These conditions may also impact the stability of the Euro.

Fair Value Measurements

The fair value hierarchy under the accounting standard for fair value measurements consists of the following three levels:

- Level 1 — Quoted prices in active markets that the company has the ability to access for identical assets or liabilities;
- Level 2 — Quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuations in which all significant inputs are observable in the market; and
- Level 3 — Valuations using significant inputs that are unobservable in the market and include the use of judgment by the company's management about the assumptions market participants would use in pricing the asset or liability.

The following table summarizes the bases used to measure financial assets and liabilities that are carried at fair value on a recurring basis in the consolidated balance sheets.

(in millions)	Balance as of December 31, 2016	Basis of fair value measurement		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets				
Foreign currency hedges	\$ 23	\$ —	\$ 23	\$ —
Interest rate hedges	7	—	7	—
Available-for-sale securities	9	9	—	—
Total assets	\$ 39	\$ 9	\$ 30	\$ —
Liabilities				
Foreign currency hedges	\$ 3	\$ —	\$ 3	\$ —
Contingent payments related to acquisitions	19	—	—	19
Total liabilities	\$ 22	\$ —	\$ 3	\$ 19

(in millions)	Balance as of December 31, 2015	Basis of fair value measurement		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets				
Foreign currency hedges	\$ 10	\$ —	\$ 10	\$ —
Interest rate hedges	46	—	46	—
Available-for-sale securities	5,162	14	5,148	—
Total assets	\$ 5,218	\$ 14	\$ 5,204	\$ —
Liabilities				
Foreign currency hedges	\$ 2	\$ —	\$ 2	\$ —
Contingent payments related to acquisitions	20	—	—	20
Total liabilities	\$ 22	\$ —	\$ 2	\$ 20

As of December 31, 2016, cash and equivalents of \$2.8 billion included money market funds of approximately \$1.4 billion, which would be considered Level 2 in the fair value hierarchy.

For assets that are measured using quoted prices in active markets, the fair value is the published market price per unit multiplied by the number of units held, without consideration of transaction costs. The investment in the Retained Shares of \$5.1 billion as of December 31, 2015 was categorized as a Level 2 security as these securities were not registered as of that date. The value of this investment is based on Baxalta's common stock price as of December 31, 2015, which represents an identical equity instrument registered under the Securities Act of 1933, as amended. The company disposed of the remainder of its Retained Shares in Baxalta in the first half of 2016, as described below. The majority of the derivatives entered into by the company are valued using internal valuation techniques as no quoted market prices exist for such instruments. The principal techniques used to value these instruments are discounted cash flow and Black-Scholes models. The key inputs are considered observable and vary depending on the type of derivative, and include contractual terms, interest rate yield curves, foreign exchange rates and volatility.

Contingent payments related to acquisitions consist of commercial milestone payments and sales-based payments, and are valued using discounted cash flow techniques. The fair value of commercial milestone payments reflects management's expectations of probability of payment, and increases as the probability of payment increases or expectation of timing of payments is accelerated. The fair value of sales-based payments is based upon probability-weighted future revenue estimates, and increases as revenue estimates increase, probability weighting of higher revenue scenarios increase or expectation of timing of payment is accelerated.

The following table is a reconciliation of the fair value measurements that use significant unobservable inputs (Level 3), which consist of contingent payments related to acquisitions.

(in millions)	Contingent payments
Fair value as of December 31, 2014	\$ 45
Additions	—
Payments	(3)
Net gains recognized in earnings	(22)
Fair value as of December 31, 2015	20
Additions	—
Payments	(1)
Net gains recognized in earnings	—
Fair value as of December 31, 2016	\$ 19

The following table provides information relating to the company's investments in available-for-sale equity securities.

(in millions)	Amortized cost	Unrealized gains	Unrealized losses	Fair value
December 31, 2016	\$ 13	\$ —	\$ 4	\$ 9
December 31, 2015	\$ 732	\$ 4,430	\$ —	\$ 5,162

Book Values and Fair Values of Financial Instruments

In addition to the financial instruments that the company is required to recognize at fair value in the consolidated balance sheets, the company has certain financial instruments that are recognized at historical cost or some basis other than fair value. For these financial instruments, the following table provides the values recognized in the consolidated balance sheets and the approximate fair values.

as of December 31 (in millions)	Book values		Approximate fair values	
	2016	2015	2016	2015
Assets				
Investments	\$ 31	\$ 21	\$ 31	\$ 21
Liabilities				
Short-term debt	—	1,775	—	1,775
Current maturities of long-term debt and lease obligations	3	810	3	818
Long-term debt and lease obligations	2,779	3,922	2,756	4,077

The following table summarizes the bases used to measure the approximate fair value of the financial instruments as of December 31, 2016 and 2015.

(in millions)	Balance as of December 31, 2016	Basis of fair value measurement		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets				
Investments	\$ 31	\$ —	\$ —	\$ 31
Total assets	\$ 31	\$ —	\$ —	\$ 31
Liabilities				
Short-term debt	\$ —	\$ —	\$ —	\$ —
Current maturities of long-term debt and lease obligations	3	—	3	—
Long-term debt and lease obligations	2,756	—	2,756	—
Total liabilities	\$ 2,759	\$ —	\$ 2,759	\$ —

(in millions)	Balance as of December 31, 2015	Basis of fair value measurement		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets				
Investments	\$ 21	\$ —	\$ 2	\$ 19
Total assets	\$ 21	\$ —	\$ 2	\$ 19
Liabilities				
Short-term debt	\$ 1,775	\$ —	\$ 1,775	\$ —
Current maturities of long-term debt and lease obligations	818	—	818	—
Long-term debt and lease obligations	4,077	—	4,077	—
Total liabilities	\$ 6,670	\$ —	\$ 6,670	\$ —

Investments in 2016 and 2015 include certain cost method investments and held-to-maturity debt securities.

The fair value of held-to-maturity debt securities is calculated using a discounted cash flow model that incorporates observable inputs, including interest rate yields, which represents a Level 2 basis of fair value measurement. In determining the fair value of cost method investments, the company takes into consideration recent transactions, as well as the financial information of the investee, which represents a Level 3 basis of fair value measurement.

The estimated fair values of current and long-term debt were computed by multiplying price by the notional amount of the respective debt instrument. Price is calculated using the stated terms of the respective debt instrument and yield curves commensurate with the company's credit risk. The carrying values of the other financial instruments approximate their fair values due to the short-term maturities of most of these assets and liabilities.

In 2016, the company recorded net \$4.4 billion of realized gains within other expense (income), net related to exchanges of available-for-sale equity securities, which represented gains from the Retained Shares transactions. On May 6, 2016, Baxter made a voluntary non-cash contribution of 17,145,570 Retained Shares to the company's U.S. pension fund. The company recorded \$611 million of realized gains within other (income) expense, net related to the contribution of Retained Shares. On May 26, 2016, Baxter completed an exchange of 13,360,527 Retained Shares for 11,526,638 outstanding shares of Baxter common stock. The company recorded \$537 million of realized gains within other (income) expense, net related to the exchange of the Retained Shares. The company held no shares of Baxalta as of December 31, 2016. Refer to the debt-for-equity exchange section in Note 8 for discussion related to the first quarter 2016 Retained Shares transactions. In 2015, the company recorded income of \$38 million, in other expense (income), net related to equity method investments, which primarily represented gains from the sale of certain investments as well as distributions from funds that sold portfolio companies.

NOTE 11

COMMITMENTS AND CONTINGENCIES

Collaborative and Other Arrangements

Refer to Note 5 for information regarding the company's unfunded contingent payments associated with collaborative and other arrangements.

Indemnifications

During the normal course of business, Baxter makes indemnities, commitments and guarantees pursuant to which the company may be required to make payments related to specific transactions. Indemnifications include: (i) intellectual property indemnities to customers in connection with the use, sales or license of products and services; (ii) indemnities to customers in connection with losses incurred while performing services on their premises; (iii) indemnities to vendors and service providers pertaining to claims based on negligence or willful misconduct; (iv) indemnities involving the representations and warranties in certain contracts; (v) contractual indemnities related to the separation and distribution as set forth in certain of the agreements entered into in connection with such transactions (including the separation and distribution agreement and the tax matters agreement); and (vi) contractual indemnities for its directors and certain of its executive officers for services provided to or at the request of Baxter. In addition, under Baxter's Amended and Restated Certificate of Incorporation, and consistent with Delaware General Corporation Law, the company has agreed to indemnify its directors and officers for certain losses and expenses upon the occurrence of certain prescribed events. The majority of these indemnities, commitments and guarantees do not provide for any limitation on the maximum potential for future payments that the company could be obligated to make. To help address some of these risks, the company maintains various insurance coverages. Based on historical experience and evaluation of the agreements, the company does not believe that any significant payments related to its indemnities will occur, and therefore the company has not recorded any associated liabilities.

Legal Contingencies

Refer to Note 16 for a discussion of the company's legal contingencies.

NOTE 12

SHAREHOLDERS' EQUITY

Stock-Based Compensation

The company's stock-based compensation generally includes stock options, restricted stock units (RSUs), performance share units (PSUs) and purchases under the company's employee stock purchase plan. Shares issued relating to the company's stock-based plans are generally issued out of treasury stock.

Approved in 2015, the Baxter International Inc. 2015 Incentive Plan provided for 35 million additional shares of common stock available for issuance with respect to awards for participants. As of December 31, 2016, approximately 46 million authorized shares are available for future awards under the company's stock-based compensation plans.

Stock Compensation Expense

Stock compensation expense was \$115 million, \$126 million and \$126 million in 2016, 2015 and 2014, respectively. The related tax benefit recognized was \$34 million in 2016, \$38 million in 2015 and \$41 million in 2014.

Stock compensation expense is recorded at the corporate level and is not allocated to the segments. Approximately 70% of stock compensation expense is classified in marketing and administrative expenses, with the remainder classified in cost of sales and R&D expenses. Costs capitalized in the consolidated balance sheets at December 31, 2016 and 2015 were not material.

Stock compensation expense is based on awards expected to vest, and therefore has been reduced by estimated forfeitures.

Stock Options

Stock options are granted to employees and non-employee directors with exercise prices equal to 100% of the market value on the date of grant. Stock options granted to employees generally vest in one-third increments over a three-year period. Stock options granted to non-employee directors generally cliff-vest one year from the grant date. Stock options typically have a contractual term of

10 years. The grant-date fair value, adjusted for estimated forfeitures, is recognized as expense on a straight-line basis over the substantive vesting period.

The fair value of stock options is determined using the Black-Scholes model. The weighted-average assumptions used in estimating the fair value of stock options granted during each year, along with the weighted-average grant-date fair values, were as follows:

years ended December 31	2016	2015	2014
Expected volatility	20%	20%	24%
Expected life (in years)	5.5	5.5	5.5
Risk-free interest rate	1.4%	1.7%	1.7%
Dividend yield	1.2%	2.9%	2.8%
Fair value per stock option	\$ 7	\$ 9	\$ 12

The following table summarizes stock option activity for the year ended December 31, 2016 and the outstanding stock options as of December 31, 2016.

(options and aggregate intrinsic values in thousands)	Options	Weighted-average exercise price	Weighted-average remaining contractual term (in years)	Aggregate intrinsic value
Outstanding as of January 1, 2016	35,799	\$ 34.16		
Granted	6,939	\$ 39.70		
Exercised	(7,705)	\$ 31.50		
Forfeited	(1,831)	\$ 38.14		
Expired	(126)	\$ 32.87		
Outstanding as of December 31, 2016	33,076	\$ 35.73	6.2	\$ 284,821
Vested or expected to vest as of December 31, 2016	32,502	\$ 35.67	6.2	\$ 281,976
Exercisable as of December 31, 2016	18,707	\$ 33.71	4.7	\$ 198,873

The aggregate intrinsic value in the table above represents the difference between the exercise price and the company's closing stock price on the last trading day of the year. The total intrinsic value of options exercised in 2016, 2015 and 2014 were \$162 million, \$43 million and \$114 million, respectively.

As of December 31, 2016, \$45 million of unrecognized compensation cost related to stock options is expected to be recognized as expense over a weighted-average period of approximately 1.3 years.

RSUs

RSUs are granted to employees and non-employee directors. RSUs granted to employees generally vest in one-third increments over a three-year period. RSUs granted to non-employee directors generally cliff-vest one year from the grant date. The grant-date fair value, adjusted for estimated forfeitures, is recognized as expense on a straight-line basis over the substantive vesting period. The fair value of RSUs is determined based on the number of shares granted and the close price of the company's common stock on the date of grant.

The following table summarizes nonvested RSU activity for the year ended December 31, 2016.

(share units in thousands)	Share units	Weighted-average grant-date fair value
Nonvested RSUs as of January 1, 2016	3,078	\$ 37.62
Granted	1,229	\$ 40.32
Vested	(1,271)	\$ 23.14
Forfeited	(338)	\$ 33.20
Nonvested RSUs as of December 31, 2016	2,698	\$ 32.90

As of December 31, 2016 \$49 million of unrecognized compensation cost related to RSUs is expected to be recognized as expense over a weighted-average period of approximately 1.4 years. The weighted-average grant-date fair value of RSUs in 2016, 2015 and 2014 was \$40.32, \$66.65 and \$71.22, respectively. The fair value of RSUs vested in 2016, 2015 and 2014 was \$50 million, \$73 million and \$62 million, respectively.

PSUs

The company's annual equity awards stock compensation program for senior management includes the issuance of PSUs based on adjusted operating margin, ROIC, as well as market conditions. The vesting condition for adjusted operating margin or ROIC PSUs is set at the beginning of the year for each tranche of the award during the three-year service period. Compensation cost for the adjusted operating margin or ROIC PSUs is measured based on the fair value of the awards on the date that the specific vesting terms for each tranche of the award are established. The fair value of the awards is determined based on the quoted price of the company's stock on the grant date for each tranche of the award. The compensation cost for adjusted operating margin or ROIC PSUs is adjusted at each reporting date to reflect the estimated probability of achieving the vesting condition.

The fair value for PSUs based on market conditions is determined using a Monte Carlo model. The assumptions used in estimating the fair value of these PSUs granted during the period, along with the grant-date fair values, were as follows:

years ended December 31	2016	2015	2014
Baxter volatility	20%	19%	20%
Peer group volatility	17%-51%	16%-38%	13%-58%
Correlation of returns	0.22-0.73	0.24-0.55	0.23-0.66
Risk-free interest rate	1.0%	1.1%	0.7%
Fair value per PSU	\$ 51	\$ 46	\$ 57

Unrecognized compensation cost related to all unvested PSUs of \$9 million at December 31, 2016 is expected to be recognized as expense over a weighted-average period of 1.9 years.

The following table summarizes nonvested PSU activity for the year ended December 31, 2016.

(share units in thousands)	Share units	Weighted-average grant-date fair value
Nonvested PSUs as of January 1, 2016	300	\$ 36.11
Granted	282	\$ 45.83
Vested	(260)	\$ 34.42
Forfeited	(44)	\$ 42.27
Nonvested PSUs as of December 31, 2016	278	\$ 46.82

Realized Excess Income Tax Benefits and the Impact on the Statements of Cash Flows

Realized excess tax benefits associated with stock compensation are presented in the consolidated statements of cash flows as an outflow within the operating section and an inflow within the financing section. Realized excess tax benefits from stock-based compensation related to continuing operations were \$39 million, \$7 million and \$15 million in 2016, 2015 and 2014, respectively.

Employee Stock Purchase Plan

Nearly all employees are eligible to participate in the company's employee stock purchase plan. The employee purchase price is 85% of the closing market price on the purchase date.

The Baxter International Inc. Employee Stock Purchase Plan provides for 10 million shares of common stock available for issuance to eligible participants, of which approximately five million shares were available for future purchases as of December 31, 2016.

During 2016, 2015, and 2014, the company issued approximately 1.0 million, 1.1 million and 0.8 million shares, respectively, under the employee stock purchase plan. The number of shares under subscription at December 31, 2016 totaled approximately 1.0 million.

Cash Dividends

Total cash dividends declared per common share for 2016, 2015, and 2014 were \$0.51, \$1.27 and \$2.05, respectively.

A quarterly dividend of \$0.115 per share (\$0.46 on an annualized basis) was declared in February 2016 and was paid in April 2016. Quarterly dividends of \$0.13 per share (\$0.52 on an annualized basis) were declared in May and August of 2016 and were paid in June and October of 2016, respectively. Baxter's board of directors declared a quarterly dividend of \$0.13 per share in November of 2016, which was paid in January of 2017.

Stock Repurchase Programs

As authorized by the board of directors, the company repurchases its stock depending on the company's cash flows, net debt level and market conditions. The company repurchased 6.3 million shares for \$287 million in cash in 2016 and 8 million shares for \$600 million in cash in 2014. The company did not repurchase shares in 2015. In July 2012, the board of directors authorized the repurchase of up to \$2 billion of the company's common stock. The board of directors increased this authority by an additional \$1.5 billion in November 2016. \$1.7 billion remained available as of December 31, 2016.

NOTE 13

RETIREMENT AND OTHER BENEFIT PROGRAMS

The company sponsors a number of qualified and nonqualified pension plans for eligible employees. The company also sponsors certain unfunded contributory healthcare and life insurance benefits for substantially all domestic retired employees. Newly hired employees in the United States and Puerto Rico are not eligible to participate in the pension plans but receive a higher level of company contributions in the defined contribution plans.

In the second quarter of 2016, the company made a \$706 million voluntary, non-cash contribution to the qualified U.S. pension plan using Retained Shares. Refer to Note 2 for additional information regarding Retained Share transactions.

In the second quarter of 2015, in connection with the transfer of liabilities and assets from a combined Baxter pension or Other Postemployment Benefits (OPEB) plan to a newly created Baxalta pension or OPEB plan, the company remeasured pension and OPEB liabilities and assets for several of its plans. The remeasurement resulted in a reduction to pension and OPEB obligations of \$220 million, with an offset to AOCI.

In July 2014, a change was made to postemployment medical benefits for retirees who are age 65 or older to provide eligible retirees and their dependents a subsidy to be utilized on a medical insurance exchange. This change was accounted for as a significant plan amendment. Accordingly, the postemployment benefit obligation was remeasured using a discount rate of 4.30% as of July 31, 2014. Prior to the effect of the separation, the plan amendment resulted in a reduction to the postemployment benefit obligation of \$124 million, which was partially offset by a \$44 million actuarial loss for the change in discount rate. The corresponding \$80 million recognized in AOCI will be amortized as a reduction to net periodic benefit cost over approximately 11 years.

Reconciliation of Pension and OPEB Plan Obligations, Assets and Funded Status

The benefit plan information in the table below pertains to all of the company's pension and OPEB plans, both in the United States and in other countries.

as of and for the years ended December 31 (in millions)	Pension benefits		OPEB	
	2016	2015	2016	2015
Benefit obligations				
Beginning of period	\$ 5,423	\$ 6,331	\$ 266	\$ 551
Service cost	93	128	2	4
Interest cost	183	211	8	14
Participant contributions	5	7	—	—
Actuarial (gain)/loss	298	(105)	10	(261)
Benefit payments	(234)	(214)	(20)	(21)
Settlements	(6)	(3)	—	—
Plan amendments	—	(2)	(23)	—
Separation of Baxalta	—	(821)	—	(21)
Foreign exchange and other	(45)	(109)	—	—
End of period	5,717	5,423	243	266
Fair value of plan assets				
Beginning of period	3,698	4,197	—	—
Actual return on plan assets	309	(41)	—	—
Employer contributions	752	157	20	21
Participant contributions	5	7	—	—
Benefit payments	(234)	(214)	(20)	(21)
Settlements	(6)	(3)	—	—
Separation of Baxalta	—	(347)	—	—
Foreign exchange and other	(23)	(58)	—	—
End of period	4,501	3,698	—	—
Funded status at December 31	\$ (1,216)	\$ (1,725)	\$ (243)	\$ (266)
Amounts recognized in the consolidated balance sheets				
Noncurrent asset	\$ 42	\$ 47	\$ —	\$ —
Current liability	(23)	(22)	(19)	(19)
Noncurrent liability	(1,235)	(1,750)	(224)	(247)
Net liability recognized at December 31	\$ (1,216)	\$ (1,725)	\$ (243)	\$ (266)

Accumulated Benefit Obligation Information

The pension obligation information in the table above represents the projected benefit obligation (PBO). The PBO incorporates assumptions relating to future compensation levels. The accumulated benefit obligation (ABO) is the same as the PBO except that it includes no assumptions relating to future compensation levels. The ABO for all of the company's pension plans was \$5.4 billion and \$5.1 billion at the 2016 and 2015 measurement dates, respectively.

The information in the funded status table above represents the totals for all of the company's pension plans. The following table is information relating to the individual plans in the funded status table above that have an ABO in excess of plan assets.

as of December 31 (in millions)	2016		2015	
ABO	\$	5,153	\$	4,855
Fair value of plan assets		4,190		3,374

The following table is information relating to the individual plans in the funded status table above that have a PBO in excess of plan assets (many of which also have an ABO in excess of assets, and are therefore also included in the table directly above).

as of December 31 (in millions)	2016		2015	
PBO	\$	5,523	\$	5,244
Fair value of plan assets		4,265		3,472

Expected Net Pension and OPEB Plan Payments for the Next 10 Years

(in millions)	Pension benefits		OPEB
2017	\$	237	\$ 19
2018		246	20
2019		261	19
2020		270	18
2021		282	18
2022 through 2026		1,566	78
Total expected net benefit payments for next 10 years	\$	2,862	\$ 172

The expected net benefit payments above reflect the company's share of the total net benefits expected to be paid from the plans' assets (for funded plans) or from the company's assets (for unfunded plans). The federal subsidies relating to the Medicare Prescription Drug, Improvement and Modernization Act are not expected to be significant.

Amounts Recognized in AOCI

The pension and OPEB plans' gains or losses, prior service costs or credits, and transition assets or obligations not yet recognized in net periodic benefit cost are recognized on a net-of-tax basis in AOCI and will be amortized from AOCI to net periodic benefit cost in the future. The company utilizes the average future working lifetime as the amortization period for prior service.

The following table is a summary of the pre-tax losses included in AOCI at December 31, 2016 and December 31, 2015.

(in millions)	Pension benefits		OPEB
Actuarial loss (gain)	\$	1,885	\$ (89)
Prior service credit and transition obligation		(5)	(103)
Total pre-tax loss recognized in AOCI at December 31, 2016	\$	1,880	\$ (192)
Actuarial loss (gain)	\$	1,762	\$ (107)
Prior service credit and transition obligation		(5)	(94)
Total pre-tax loss recognized in AOCI at December 31, 2015	\$	1,757	\$ (201)

Refer to Note 14 for the net-of-tax balances included in AOCI as of each of the year-end dates. The following table is a summary of the net-of-tax amounts recorded in OCI relating to pension and OPEB plans.

years ended December 31 (in millions)	2016	2015	2014
Gain (loss) arising during the year, net of tax expense (benefit) of (\$72) in 2016, \$44 in 2015 and (\$240) in 2014	\$ (191)	\$ 45	\$ (494)
Distribution to Baxalta, net of tax expense of \$73	—	198	—
Amortization of loss to earnings, net of tax expense of \$36 in 2016, \$61 in 2015 and \$47 in 2014	94	120	94
Pension and other employee benefits (loss) gain	\$ (97)	\$ 363	\$ (400)

In 2016 and 2015, OCI activity for pension and OPEB plans was primarily related to actuarial gains and losses. In 2014, OCI activity for pension and OPEB plans was related to actuarial losses as well as the OPEB plan amendment referenced above.

Amounts Expected to be Amortized from AOCI to Net Periodic Benefit Cost in 2017

With respect to the AOCI balance at December 31, 2016, the following table is a summary of the pre-tax amounts expected to be amortized to net periodic benefit cost in 2017.

(in millions)	Pension benefits		OPEB
Actuarial loss/(gain)	\$	162	\$ (11)
Prior service credit and transition obligation		—	(15)
Total pre-tax amount expected to be amortized from AOCI to net pension and OPEB cost in 2017	\$	162	\$ (26)

Net Periodic Benefit Cost – Continuing Operations

years ended December 31 (in millions)	2016	2015	2014
Pension benefits			
Service cost	\$ 93	\$ 128	\$ 130
Interest cost	183	211	242
Expected return on plan assets	(298)	(270)	(269)
Amortization of net losses and other deferred amounts	149	192	144
Settlement losses	2	2	1
Net pension costs related to discontinued operations	—	(43)	(55)
Net periodic pension benefit cost	\$ 129	\$ 220	\$ 193
OPEB			
Service cost	\$ 2	\$ 4	\$ 5
Interest cost	8	14	25
Amortization of net loss and prior service credit	(19)	(11)	(3)
Curtailment	(4)	—	—
Net OPEB costs related to discontinued operations	—	—	(1)
Net periodic OPEB cost	\$ (13)	\$ 7	\$ 26

Weighted-Average Assumptions Used in Determining Benefit Obligations at the Measurement Date

	Pension benefits		OPEB	
	2016	2015	2016	2015
Discount rate				
U.S. and Puerto Rico plans	4.09%	4.36%	3.89%	4.12%
International plans	2.05%	2.60%	n/a	n/a
Rate of compensation increase				
U.S. and Puerto Rico plans	3.75%	3.75%	n/a	n/a
International plans	3.08%	3.37%	n/a	n/a
Annual rate of increase in the per-capita cost				
Rate decreased to	n/a	n/a	5.00%	5.00%
by the year ended	n/a	n/a	2022	2022

The assumptions above, which were used in calculating the December 31, 2016 measurement date benefit obligations, will be used in the calculation of net periodic benefit cost in 2017.

Effective January 1, 2016, the company changed its approach used to calculate the service and interest components of net periodic benefit cost. Previously, the company calculated the service and interest components utilizing a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation. The company has elected an alternative approach that utilizes a full yield curve approach in the estimation of these components by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to their underlying projected cash flows. The company believes this approach provides a more precise measurement of service and interest costs by improving the correlation between projected benefit cash flows and their corresponding spot rates. The company accounted for this change prospectively as a change in estimate.

Weighted-Average Assumptions Used in Determining Net Periodic Benefit Cost

	Pension benefits			OPEB		
	2016	2015	2014	2016	2015	2014
Discount rate						
U.S. and Puerto Rico plans	4.36%	4.00%	4.85%	4.12%	3.95%	4.90%
International plans	2.60%	2.26%	3.41%	n/a	n/a	n/a
Expected return on plan assets						
U.S. and Puerto Rico plans	7.00%	7.25%	7.50%	n/a	n/a	n/a
International plans	6.07%	6.20%	6.02%	n/a	n/a	n/a
Rate of compensation increase						
U.S. and Puerto Rico plans	3.75%	3.76%	3.80%	n/a	n/a	n/a
International plans	3.37%	3.33%	3.29%	n/a	n/a	n/a
Annual rate of increase in the per-capita cost						
Rate decreased to	n/a	n/a	n/a	6.50%	6.00%	6.25%
by the year ended	n/a	n/a	n/a	2022	2019	2019

The 2015 actuarial gain for the OPEB plan was primarily related to adjustments to the assumptions for retirees who are age 65 and older and receive a subsidy to be utilized on a medical insurance exchange.

The company establishes the expected return on plan assets assumption primarily based on a review of historical compound average asset returns, both company-specific and relating to the broad market (based on the company's asset allocation), as well as an analysis of current market and economic information and future expectations. The company plans to use a 6.50% assumption for its U.S. and Puerto Rico plans for 2017.

Effect of a One-Percent Change in Assumed Healthcare Cost Trend Rate on the OPEB Plan

years ended December 31 (in millions)	One percent increase		One percent decrease	
	2016	2015	2016	2015
Effect on total of service and interest cost components of OPEB cost	\$ —	\$ 1	\$ —	\$ (1)
Effect on OPEB obligation	\$ —	\$ 1	\$ —	\$ (4)

Pension Plan Assets

An investment committee of members of senior management is responsible for supervising, monitoring and evaluating the invested assets of the company's funded pension plans. The investment committee, which meets at least quarterly, abides by documented policies and procedures relating to investment goals, targeted asset allocations, risk management practices, allowable and prohibited investment holdings, diversification, use of derivatives, the relationship between plan assets and benefit obligations, and other relevant factors and considerations.

The investment committee's policies and procedures include the following:

- Ability to pay all benefits when due;
- Targeted long-term performance expectations relative to applicable market indices, such as Russell, MSCI EAFE, and other indices;
- Targeted asset allocation percentage ranges (summarized below), and periodic reviews of these allocations;
- Diversification of assets among third-party investment managers, and by geography, industry, stage of business cycle and other measures;

- Specified investment holding and transaction prohibitions (for example, private placements or other restricted securities, securities that are not traded in a sufficiently active market, short sales, certain derivatives, commodities and margin transactions);
- Specified portfolio percentage limits on holdings in a single corporate or other entity (generally 5% at time of purchase, except for holdings in U.S. government or agency securities);
- Specified average credit quality for the fixed-income securities portfolio (at least A- by Standard & Poor's or A3 by Moody's);
- Specified portfolio percentage limits on foreign holdings; and
- Periodic monitoring of investment manager performance and adherence to the investment committee's policies.

Plan assets are invested using a total return investment approach whereby a mix of equity securities, debt securities and other investments are used to preserve asset values, diversify risk and exceed the planned benchmark investment return. Investment strategies and asset allocations are based on consideration of plan liabilities, the plans' funded status and other factors, such as the plans' demographics and liability durations. Investment performance is reviewed by the investment committee on a quarterly basis and asset allocations are reviewed at least annually.

Plan assets are managed in a balanced portfolio comprised of two major components: return-seeking investments and liability hedging investments. The target allocations for plan assets are 53% in return-seeking investments and 46% in liability hedging investments and other holdings. The documented policy includes an allocation range based on each individual investment type within the major components that allows for a variance from the target allocations of approximately two to five percentage points depending on the investment type. Return-seeking investments primarily include common stock of U.S. and international companies, common/collective trust funds, mutual funds, and partnership investments. Liability hedging investments and other holdings primarily include cash, money market funds with an original maturity of three months or less, U.S. and foreign government and governmental agency issues, corporate bonds, municipal securities, hedge funds, derivative contracts and asset-backed securities.

While the investment committee provides oversight over plan assets for U.S. and international plans, the summary above is specific to the plans in the United States. The plan assets for international plans are managed and allocated by the entities in each country, with input and oversight provided by the investment committee. The plan assets for the U.S. and international plans are included in the table below.

The following tables summarize the bases used to measure the pension plan assets and liabilities that are carried at fair value on a recurring basis.

(in millions)	Balance at December 31, 2016	Basis of fair value measurement			Measured at NAV
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Assets					
Fixed income securities					
Cash and cash equivalents	\$ 443	\$ 16	\$ 427	\$ —	\$ —
U.S. government and government agency issues	457	—	457	—	—
Corporate bonds	850	13	837	—	—
Equity securities					
Common stock:					
Large cap	545	545	—	—	—
Mid cap	371	371	—	—	—
Small cap	94	94	—	—	—
Total common stock	1,010	1,010	—	—	—
Mutual funds	336	118	218	—	—
Common/collective trust funds	900	—	143	6	751
Partnership investments	388	—	—	—	388
Other holdings	117	10	97	10	—
Collateral held on loaned securities	126	—	126	—	—
Liabilities					
Collateral to be paid on loaned securities	(126)	(37)	(89)	—	—
Fair value of pension plan assets	\$ 4,501	\$ 1,130	\$ 2,216	\$ 16	\$ 1,139

(in millions)	Balance at December 31, 2015	Basis of fair value measurement			Measured at NAV
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Assets					
Fixed income securities					
Cash and cash equivalents	\$ 166	\$ 32	\$ 134	\$ —	\$ —
U.S. government and government agency issues	347	—	347	—	—
Corporate bonds	632	—	632	—	—
Equity securities					
Common stock:					
Large cap	880	880	—	—	—
Mid cap	359	359	—	—	—
Small cap	111	111	—	—	—
Total common stock	1,350	1,350	—	—	—
Mutual funds	328	112	216	—	—
Common/collective trust funds	565	—	131	6	428
Partnership investments	209	—	—	—	209
Other holdings	101	4	95	2	—
Collateral held on loaned securities	208	—	208	—	—
Liabilities					
Collateral to be paid on loaned securities	(208)	(60)	(148)	—	—
Fair value of pension plan assets	\$ 3,698	\$ 1,438	\$ 1,615	\$ 8	\$ 637

The following table is a reconciliation of changes in fair value measurements that used significant unobservable inputs (Level 3).

(in millions)	Total	Common/collective trust funds	Other holdings
Balance at December 31, 2014	\$ 8	\$ 6	\$ 2
Actual return on plan assets still held at year end	—	—	—
Actual return on plan assets sold during the year	—	—	—
Purchases, sales and settlements	—	—	—
Balance at December 31, 2015	8	6	2
Actual return on plan assets still held at year end	—	—	—
Actual return on plan assets sold during the year	—	—	—
Purchases, sales and settlements	8	—	8
Balance at December 31, 2016	\$ 16	\$ 6	\$ 10

The assets and liabilities of the company's pension plans are valued using the following valuation methods:

Investment category	Valuation methodology
Cash and cash equivalents	These largely consist of a short-term investment fund, U.S. Dollars and foreign currency. The fair value of the short-term investment fund is based on the net asset value
U.S. government and government agency issues	Values are based on reputable pricing vendors, who typically use pricing matrices or models that use observable inputs
Corporate bonds	Values are based on reputable pricing vendors, who typically use pricing matrices or models that use observable inputs
Common stock	Values are based on the closing prices on the valuation date in an active market on national and international stock exchanges
Mutual funds	Values are based on the net asset value of the units held in the respective fund which are obtained from national and international exchanges or based on the net asset value of the underlying assets of the fund provided by the fund manager
Common/collective trust funds	Values are based on the net asset value of the units held at year end
Partnership investments	Values are based on the estimated fair value of the participation by the company in the investment as determined by the general partner or investment manager of the respective partnership
Other holdings	The value of these assets vary by investment type, but primarily are determined by reputable pricing vendors, who use pricing matrices or models that use observable inputs
Collateral held on loaned securities	Values are based on the net asset value per unit of the fund in which the collateral is invested
Collateral to be paid on loaned securities	Values are based on the fair value of the underlying securities loaned on the valuation date

Expected Pension and OPEB Plan Funding

The company's funding policy for its pension plans is to contribute amounts sufficient to meet legal funding requirements, plus any additional amounts that the company may determine to be appropriate considering the funded status of the plans, tax deductibility, the cash flows generated by the company, and other factors. Volatility in the global financial markets could have an unfavorable impact on future funding requirements. The company has no obligation to fund its principal plans in the United States in 2017. The company continually reassesses the amount and timing of any discretionary contributions. The company expects to make a contribution of at least \$20 million to its Puerto Rico pension plan and at least a \$40 million contribution to its foreign pension plans in 2017. The company expects to have net cash outflows relating to its OPEB plan of approximately \$19 million in 2017.

The following table details the funded status percentage of the company's pension plans as of December 31, 2016, including certain plans that are unfunded in accordance with the guidelines of the company's funding policy outlined above.

as of December 31, 2016 (in millions)	United States and Puerto Rico		International		Total
	Qualified plans	Nonqualified plan	Funded plans	Unfunded plans	
Fair value of plan assets	\$ 3,828	n/a	\$ 673	n/a	\$ 4,501
PBO	4,296	\$ 214	843	\$ 363	5,716
Funded status percentage	89%	n/a	80%	n/a	79%

U.S. Defined Contribution Plan

Most U.S. employees are eligible to participate in a qualified defined contribution plan. Expense recognized by the company was \$50 million in 2016, \$46 million in 2015 and \$54 million in 2014.

NOTE 14

ACCUMULATED OTHER COMPREHENSIVE INCOME

Comprehensive income includes all changes in shareholders' equity that do not arise from transactions with stockholders, and consists of net income, CTA, pension and other employee benefits, unrealized gains and losses on cash flow hedges and unrealized gains and losses on available-for-sale equity securities. The following table is a net-of-tax summary of the changes in AOCI by component for the years ended December 31, 2016 and 2015.

(in millions)	CTA	Pension and other employee benefits	Hedging activities	Available-for-sale securities	Total
<i>Gains (losses)</i>					
Balance as of December 31, 2015	\$ (3,191)	\$ (1,064)	\$ 7	\$ 4,472	\$ 224
Other comprehensive income before reclassifications	(247)	(191)	1	104	(333)
Amounts reclassified from AOCI	—	94	(5)	(4,536)	(4,447)
Net other comprehensive (loss) income	(247)	(97)	(4)	(4,432)	(4,780)
Balance as of December 31, 2016	\$ (3,438)	\$ (1,161)	\$ 3	\$ 40	\$ (4,556)

(in millions)	CTA	Pension and other employee benefits	Hedging activities	Available-for-sale securities	Total
<i>Gains (losses)</i>					
Balance as of December 31, 2014	\$ (2,323)	\$ (1,427)	\$ 34	\$ 66	\$ (3,650)
Other comprehensive income before reclassifications	(1,094)	45	46	4,461	3,458
Amounts reclassified from AOCI	—	120	(31)	(23)	66
Net other comprehensive (loss) income	(1,094)	165	15	4,438	3,524
Distribution to Baxalta	226	198	(42)	(32)	350
Balance as of December 31, 2015	\$ (3,191)	\$ (1,064)	\$ 7	\$ 4,472	\$ 224

The following table is a summary of the amounts reclassified from AOCI to net income during the years ended December 31, 2016 and 2015.

(in millions)	Amounts reclassified from AOCI (a)		Location of impact in income statement
	2016	2015	
Amortization of pension and other employee benefits items			
Actuarial losses and other ^(b)	\$ (130)	\$ (181)	
	(130)	(181)	Total before tax
	36	61	Tax benefit
	\$ (94)	\$ (120)	Net of tax
Gains (losses) on hedging activities			
Interest rate contracts	\$ 9	\$ —	Other (income) expense, net
Foreign exchange contracts	(3)	47	Cost of sales
	6	47	Total before tax
	(1)	(16)	Tax expense
	\$ 5	\$ 31	Net of tax
Available-for-sale securities			
Gain on available-for-sale equity securities	\$ 4,536	\$ 38	Other (income) expense, net
	4,536	38	Total before tax
	—	(15)	Tax benefit
	\$ 4,536	\$ 23	Net of tax
Total reclassification for the period	\$ 4,447	\$ (66)	Total net of tax

(a) Amounts in parentheses indicate reductions to net income.

(b) These AOCI components are included in the computation of net periodic benefit cost disclosed in Note 13.

Refer to Note 9 for additional information regarding hedging activity and Note 13 for additional information regarding the amortization of pension and other employee benefits items.

NOTE 15**INCOME TAXES****Income from Continuing Operations Before Income Tax Expense by Category**

years ended December 31 (in millions)	2016		2015		2014	
United States	\$	3,906	\$	(738)	\$	(803)
International		1,048		1,166		1,293
Income from continuing operations before income taxes	\$	4,954	\$	428	\$	490

Income Tax Expense Related to Continuing Operations

years ended December 31 (in millions)	2016		2015		2014	
Current						
United States						
Federal	\$	10	\$	(251)	\$	(305)
State and local		(3)		(6)		(44)
International		282		345		398
Current income tax expense		289		88		49
Deferred						
United States						
Federal		(286)		(9)		63
State and local		3		(20)		7
International		(18)		(24)		(86)
Deferred income tax expense		(301)		(53)		(16)
Income tax (benefit) expense	\$	(12)	\$	35	\$	33

Deferred Tax Assets and Liabilities

as of December 31 (in millions)	2016		2015	
Deferred tax assets				
Accrued expenses	\$	377	\$	389
Retirement benefits		411		352
Tax credits and net operating losses		747		547
Valuation allowances		(150)		(135)
Total deferred tax assets		1,385		1,153
Deferred tax liabilities				
Subsidiaries' unremitted earnings		145		147
Asset basis differences		704		847
Total deferred tax liabilities		849		994
Net deferred tax asset	\$	536	\$	159

At December 31, 2016, the company had U.S. operating loss carryforwards totaling \$887 million and tax credit carryforwards totaling \$332 million. The U.S. operating loss carryforwards expire between 2018 and 2036 and the tax credits expire between 2017 and 2034. At December 31, 2016, the company had foreign operating loss carryforwards totaling \$1.4 billion and foreign tax credit carryforwards totaling \$48 million. Of these foreign amounts, \$38 million expires in 2017, \$18 million expires in 2018, \$20 million expires in 2019, \$41 million expires in 2020, \$28 million expires in 2021, \$293 million expires after 2021 and \$1 billion has no expiration date. Realization of these operating loss and tax credit carryforwards depends on generating sufficient taxable income in future periods. A valuation allowance of \$150 million and \$135 million was recorded at December 31, 2016 and 2015, respectively, to reduce the deferred tax assets associated with net operating loss and tax credit carryforwards, because the company does not believe it is more likely than not that these assets will be fully realized prior to expiration. The company will continue to evaluate the need for additional valuation allowances and, as circumstances change, the valuation allowance may change.

Income Tax Expense Related to Continuing Operations Reconciliation

years ended December 31 (in millions)	2016	2015	2014
Income tax expense at U.S. statutory rate	\$ 1,734	\$ 150	\$ 174
Retained shares tax free exchange gains	(1,587)	—	—
Tax incentives	(126)	(133)	(105)
State and local taxes	1	(13)	(24)
Foreign tax expense (benefit)	5	11	(16)
Valuation allowances	3	5	7
Contingent tax matters	(48)	9	(18)
Branded Prescription Drug Fee	1	1	4
Deferred tax charge on intangible intra-group transfers	13	14	14
R&D tax credit	(2)	(4)	(1)
Puerto Rico excise tax credit	(5)	(9)	—
Other factors	(1)	4	(2)
Income tax (benefit) expense	\$ (12)	\$ 35	\$ 33

The company recognized deferred US income tax expense of \$35 million during 2016 relating to 2016 earnings outside the United States that are not deemed indefinitely reinvested. The company continues to evaluate whether to indefinitely reinvest earnings in certain foreign jurisdictions as it continues to analyze the company's global financial structure. Currently, management intends to continue to reinvest past earnings in several jurisdictions outside of the United States indefinitely, and therefore has not recognized U.S. income tax expense on these earnings. U.S. federal and state income taxes, net of applicable credits, on these foreign unremitted earnings from continuing operations of \$9.3 billion as of December 31, 2016 would be approximately \$2.6 billion. As of December 31, 2015 the foreign unremitted earnings from continuing operations and U.S. federal and state income tax amounts were \$8.5 billion and \$2.4 billion, respectively.

Effective Income Tax Rate — Continuing Operations

The effective income tax rate for continuing operations was \$(0.2%) in 2016, 8.2% in 2015 and 6.7% in 2014. As detailed in the income tax expense reconciliation table above, the company's effective tax rate differs from the U.S. federal statutory rate each year due to certain operations that are subject to tax incentives, state and local taxes, and foreign taxes that are different than the U.S. federal statutory rate. In addition, the effective tax rate can be impacted each period by discrete factors and events.

Factors impacting the company's effective tax rate in 2016 included tax-free net realized gains during the first and second quarter associated with the exchanges of Baxalta Retained Shares for the company's debt and the company's shares as well as tax-free net realized gains associated with the contribution of Baxalta Retained Shares to the company's pension plan. Additionally, the income tax rate for 2016 was favorably impacted by tax benefits from partially settling an IRS (2008-2013) income tax audit, settling a German (2008-2011) income tax audit, resolution of uncertain tax positions related to the company's former Turkish JV and other miscellaneous TP matters including partial settlement of interest expense deductions related to the company's acquisition of Gambro.

Factors adversely impacting the company's effective tax rate in 2015 included charges related to contingent tax matters primarily related to transfer pricing and separation of Baxalta as well as the need to record valuation allowances for some loss making entities. Partially offsetting the foregoing adverse factors was a benefit from reaching a settlement of the Puerto Rico excise tax matter as well as the retroactive reinstatement in December 2015 of the US R&D credit resulting from the Protecting Americans from Tax Hikes Act of 2015.

Factors impacting the company's effective tax rate in 2014 included the favorable settlement of a portion of the company's contingent tax matter related to operations in Turkey as well as a favorable shift of earnings from high to low tax jurisdictions compared to the prior period. Additionally, the effective tax rate was unfavorably impacted by increases in valuation allowances in respect of the tax benefit from losses that the company does not believe that it is more likely than not to realize and interest expense related to the company's unrecognized tax benefits.

Unrecognized Tax Benefits

The company classifies interest and penalties associated with income taxes in the income tax expense line in the consolidated statements of income. Net interest and penalties recorded during 2016, 2015 and 2014 were \$6 million, \$3 million and \$12 million, respectively. The liability recorded at December 31, 2016 and 2015 related to interest and penalties was \$11 million and \$56 million, respectively. The decrease in the liability for interest and penalties was due, in part, to settlement of audits in the United States,

Germany and Italy, as described in the Examination of Tax Returns section below. The total amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate is approximately \$82 million.

The following table is a reconciliation of the company's unrecognized tax benefits, including those related to discontinued operations for the years ended December 31, 2016, 2015 and 2014.

as of and for the years ended (in millions)	2016	2015	2014
Balance at beginning of the year	\$ 191	\$ 206	\$ 287
Increase associated with tax positions taken during the current year	7	24	41
Decrease associated with tax positions taken during a prior year	(31)	(26)	(27)
Settlements	(75)	(3)	(82)
Decrease associated with lapses in statutes of limitations	(10)	(10)	(13)
Balance at end of the year	\$ 82	\$ 191	\$ 206

Of the gross unrecognized tax benefits, \$74 million and \$209 million were recognized as liabilities in the consolidated balance sheets as of December 31, 2016 and 2015, respectively. Baxter has recorded net indemnification receivables from Baxalta in the amount of \$28 million and \$93 million as of December 31, 2016 and 2015, respectively, related to the unrecognized tax benefits for which Baxter is the primary obligor but economically relate to Baxalta operations. Additionally, in the table above amounts related to 2015 included as a decrease a gross liability transferred to Baxalta in the amount of \$10 million for which Baxalta is the primary obligor.

None of the positions included in the liability for uncertain tax positions related to tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility.

Tax Incentives

The company has received tax incentives in Puerto Rico, Switzerland, Dominican Republic, Costa Rica and certain other taxing jurisdictions outside the United States. The financial impact of the reductions as compared to the statutory tax rates is indicated in the income tax expense reconciliation table above. The tax reductions as compared to the local statutory rate favorably impacted earnings from continuing operations per diluted share by \$0.23 in 2016, \$0.24 in 2015 and \$0.20 in 2014. The Puerto Rico grant provides that the company's manufacturing operations are and will be partially exempt from local taxes until the year 2018.

Examinations of Tax Returns

During 2016, Baxter paid approximately \$303 million to partially settle a U.S. federal income tax audit for the period 2008-2013. Additionally, the company settled a German income tax audit for the period 2008-2011 and settled an Italian audit for the period 2010-2012. As a result of these settlements, the company reduced its gross unrecognized tax benefits by \$75 million. Pursuant to the tax matters agreement with Baxalta, Baxalta paid the company approximately \$37 million related to its tax indemnity obligations in respect of its portion of the settled gross unrecognized tax benefits. See Note 2 for additional details regarding the separation of Baxalta.

As of December 31, 2016, Baxter had ongoing audits in the United States, Austria, Sweden and other jurisdictions. Baxter expects to reduce the amount of its liability for uncertain tax positions within the next 12 months by \$10 million due principally to the resolution of transfer pricing disputes in several jurisdictions. While the final outcome of these matters is inherently uncertain, the company believes it has made adequate tax provisions for all years subject to examination.

NOTE 16

LEGAL PROCEEDINGS

Baxter is involved in product liability, patent, commercial, and other legal matters that arise in the normal course of the company's business. The company records a liability when a loss is considered probable and the amount can be reasonably estimated. If the reasonable estimate of a probable loss is a range, and no amount within the range is a better estimate, the minimum amount in the range is accrued. If a loss is not probable or a probable loss cannot be reasonably estimated, no liability is recorded. As of December 31, 2016 and 2015, the company's total recorded reserves with respect to legal matters were \$53 million and \$29 million, respectively, and the total related receivables were \$10 million and \$5 million, respectively.

Baxter has established reserves for certain of the matters discussed below. The company is not able to estimate the amount or range of any loss for certain contingencies for which there is no reserve or additional loss for matters already reserved. While the liability of the company in connection with the claims cannot be estimated and the resolution thereof in any reporting period could have a significant

impact on the company's results of operations and cash flows for that period, the outcome of these legal proceedings is not expected to have a material adverse effect on the company's consolidated financial position. While the company believes that it has valid defenses in these matters, litigation is inherently uncertain, excessive verdicts do occur, and the company may incur material judgments or enter into material settlements of claims.

In addition to the matters described below, the company remains subject to the risk of future administrative and legal actions. With respect to governmental and regulatory matters, these actions may lead to product recalls, injunctions, and other restrictions on the company's operations and monetary sanctions, including significant civil or criminal penalties. With respect to intellectual property, the company may be exposed to significant litigation concerning the scope of the company's and others' rights. Such litigation could result in a loss of patent protection or the ability to market products, which could lead to a significant loss of sales, or otherwise materially affect future results of operations.

General litigation

On July 31, 2015, Davita Healthcare Partners, Inc. filed suit against Baxter Healthcare Corporation in the District Court of the State of Colorado regarding an ongoing commercial dispute relating to the provision of peritoneal dialysis products. A bench trial concluded in third quarter 2016 and the parties are awaiting the court's decision.

In November 2016, a purported antitrust class action complaint seeking monetary and injunctive relief was filed in the United States District Court for the Northern District of Illinois. The complaint alleges a conspiracy among manufacturers of IV solutions to restrict output and affect pricing in connection with a shortage of such solutions. Similar parallel actions subsequently were filed. In January 2017, a single consolidated complaint covering these matters was filed in the Northern District of Illinois. The New York Attorney General has requested that Baxter provide information regarding business practices in the IV saline industry. The company is cooperating with the New York Attorney General.

Other

In the fourth quarter of 2012, the company received two investigative demands from the United States Attorney for the Western District of North Carolina for information regarding its quality and manufacturing practices and procedures at its North Cove facility. In January 2017, the parties resolved this matter by entering into a deferred prosecution agreement and a civil settlement whereby the company agreed to pay approximately \$18 million and implement certain enhanced compliance measures.

In December 2016, the company received a civil investigative demand from the Commercial Litigation Branch of the United States Department of Justice primarily relating to contingent discount arrangements for, and other promotion of, the company's TISSEEL and ARTISS products. The company is cooperating in this matter.

NOTE 17

SEGMENT INFORMATION

Baxter's two segments are strategic businesses that are managed separately as each business develops, manufactures and markets distinct products and services. The segments and a description of their products and services are as follows:

The **Renal** business provides products and services to treat end-stage renal disease, or irreversible kidney failure, along with other renal therapies. The Renal business offers a comprehensive portfolio to meet the needs of patients across the treatment continuum, including technologies and therapies for peritoneal dialysis (PD), hemodialysis (HD), continuous renal replacement therapy (CRRT) and additional dialysis services.

The **Hospital Products** business manufactures intravenous (IV) solutions and administration sets, premixed drugs and drug-reconstitution systems, oncology injectable drugs, IV nutrition products, infusion pumps, inhalation anesthetics and biosurgery products. The business also provides products and services related to pharmacy compounding, drug formulation and packaging technologies.

The company uses income from continuing operations before net interest expense, income tax expense, depreciation and amortization expense (Segment EBITDA), on a segment basis to make resource allocation decisions and assess the ongoing performance of the company's business segments. Intersegment sales are eliminated in consolidation.

Certain items are maintained at Corporate and are not allocated to a segment. They primarily include most of the company's debt and cash and equivalents and related net interest expense, foreign exchange fluctuations (principally relating to intercompany receivables, payables and loans denominated in a foreign currency) and the majority of the foreign currency hedging activities, corporate headquarters costs, stock compensation expense, nonstrategic investments and related income and expense, certain employee benefit plan costs as well as certain nonrecurring gains, losses, and other charges (such as business optimization, integration and separation-related costs, and asset impairments). Financial information for the company's segments is as follows:

for the years ended December 31 (in millions)	2016	2015	2014
Net sales			
Renal	\$ 3,855	\$ 3,789	\$ 4,172
Hospital Products	6,308	6,179	6,547
Total net sales	\$ 10,163	\$ 9,968	\$ 10,719
EBITDA			
Renal	\$ 703	\$ 566	\$ 666
Hospital Products	2,273	1,998	2,237
Total segment EBITDA	\$ 2,976	\$ 2,564	\$ 2,903

(in millions)	2016	2015	2014
Total assets			
Renal	\$ 4,315	\$ 4,609	\$ 4,928
Hospital Products	6,407	6,632	6,915
Total segment assets	\$ 10,722	\$ 11,241	\$ 11,843

The following table is a reconciliation of segment EBITDA to income from continuing operations before income taxes per the consolidated statements of income.

for the years ended December 31 (in millions)	2016	2015	2014
Total segment EBITDA	\$ 2,976	\$ 2,564	\$ 2,903
Reconciling items			
Depreciation and amortization	(800)	(759)	(792)
Stock compensation	(115)	(126)	(126)
Net interest expense	(66)	(126)	(145)
Restructuring charges, net	(285)	(130)	6
Certain foreign exchange fluctuations and hedging activities	34	197	37
Net realized gains on Retained Shares transactions	4,387	—	—
Net loss on debt extinguishment	(153)	(130)	—
Other Corporate items	(1,024)	(1,062)	(1,393)
Income from continuing operations before income taxes	\$ 4,954	\$ 428	\$ 490

The following table is a reconciliation of segment assets to consolidated total assets per the consolidated balance sheets.

as of December 31 (in millions)	2016	2015	2014
Total segment assets	\$ 10,722	\$ 11,241	\$ 11,843
Cash and equivalents	2,801	2,213	2,925
Deferred income taxes	629	354	531
PP&E, net	805	932	1,039
Assets held for disposition	50	245	9,363
Other Corporate assets	539	5,977	437
Consolidated total assets	\$ 15,546	\$ 20,962	\$ 26,138

Geographic Information

Net sales are based on product shipment destination and assets are based on physical location.

years ended December 31 (in millions)	2016	2015	2014
Net sales			
United States	\$ 4,259	\$ 4,001	\$ 3,999
Europe	2,697	2,774	3,257
Asia-Pacific	2,029	1,972	2,079
Latin America and Canada	1,178	1,221	1,384
Consolidated net sales	\$ 10,163	\$ 9,968	\$ 10,719

as of December 31 (in millions)	2016	2015	2014
PP&E, net			
United States	\$ 1,751	\$ 1,746	\$ 1,625
Europe	1,166	1,298	1,466
Asia-Pacific	752	757	753
Latin America and Canada	620	585	590
Consolidated PP&E, net	\$ 4,289	\$ 4,386	\$ 4,434

Net Sales by Franchise

The following table represents net sales by commercial franchise.

years ended December 31	2016	2015	2014
Total Renal ¹	\$ 3,855	\$ 3,789	\$ 4,172
Fluid Systems ²	2,300	2,106	2,129
Integrated Pharmacy Solutions ³	2,245	2,297	2,535
Surgical Care ⁴	1,321	1,323	1,373
Other ⁵	442	453	510
Total Hospital Products	\$ 6,308	\$ 6,179	\$ 6,547

1 The Renal segment is presented as a separate commercial franchise and includes sales of the company's PD, HD and CRRT.

2 Principally includes IV therapies, infusion pumps, and administration sets.

3 Includes sales of the company's premixed and oncology drug platforms, nutrition products and pharmacy compounding services.

4 Includes sales of the company's inhaled anesthesia products as well as biological products and medical devices used in surgical procedures for hemostasis, tissue sealing and adhesion prevention.

5 Principally includes sales from the company's pharmaceutical partnering business.

NOTE 18

QUARTERLY FINANCIAL RESULTS AND MARKET FOR THE COMPANY'S STOCK (UNAUDITED)

years ended December 31 (in millions, except per share data)	First quarter	Second quarter	Third quarter	Fourth quarter	Full year
2016					
Net sales	\$ 2,375	\$ 2,585	\$ 2,558	\$ 2,645	\$ 10,163
Gross margin ¹	965	972	1,071	1,102	4,110
Income from continuing operations ¹	3,387	1,212	127	240	4,966
Income from continuing operations per common share ¹					
Basic	6.17	2.21	0.23	0.44	9.10
Diluted	6.13	2.19	0.23	0.44	9.01
(Loss) income from discontinued operations, net of tax	(7)	—	3	3	(1)
(Loss) income from discontinued operations per common share					
Basic	(0.01)	0.00	0.01	0.01	(0.01)
Diluted	(0.01)	0.00	0.01	0.00	0.00
Net income ¹	3,380	1,212	130	243	4,965
Net income per common share ¹					
Basic	6.16	2.21	0.24	0.45	9.09
Diluted	6.12	2.19	0.24	0.44	9.01
Cash dividends declared per common share	0.115	0.13	0.13	0.13	0.505
Market price per common share					
High	41.28	46.39	49.03	49.16	49.16
Low	34.76	41.31	45.09	43.63	34.76
2015					
Net sales	\$ 2,403	\$ 2,475	\$ 2,487	\$ 2,603	\$ 9,968
Gross margin ²	1,019	1,021	1,034	1,072	4,146
Income from continuing operations ²	134	74	2	183	393
Income from continuing operations per common share ²					
Basic	0.25	0.14	0.00	0.33	0.72
Diluted	0.24	0.13	0.00	0.33	0.72
Income from discontinued operations, net of tax	296	258	(1)	22	575
Income from discontinued operations per common share					
Basic	0.54	0.47	0.00	0.04	1.06
Diluted	0.54	0.47	0.00	0.04	1.04
Net income ²	430	332	1	205	968
Net income per common share ²					
Basic	0.79	0.61	0.00	0.37	1.78
Diluted	0.78	0.60	0.00	0.37	1.76
Cash dividends declared per common share	0.52	0.52	0.115	0.115	1.27
Market price per common share					
High ³	38.97	39.05	43.44	38.79	43.44
Low ³	35.84	34.59	33.25	32.18	32.18

¹ The first quarter of 2016 included benefits of \$3.1 billion related to business optimization, separation-related costs, Retained Stake transactions, a loss on debt extinguishment, and product-related items. The second quarter of 2016 included benefits of \$1.0 billion related to business optimization, separation-related costs, Retained Stake transactions, and asset impairment. The third quarter of 2016 included charges of \$155 million related to business optimization, separation-related costs, a loss on debt extinguishment, and a tax matter. The fourth quarter of 2016 included charges of \$47 million related to business optimization, separation-related costs, and reserve items and adjustments.

² The first quarter of 2015 included charges of \$29 million related to business optimization, Gambro integration costs, and separation-related costs. The second quarter of 2015 included benefits of \$5 million related to business optimization, Gambro integration costs, separation-related costs, and tax and legal reserves. The third quarter of 2015 included charges of \$191 million related to business optimization, Gambro integration costs, separation-related costs, a loss on debt extinguishment, and product-related items. The fourth quarter of 2015 included \$17 million related to business optimization, Gambro integration costs, product-related items, separation-related costs, and reserve items and adjustments.

³ All stock prices for periods preceding the July 1, 2015 separation of Baxalta are adjusted to reflect the high or low adjusted closing price for the period.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Baxter International Inc.:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(1) present fairly, in all material respects, the financial position of Baxter International Inc. and its subsidiaries at December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(2) of this Form 10-K presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting included in Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Chicago, Illinois
February 23, 2017

Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.*

None.

Item 9A. *Controls and Procedures.*

Evaluation of Disclosure Controls and Procedures

Baxter carried out an evaluation, under the supervision and with the participation of its Disclosure Committee and management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of Baxter's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2016. Baxter's disclosure controls and procedures are designed to ensure that information required to be disclosed by Baxter in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported on a timely basis and that such information is communicated to management, including the Chief Executive Officer, Chief Financial Officer and its Board of Directors, to allow timely decisions regarding required disclosure.

Based on that evaluation the Chief Executive Officer and Chief Financial Officer concluded that the company's disclosure controls and procedures were effective as of December 31, 2016.

Management's Assessment of Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. The company's internal control over financial reporting is a process designed under the supervision of the principal executive and financial officers, and effected by the board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Management performed an assessment of the effectiveness of the company's internal control over financial reporting as of December 31, 2016. In making this assessment, management used the framework in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment under the framework in *Internal Control-Integrated Framework (2013)*, management concluded that the company's internal control over financial reporting was effective as of December 31, 2016.

The effectiveness of the company's internal control over financial reporting as of December 31, 2016 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Changes in Internal Control over Financial Reporting

There have been no changes in Baxter's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, Baxter's internal control over financial reporting.

Item 9B. *Other Information.*

None.

PART III

Item 10. *Directors, Executive Officers and Corporate Governance.*

Refer to information under the captions entitled “Corporate Governance at Baxter International Inc. — Proposal 1 — Election of Directors,” “— Directors Continuing in Office,” “— Board of Directors — Nomination of Directors,” “— Committees of the Board — Audit Committee,” “— Board Responsibilities — Code of Conduct,” and “Ownership of Our Stock — Section 16(a) Beneficial Ownership Reporting Compliance” in Baxter’s definitive proxy statement to be filed with the Securities and Exchange Commission and delivered to stockholders in connection with the Annual Meeting of Stockholders to be held on May 2, 2017 (the Proxy Statement), all of which information is incorporated herein by reference. Also refer to information regarding executive officers of Baxter under the caption entitled “Executive Officers of the Registrant” in Part I of this Annual Report on Form 10-K.

Item 11. *Executive Compensation.*

Refer to information under the captions entitled “Executive Compensation,” and “Corporate Governance at Baxter International—Director Compensation” in the Proxy Statement, all of which information is incorporated herein by reference.

Item 12. *Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.*

The following table provides information relating to shares of common stock that may be issued under Baxter’s existing equity compensation plans as of December 31, 2016.

Plan Category	Number of Shares to be Issued upon Exercise of Outstanding Options, Warrants and Rights(a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights(b)	Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Shares Reflected in Column(a))(c)
Equity Compensation Plans Approved by Shareholders	35,252,613 (1)	\$ 35.95 (2)	45,829,969 (3)
Equity Compensation Plans Not Approved by Shareholders	1,140,770 (4)	\$ 30.06	—
Total	36,393,383 (5)	\$ 35.73 (2)	45,829,969

- (1) Excludes purchase rights under the Employee Stock Purchase Plan. Under the Employee Stock Purchase Plan, eligible employees may purchase shares of common stock through payroll deductions of up to 15 percent of base pay at a purchase price equal to 85 percent of the closing market price on the purchase date (as defined by the Employee Stock Purchase Plan). A participating employee may not purchase more than \$25,000 in fair market value of common stock under the Employee Stock Purchase Plan in any calendar year and may withdraw from the Employee Stock Purchase Plan at any time.
- (2) Restricted stock units and performance share units are excluded when determining the weighted-average exercise price of outstanding options.
- (3) Includes (i) 5,032,670 shares of common stock available for purchase under the Employee Stock Purchase Plan; (ii) 119,171 shares of common stock available under the 2007 Incentive Plan; (iii) 7,228,968 shares of common stock available under the 2011 Incentive Plan; and (iv) 33,449,160 shares of common stock available under the 2015 Incentive Plan.
- (4) Includes shares of common stock issuable upon exercise of options granted under the 2001 Incentive Compensation Program. These shares were made available pursuant to an amendment thereto not approved by shareholders. These additional shares were approved by the company’s board of directors, not the company’s shareholders, although the company shareholders have approved the 2001 Incentive Compensation Program.
- (5) Includes outstanding awards of 33,076,401 stock options, which have a weighted-average exercise price of \$35.73 and a weighted-average remaining term of 6.2 years, 2,697,906 shares of common stock issuable upon vesting of restricted stock units, and 277,743 shares of common stock reserved for issuance in connection with performance share unit grants.

Refer to information under the captions entitled “Ownership of Our Stock — Security Ownership by Directors and Executive Officers” and “— Security Ownership by Certain Beneficial Owners” in the Proxy Statement, all of which information is incorporated herein by reference.

Item 13. *Certain Relationships and Related Transactions, and Director Independence.*

Refer to the information under the first paragraph of the caption entitled “Corporate Governance—at Baxter International Inc.—Board of Directors” and the captions entitled “Corporate Governance at Baxter International Inc.—Board of Directors—Director Independence” and “Corporate Governance at Baxter International Inc.—Other Corporate Governance Information—Certain Relationships and Related Person Transactions” in the Proxy Statement, all of which information is incorporated herein by reference.

Item 14. *Principal Accountant Fees and Services.*

Refer to the information under the caption entitled “Audit Matters — Audit and Non-Audit Fees” and “—Pre-Approval of Audit and Permissible Non-Audit Fees” in the Proxy Statement, all of which information is incorporated herein by reference.

PART IV

Item 15. *Exhibits and Financial Statement Schedules.*

The following documents are filed as a part of this report:

	<u>Page Number</u>
(1) Financial Statements:	
Consolidated Balance Sheets	40
Consolidated Statements of Income	41
Consolidated Statements of Comprehensive Income	42
Consolidated Statements of Cash Flows	43
Consolidated Statements of Changes in Equity	44
Notes to Consolidated Financial Statements	45
Report of Independent Registered Public Accounting Firm	87
(2) Schedules required by Article 12 of Regulation S-X:	
Schedule II— Valuation and Qualifying Accounts	96
All other schedules have been omitted because they are not applicable or not required.	
(3) Exhibits required by Item 601 of Regulation S-K are listed in the Exhibit Index, which is incorporated herein by reference. Exhibits in the Exhibit Index marked with a “C” in the left margin constitute management contracts or compensatory plans or arrangements contemplated by Item 15(b) of Form 10-K.	

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BAXTER INTERNATIONAL INC.

By: /s/ José E. Almeida
José E. Almeida
Chairman and Chief Executive Officer

DATE: February 23, 2017

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on February 23, 2017.

<u>Signature</u>	<u>Title</u>
<u>/s/ José E. Almeida</u> José E. Almeida.	Chairman and Chief Executive Officer (principal executive officer)
<u>/s/ James K. Saccaro</u> James K. Saccaro	Corporate Vice President and Chief Financial Officer (principal financial officer)
<u>/s/ Caroline D. Karp</u> Caroline D. Karp	Corporate Vice President and Controller (principal accounting officer)
<u>/s/ Thomas F. Chen</u> Thomas F. Chen	Director
<u>/s/ John D. Forsyth</u> John D. Forsyth	Director
<u>/s/ James R. Gavin III, M.D., Ph.D.</u> James R. Gavin III, M.D., Ph.D.	Director
<u>/s/ Peter S. Hellman</u> Peter S. Hellman	Director
<u>/s/ Munib Islam</u> Munib Islam	Director
<u>/s/ Michael F. Mahoney</u> Michael F. Mahoney	Director
<u>Stephen N. Oesterle, M.D.</u>	Director
<u>/s/ Carole J. Shapazian</u> Carole J. Shapazian	Director
<u>/s/ Thomas T. Stallkamp</u> Thomas T. Stallkamp	Director
<u>/s/ K.J. Storm</u> K.J. Storm	Director
<u>/s/ Albert P. L. Stroucken</u> Albert P. L. Stroucken	Director

EXHIBIT INDEX

Number and Description of Exhibit

- 2.1 Separation and Distribution Agreement (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, filed on July 7, 2015).
- 3.1 Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed on May 10, 2013).
- 3.2 Certificate of Amendment to the Amended and Restated Certificate of Incorporation dated May 3, 2016 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed on May 4, 2016).
- 3.3 Bylaws, as amended and restated on December 18, 2015 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed on December 18, 2015).
- 4.1 Form of Common Stock Certificate of the Company (incorporated by reference to Exhibit(a) to the Company's Registration Statement on Form S-16 (Registration No. 02-65269), filed on August 17, 1979).
- 4.2 Indenture, dated August 8, 2006, between the Company and J.P. Morgan Trust Company, National Association, as Trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed on August 9, 2006).
- 4.3 First Supplemental Indenture, dated August 8, 2006, between the Company and J.P. Morgan Trust Company, National Association, as Trustee (including form of 5.90% Senior Note due 2016) (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K, filed on August 9, 2006).
- 4.4 Second Supplemental Indenture, dated December 7, 2007, between the Company and The Bank of New York Trust Company, N.A. (as successor in interest to J.P. Morgan Trust Company, National Association), as Trustee (including form of 6.250% Senior Note due 2037) (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed on December 7, 2007).
- 4.5 Eighth Supplemental Indenture, dated August 13, 2012, between the Company and The Bank of New York Mellon Trust Company, N.A. (as successor in interest to J.P. Morgan Trust Company, National Association), as Trustee (including forms of 2.400% Senior Notes due 2022 and 3.650% Senior Notes due 2042) (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed on August 13, 2012).
- 4.6 Ninth Supplemental Indenture, dated June 11, 2013, between the Company and The Bank of New York Mellon Trust Company, N.A. (as successor in interest to J.P. Morgan Trust Company, National Association), as Trustee (including forms of 0.950% Senior Notes due 2016 and 4.500% Senior Notes due 2043) (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed on June 11, 2013).
- 4.7 Tenth Supplemental Indenture, dated August 13, 2016, between the Company and The Bank of New York Mellon Trust Company, N.A., as Trustee (including forms of 1.700% Senior Notes due 2021, 2.600% Senior Notes due 2026 and 3.500% Senior Notes due 2046) (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K, filed on August 15, 2016).
- 10.1 Five-Year Credit Agreement, dated as of July 1, 2015, among Baxter International Inc. as Borrower, JPMorgan Chase Bank, National Association, as Administrative Agent and certain other financial institutions named therein (incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K, filed on July 7, 2015).
- 10.2 Amendment No. 1 to the Five-Year Credit Agreement, dated as of October 26, 2015, among Baxter International Inc. as Borrower, JPMorgan Chase Bank, National Association, as Administrative Agent and certain other financial institutions named therein (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on October 27, 2015).
- 10.3 Credit Agreement, dated as of July 1, 2015, among Baxter Healthcare SA and Baxter World Trade SPRL, as Borrowers, J.P. Morgan Europe Limited, as Administrative Agent and certain other financial institutions named therein (incorporated by reference to Exhibit 10.5 to the Company's Current Report on Form 8-K, filed on July 7, 2015).
- 10.4 Amendment No. 1 to the Credit Agreement, dated as of October 26, 2015, among Baxter Healthcare SA and Baxter World Trade SPRL, as Borrowers, J.P. Morgan Europe Limited, as Administrative Agent and certain other financial institutions named therein (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed on October 27, 2015).

Number and Description of Exhibit

- 10.5 Employee Matters Agreement, dated as of June 30, 2015, by and between Baxter International Inc. and Baxalta Incorporated (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on July 7, 2015).
- 10.6 Tax Matters Agreement, dated as of June 30, 2015, by and between Baxter International Inc. and Baxalta Incorporated (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed on July 7, 2015).
- 10.7 Shareholder's and Registration Rights Agreement, dated as of June 30, 2015, by and between Baxter International Inc. and Baxalta Incorporated (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K, filed on July 7, 2015).
- 10.8 Support Agreement, dated as of September 29, 2015, by and among Baxter International Inc., Third Point LLC, Third Point Partners L.P., Third Point Partners Qualified L.P., Third Point Offshore Master Fund L.P., Third Point Ultra Master Fund L.P., Third Point Reinsurance Co. Ltd., Third Point Advisors LLC, Third Point Advisors II LLC, Daniel S. Loeb and Munib Islam (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on September 30, 2015).
- C 10.9 Form of Indemnification Agreement entered into with directors and officers (incorporated by reference to Exhibit 19.4 to the Company's Quarterly Report on Form 10-Q, filed on November 14, 1986).
- C 10.10 Baxter International Inc. 2007 Incentive Plan (incorporated by reference to Appendix A to the Company's Definitive Proxy Statement on Schedule 14A, filed on March 20, 2007).
- C 10.11 Baxter International Inc. Equity Plan for the 2007 Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on March 16, 2007).
- C 10.12 Baxter International Inc. 2011 Incentive Plan (incorporated by reference to Appendix B to the Company's Definitive Proxy Statement on Schedule 14A, filed on March 18, 2011).
- C 10.13 Baxter International Inc. Equity Plan for the 2011 Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, filed on May 3, 2011).
- C 10.14 Baxter International Inc. 2015 Incentive Plan (incorporated by reference to Appendix A to the Company's Definitive Proxy Statement on Schedule 14A, filed on March 25, 2015).
- C 10.15 Baxter International Inc. Equity Plan for the 2015 Incentive Plan (incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K, filed on July 7, 2015).
- C 10.16 Baxter International Inc. Equity Plan for José E. Almeida under the 2015 Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed on October 29, 2015).
- C 10.17 Baxter International Inc. Directors' Deferred Compensation Plan (amended and restated effective January 1, 2009) and Amendment No. 1 thereto effective January 1, 2012 (incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K filed on February 23, 2012).
- C 10.18 Offer Letter between Baxter International Inc. and José E. Almeida, dated as of October 28, 2015 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on October 29, 2015).
- C 10.19 Form of Severance Agreement entered into with executive officers (incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K, filed on February 21, 2014).
- C 10.20* Baxter International Inc. and Subsidiaries Pension Plan (amended and restated effective January 1, 2016).
- C 10.21* First Amendment to Baxter International Inc. and Subsidiaries Pension Plan (dated as of December 21, 2016).
- C 10.22* Baxter International Inc. and Subsidiaries Supplemental Pension Plan (amended and restated effective January 1, 2015).
- C 10.23* Baxter International Inc. and Subsidiaries Deferred Compensation Plan (amended and restated effective January 1, 2015).

Number and Description of Exhibit

C 10.24*	First Amendment to the Baxter International Inc. and Subsidiaries Deferred Compensation Plan (effective May 11, 2016).
	Second Amendment to the Baxter International Inc. and Subsidiaries Deferred Compensation Plan (effective December 21, 2016).
C 10.25*	Baxter International Inc. Employee Stock Purchase Plan (as amended and restated effective July 1, 2011) (incorporated by reference to Appendix A to the Company's Definitive Proxy Statement on Schedule 14A, filed on March 18, 2011).
C 10.26	
C 10.27*	First Amendment to Baxter International Inc. Employee Stock Purchase Plan (dated as of July 15, 2016).
C 10.28*	Baxter International Inc. Non-Employee Director Compensation Plan (as amended and restated effective January 1, 2017).
10.29	Letter Agreement, dated as of January 11, 2016, by and among Baxter International Inc., Baxalta Incorporated and Shire plc. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on January 11, 2016).
12*	Computation of Ratio of Earnings to Fixed Charges.
21*	Subsidiaries of Baxter International Inc.
23*	Consent of PricewaterhouseCoopers LLP.
31.1*	Certification of Chief Executive Officer pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.
31.2*	Certification of Chief Financial Officer pursuant to Rules 13a-14(a) and 15d-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.
32.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document

* Filed herewith.

C Management contract or compensatory plan or arrangement.

SCHEDULE II

Valuation and Qualifying Accounts (in millions)	Balance at beginning of period	<u>Additions</u> Charged to costs and expenses	Charged (credited) to other accounts (1)(2)	Deductions from reserves	Balance at end of period
Year ended December 31, 2016:					
Allowance for doubtful accounts	\$ 110	16	11	(10)	\$ 127
Deferred tax asset valuation allowance	\$ 135	16	3	(4)	\$ 150
Year ended December 31, 2015:					
Allowance for doubtful accounts	\$ 119	30	(10)	(29)	\$ 110
Deferred tax asset valuation allowance	\$ 129	30	(16)	(8)	\$ 135
Year ended December 31, 2014:					
Allowance for doubtful accounts	\$ 148	1	(15)	(15)	\$ 119
Deferred tax asset valuation allowance	\$ 128	10	(6)	(3)	\$ 129

(1) Valuation accounts of acquired or divested companies and foreign currency translation adjustments.

(2) Amounts include adjustments related to the divestiture of the BioSciences business.

Reserves are deducted from assets to which they apply.

**BAXTER INTERNATIONAL INC.
AND SUBSIDIARIES PENSION PLAN**

(Amended and Restated Effective as of January 1, 2016)

TABLE OF CONTENTS **PAGE**

ARTICLE I. INTRODUCTION2

- 1.1. The Plan2
- 1.2. Plan Objectives2
- 1.3. Benefits of Participants Terminating Employment prior to Effective Date2
- 1.4. Supplements2
- 1.5. Baxalta Incorporated Spin-Off2

ARTICLE II. DEFINITIONS4

- 2.1. “Accrued Benefit”4
- 2.2. “Actuarial Equivalent”6
- 2.3. “Administrative Committee”8
- 2.4. “American”8
- 2.5. “Average Monthly Compensation”8
- 2.6. “Beneficiary”11
- 2.7. “Benefit Reduction Factors”11
- 2.8. “Board of Directors”12
- 2.9. “Code”12
- 2.10. “Company”12
- 2.11. “Compensation”12
- 2.12. “Computation Period”16
- 2.13. “Death Benefit”16
- 2.14. “Disability”16
- 2.15. “Early Retirement Date”17
- 2.16. “Effective Date”17
- 2.17. “Eligible Employee”17
- 2.18. “Employee”18
- 2.19. “Employer”18
- 2.20. “Employment Date”18
- 2.21. “Entry Date”18
- 2.22. “ERISA”19
- 2.23. “Excluded Division”19
- 2.24. “Highly Compensated Employee”19
- 2.25. “Hour of Service”19
- 2.26. “Investment Committee”21
- 2.27. “Investment Manager”21
- 2.28. “Joint and 50 Percent Survivor Annuity”21
- 2.29. “Lump Sum”21
- 2.30. “Non-forfeitable”22
- 2.31. “Normal Retirement Date”22
- 2.32. “One-Year Break in Service”22
- 2.33. “Participant”22
- 2.34. “Participating Employer”; “Non-Participating Employer”22
- 2.35. “Participating Employer Contributions”22
- 2.36. “Payment Date”22
- 2.37. “Pension Benefit”22
- 2.38. “Plan”23

TABLE OF CONTENTS	PAGE
2.39.	“Plan Year”23
2.40.	“Points”23
2.41.	“Primary Social Security Benefit”23
2.42.	“Projected Benefit Service”25
2.43.	“Single Life Annuity”25
2.44.	“Spouse”25
2.45.	“Termination of Employment”25
2.46.	“Trust”26
2.47.	“Trust Agreement”26
2.48.	“Trust Fund”26
2.49.	“Trustee”26
2.50.	“Year of Service”26

ARTICLE III. PARTICIPATION30

3.1.	Becoming a Participant30
3.2.	Ceasing to Be a Participant31
3.3.	Reemployment31
3.4.	Change of Job Status32
3.5.	Transfers32
3.6.	International Employees32
3.7.	Reemployment of Veterans32

ARTICLE IV. ELIGIBILITY FOR AND AMOUNT OF PENSION BENEFITS33

4.1.	Normal Retirement33
4.2.	Late Retirement33
4.3.	Early Retirement33
4.4.	Disability Retirement34
4.5.	Deferred Vested Benefit35

ARTICLE V. SPECIAL VESTING PROVISIONS FOR DIVESTED EMPLOYEES37

5.1.	Accelerated Vesting37
5.2.	Re-employment37

ARTICLE VI. BENEFITS AFTER DEATH38

6.1.	Death after Payment Date38
6.2.	Death before Payment Date38
6.3.	Death Benefits Payable to Spouses38
6.4.	Survivor Benefits Payable to Non-Spouse Beneficiaries39
6.5.	Death Benefits for Disability Retirees40
6.6.	Pre-Retirement Death Benefits Payable in a Lump Sum40
6.7.	Designation of Beneficiary40
6.8.	Incapacitated Participants or Beneficiaries41
6.9.	Death During Military Service41

TABLE OF CONTENTS PAGE

ARTICLE VII. FORM AND PAYMENT OF PENSION BENEFITS AND DEATH BENEFITS42

- 7.1. Normal Form of Payment42
- 7.2. Optional Forms of Payment42
- 7.3. Lump Sum Cash-Out43
- 7.4. Rules as to Election and Discontinuance of Optional Forms of Payment44
- 7.5. Special Payment Limitations47
- 7.6. Effect of Prior Lump Sums on Pension Benefits48
- 7.7. Effect of Participant Resuming Employment after Benefits Commence48
- 7.8. Special One Time Election for Immediate Payment of Certain Deferred Vested Benefits50

ARTICLE VIII. PLAN COMMITTEES53

- 8.1. Membership of Administrative and Investment Committees53
- 8.2. Administrative Committee Powers and Duties53
- 8.3. Investment Committee Powers and Duties55
- 8.4. Conflicts of Interest56
- 8.5. Compensation; Reimbursement56
- 8.6. Standard of Care56
- 8.7. Action by Committees57
- 8.8. Resignation or Removal of Committee Member57
- 8.9. Uniform Application of Rules by Administrative Committee57
- 8.10. Claims Procedure57
- 8.11. Correction of Errors58

ARTICLE IX. TRUST, THE TRUSTEE AND PLAN FINANCING60

- 9.1. Trust Agreement60
- 9.2. Selection of Trustee60
- 9.3. Trustee’s Duties60
- 9.4. Trust Income60
- 9.5. Expenses60
- 9.6. Trust Entity60
- 9.7. Funding Policy60
- 9.8. Participating Employer Contributions60
- 9.9. Forfeitures61
- 9.10. Exclusive Benefit of Participants61
- 9.11. Benefits Payable Only from Trust Fund62

ARTICLE X. ADOPTION AND WITHDRAWAL FROM PLAN63

- 10.1. Procedure for Adoption63
- 10.2. Procedure for Withdrawal63

ARTICLE XI. AMENDMENT AND TERMINATION64

- 11.1. Amendments64
- 11.2. Termination66
- 11.3. Disposition of Fund on Termination66
- 11.4. Disposition Medium67

TABLE OF CONTENTS PAGE

ARTICLE XII. SPECIAL TOP-HEAVY RULES68

- 12.1. Application68
- 12.2. Special Terms68
- 12.3. Vested Percentage71
- 12.4. Minimum Benefit72
- 12.5. Maximum Benefit Accrual73
- 12.6. Termination of Top-Heavy Status73

ARTICLE XIII. MISCELLANEOUS PROVISIONS74

- 13.1. Company Merger74
- 13.2. Plan Merger74
- 13.3. Nonalienation of Benefits74
- 13.4. Qualified Domestic Relations Orders74
- 13.5. No Employment Guarantee75
- 13.6. Termination of Employment75
- 13.7. Limitation on Vesting75
- 13.8. No Duplication of Benefits75
- 13.9. Source of Benefits75
- 13.10. Reduction for Overpayment75
- 13.11. Limitations on Pension Benefits Payable to Highly Compensated Participants75
- 13.12. Maximum Pensions76
- 13.13. Funding-Based Limitations on Benefits76
- 13.14. Indemnity79
- 13.15. Gender and Number80
- 13.16. Severability80
- 13.17. Headings80
- 13.18. Uniform and Nondiscriminatory Treatment80
- 13.19. Applicable Law80
- 13.20. Action by the Participating Employer80
- 13.21. Participant Litigation80

TABLE OF CONTENTS PAGE

SUPPLEMENT A Early Payment Factors % of Age 65 Accrued Benefit Payable for Commencement from Ages 44-65XX*

SUPPLEMENT B Special Retirement ProgramXX*

SUPPLEMENT C Excluded DivisionsXX*

SUPPLEMENT D Provisions Applicable to Participants Transferred to AllegianceXX*

SUPPLEMENT E Entitlement Codes for Non-Resident Aliens with U.S.-Source Income Excluded from Participation in the PlanXX*

SUPPLEMENT F Regression FactorsXX*

SUPPLEMENT G Provisions Applicable to Employees of Sybron CorporationXX*

SUPPLEMENT H Average Monthly Compensation for Participants Incurring Termination of Employment Prior to January 1, 1998XX*

SUPPLEMENT I Pre-retirement Death Benefits for Terminations Prior to January 1, 1990XX*

SUPPLEMENT J Transfer of Assets from BOC Group Cash Balance Retirement PlanXX*

SUPPLEMENT K Transfer of Assets from the Clintec Pension PlanXX*

SUPPLEMENT L Merger of the Immuno-U.S., Inc. Defined Benefit PlanXX*

SUPPLEMENT M Special One Time Election for Immediate Payment of Certain Deferred Vested BenefitsXX*

**Supplement has been redacted*

**BAXTER INTERNATIONAL INC.
AND SUBSIDIARIES PENSION PLAN**

(Amended and Restated Effective January 1, 2016)

**ARTICLE I.
Introduction**

1.1. The Plan. Effective September 1, 1960, American Hospital Supply Corporation established the American Hospital Supply Corporation Retirement Plan, which was amended and restated as of January 1, 1985. American Hospital Supply Corporation merged with Baxter International Inc. (then known as “Baxter Travenol Laboratories, Inc.”), and, effective as of January 1, 1986, the plan name was changed to Baxter Travenol Laboratories, Inc. and Subsidiaries Pension Plan. The Plan was amended to provide for participation by Eligible Employees of Baxter International Inc. and its participating units. The Plan has been further amended from time to time including an amendment, effective June 9, 1988, which changed the name of the Plan to Baxter International Inc. and Subsidiaries Pension Plan (the “Plan”). The Plan was amended and restated effective January 1, 1992, again amended and restated, on September 30, 1996, January 1, 2007, January 1, 2010, January 1, 2015 and most recently restated effective January 1, 2016. This document incorporates all previous amendments adopted since the most recent restatement, and constitutes an amendment, restatement and continuation of the Plan as in effect immediately prior to the Effective Date, subject to any transition dates and other effective dates set forth in this document.

1.2. Plan Objectives. The Plan is a defined benefit pension plan maintained by Baxter International Inc. to assist in providing Participants with retirement benefits.

1.3. Benefits of Participants Terminating Employment prior to Effective Date. The benefits payable with respect to Participants whose benefits were in pay status prior to the Effective Date and who do not again become Eligible Employees will in all respects continue to be governed by the terms and conditions of the Plan as in effect at the time such benefits commenced. Except to the extent expressly provided to the contrary in an applicable Supplement or elsewhere in the Plan, the Accrued Benefits, eligibility, vesting and other rights of other Participants incurring a Termination of Employment prior to the Effective Date will continue to be governed by the terms and conditions of the Plan as in effect at the time of such Termination of Employment.

1.4. Supplements. Supplements to the Plan may be adopted, attached to and incorporated in the Plan at any time. The provisions of any such Supplements will have the same effect that such provisions would have if they were included within the basic text of the Plan. Supplements will specify the persons affected and will supersede the other provisions of the Plan to the extent necessary to eliminate inconsistencies between the Plan provisions and the provisions of such Supplements.

1.5. Baxalta Incorporated Spin-Off. In connection with the Company’s spin-off of its biopharmaceutical business, the Company underwent an internal reorganization and

incorporated Baxalta Incorporated (“Baxalta”) as a subsidiary of the Company, and Baxalta was spun-off on July 1, 2015 (the “Spin-Off Date”) pursuant to a Separation and Distribution Agreement (the “Agreement”), and thereupon became an independent, publicly traded corporation which owns and operates the biopharmaceutical business previously owned and operated by the Company.

As described in the Agreement and the Employee Matters Agreement between the Company and Baxalta, Baxalta established, effective as of May 1, 2015, the Baxalta Incorporated Pension Plan (the “Baxalta Plan”), a qualified defined benefit plan that generally mirrors the Plan, to provide for the benefits of the following Employees who were Participants immediately prior to the date such Employee transfers to employment with Baxalta from the Company:

- (a) An Employee (including an Employee who is on an approved leave of absence from the Company) who transfers to employment with Baxalta from the Company on or before the Spin-Off Date; or
- (b) An Employee who transfers to employment with Baxalta from the Company in accordance with the Transition Services Agreement.

As described in the Agreement and the Employee Matters Agreement, the assets and liabilities in the Plan allocable to an Employee who transferred to employment with Baxalta as described in this Section (a “Baxalta Participant”), were transferred to the Baxalta Plan as of May 1, 2015, in accordance with Code Section 414(l) (and the regulations promulgated thereunder) and ERISA Section 4044, as applicable. As a result of such, a Baxalta Participant shall cease to have any benefit under the Plan following his transfer of employment to Baxalta, and shall instead participate under the Baxalta Plan; provided, however, that the benefit of any Baxalta Participant who terminated employment between May 1, 2015, and the Spin-Off Date were transferred from the Baxalta Plan back to the Plan. For the avoidance of doubt, an Employee who transfers to employment with Baxalta as described in this Section and is subsequently rehired by the Company is not eligible to participate in the Plan.

ARTICLE II.
Definitions

The following terms, whenever used in the capitalized form, will have the meanings set forth below unless the context clearly indicates otherwise:

2.1. "Accrued Benefit" means, subject to (c) below and the limitations of Sections 13.11 and 13.12, a monthly amount payable to or for the benefit of a Participant commencing on the Payment Date for his Normal Retirement Pension Benefit under Section 4.1 (or if later, the Payment Date for his Late Retirement Pension Benefit described in Section 4.2), equal to the greater of (a) or (b):

- (a) **General Formula.** A Single Life Annuity in an amount equal to (i) minus (ii) multiplied by (iii):
 - (i) an amount equal to one and three-quarters percent (1-3/4 percent) of the Participant's Average Monthly Compensation multiplied by his Projected Benefit Service; *minus*
 - (ii) an amount equal to one and three-quarters percent (1-3/4 percent) of the Participant's Primary Social Security Benefit multiplied by his Projected Benefit Service. In no event will the amount calculated under this paragraph (ii) exceed 60 percent of the Participant's Primary Social Security Benefit; *multiplied by*
 - (iii) an amount equal to a fraction, the numerator of which is the Participant's actual Years of Service and the denominator of which is the Participant's Projected Benefit Service.

For Participants who terminate employment on or after December 31, 1997 with a Non-forfeitable Accrued Benefit, the benefit provided under this subsection will be increased as necessary so that the monthly payment is not less than \$100.

- (b) **Alternate Formulae.** The Accrued Benefit of a Participant will be the greater of the Accrued Benefit described in (a) above or, if applicable, the greatest Accrued Benefit payable as a Single Life Annuity for such Participant which is determined as follows:
 - (i) **American Merger Benefit.** Subject to the conditions described in the Plan as in effect on November 25, 1985 (the "Merger Date"), each Participant who was a Participant on the Merger Date is entitled to a fully vested benefit (referred to as the "American Merger Benefit") which is payable in lieu of any other benefits under the Plan if such American Merger Benefit is larger than the benefits otherwise payable to or for the benefit of such Participant hereunder. Such American Merger Benefit will be determined under the terms of the Plan as in effect on the Merger Date

and will be an amount determined as of the Merger Date equal to (A) minus (B) multiplied by (C):

- (A) an amount equal to four and one-quarter percent (4¼ percent) of the Participant's Average Monthly Compensation as of the Merger Date (under the terms of the Plan as then in effect) multiplied by his Projected Benefit Service as of the Merger Date; *minus*
 - (B) an amount equal to one and three-quarters percent (1¾ percent) of the Participant's Primary Social Security Benefit as of the Merger Date (under the terms of the Plan as then in effect) multiplied by his Projected Benefit Service as of such date (under the terms of the Plan as then in effect). In no event will the amount calculated under this subparagraph (B) exceed 60 percent of the Participant's Primary Social Security Benefit; *multiplied by*
 - (C) an amount equal to a fraction, the numerator of which is the Participant's actual Years of Service as of the Merger Date (under the terms of the Plan as then in effect) and the denominator of which is the Participant's Projected Benefit Service determined as of the Merger Date (under the terms of the Plan as then in effect).
- (ii) **Alternative Benefit under Applicable Supplement.** The Accrued Benefit of certain groups of Participants which are frozen or otherwise limited or modified may be preserved as a minimum benefit in accordance with an applicable Supplement.
 - (iii) **No Diminishment of Benefit Amount after Early Retirement.** In no event will the Accrued Benefit of a Participant eligible for a normal retirement benefit be less than the largest early retirement benefit the Participant could have received if he had retired on his Early Retirement Date.
 - (iv) **Top-Heavy Minimum Benefit.** If Article XII is applicable to the Plan, the minimum benefit requirements of Section 12.4 may entitle certain Participants to minimum benefits under the Plan.
 - (v) **Pre-1989 Accrued Benefit.** Each Participant who was an Eligible Employee on December 31, 1988, under the terms of the Plan as in effect on such date is entitled to a "1988 Minimum Benefit" which is payable in lieu of any other benefits under the Plan if such 1988 Minimum Benefit is larger than the benefits otherwise payable to or for the benefit of such Participant hereunder. Such 1988 Minimum Benefit will be an amount determined in accordance with the provisions of Section 2.1(a), except that such determination will not be subject to Section 2.11(e), and such determination will be made as of December 31, 1988, on the basis of the Participant's Average Monthly Compensation, Projected Benefit Service,

Primary Social Security Benefit and Actual Years of Service of such Participant as of such date as determined under the terms of the Plan as then in effect.

- (vi) **Pre-1990 Accrued Benefit.** Each Participant who was an Eligible Employee on December 31, 1989 under the terms of the Plan as in effect on such date is entitled to a “1989 Minimum Benefit,” which is payable in lieu of any other benefits under the Plan if such 1989 Minimum Benefit is larger than the benefits otherwise payable to or for the benefit of such Participant hereunder. Such 1989 Minimum Benefit will be an amount determined as of December 31, 1989 in accordance with Section 2.1(a), except that for purposes of this subsection (b)(vi) the Average Monthly Compensation, the Projected Benefit Service, the Primary Social Security Benefit and the actual Years of Service of a Participant will be determined as of December 31, 1989 based upon the terms of the Plan as then in effect.
- (c) **Nondiscrimination Limitations.** The benefits accrued on behalf of any Participant who is a Highly Compensated Employee will be limited to no more than the maximum amount that may be so accrued on behalf of such Highly Compensated Employee under the Code Section 401(a)(4) nondiscrimination compliance testing method then in effect.

The benefit under any of Section 2.1(b)(i)-(vi) will be determined with reference to all of the provisions of the previous versions of this Plan referred to in such Section, including minimum benefit provisions similar to the other minimum benefit provisions of Section 2.1(b)(i)-(vi).

2.2. “Actuarial Equivalent” means, for purposes of computing a Lump Sum or the payments under the forms of benefit described in Article VII and for purposes of computing any adjustments applicable under the Plan to reflect the commencement of any form of benefit payments on or after the Effective Date and at a time other than a Participant’s Normal Retirement Date, the Pension Benefit having the same value as the Accrued Benefit based upon the applicable interest rates and mortality assumptions described below.

- (a) The following interest rates and mortality assumptions will apply with respect to a Participant who incurs a Termination of Employment:
 - (i) Ten percent (10%) per annum compounded annually and applied as of the date of determination with respect to any computation of an optional form of benefit other than a Lump Sum;
 - (ii) For a Lump Sum, the Pension Benefit Guaranty Corporation (“PBGC”) immediate or deferred annuity interest rate (whichever is applicable) in effect at the beginning of the Plan Year in which the Participant’s benefit is paid hereunder, unless otherwise provided for in an applicable Supplement. Such PBGC rate will apply to Participants who incur a Termination of Employment prior to January 1, 1996. However, if the

Participant's Termination of Employment occurred during the 1995 Plan Year, such rate will be the lesser of the PBGC rate in effect on the first day of the 1995 Plan Year or January 1, 1996 if the distribution was not made prior to January 1, 1996. Effective for Terminations of Employment occurring after December 31, 1995, the applicable rate of interest based on the annual 30-year Treasury securities rate for October of the year prior to the Plan Year in which the Participant's benefit hereunder is paid (except as otherwise provided in the last paragraph of this Section 2.2(a)(ii)) will be used to calculate Lump Sums; provided, however, that for distributions made in 1996, the applicable interest rate will not be greater than the annual 30-year Treasury securities rate for November of 1995.

Beginning in February 2002, in light of the decision by the United States Department of Treasury to suspend issuance of 30-year bonds, and to therefore cease publication of the annual rate of interest on 30-year Treasury securities, the "annual rate of interest on 30-year Treasury securities" for a particular month will be based on such written guidance as may be issued from time to time by the Internal Revenue Service describing the appropriate 30-year Treasury interest rate to use for purposes of Code section 417(e).

For each Plan Year commencing with 2008, the interest rate shall be a blended rate, equal to the sum of the interest rate on 30-year Treasury securities, as determined in the preceding paragraphs, multiplied by the applicable percentage from the following table, plus the applicable segment rate, based upon the number of years until the Participant's Normal Retirement Date, as determined under Code section 417(e)(3) as amended by the Pension Protection Act of 2006 for October of the year preceding the commencement of the Plan Year, multiplied by the applicable percentage from the following table:

Plan Year	Percentage for 30-year Treasury security rate	Percentage for applicable segment rate
2008	80	20
2009	60	40
2010	40	60
2011	20	80
2012 and thereafter	0	100

Effective December 1, 2012, the applicable rate of interest shall be based on the rate in effect for August of the year prior to the Plan Year in which the Participant's benefit hereunder is paid; provided, however, that in the case of a Lump Sum paid prior to January 1, 2014, other than a Lump Sum paid pursuant to Supplement M, the applicable rate of interest shall be the

rate for either October or August of the year prior to the Plan Year in which the benefit is paid, whichever produces the larger Lump Sum.

- (b) The mortality assumption is determined in accordance with the 1971 Group Annuity Mortality Table, weighted 75 percent male and 25 percent female. Effective for Terminations of Employment occurring after December 31, 1995, the mortality assumption for purposes of the calculation of a Lump Sum payment will be the applicable mortality table prescribed by the Secretary of the Treasury pursuant to Code Section 417(e)(3)(A)(ii)(I). For purposes of the foregoing, the “applicable mortality table” for distributions with annuity start dates beginning on or after December 31, 2002, is the mortality table prescribed by the Secretary of the Treasury as set forth in Revenue Ruling 2001-62. The “applicable mortality table” for distributions with annuity start dates beginning during 2008 is the mortality table set forth in Revenue Ruling 2007-67, and for distributions with annuity start dates beginning in Plan Years after 2008 the applicable mortality table will be the mortality table specified for the Plan Year by the Secretary of the Treasury pursuant to Code section 417(e)(3) as amended by the Pension Protection Act of 2006, each which applicable mortality tables is incorporated herein by this reference.

2.3. “Administrative Committee” means the committee which is responsible for administering the Plan in accordance with Article VIII.

2.4. “American” means American Hospital Supply Corporation, the sponsor of the AHSC Plan prior to the Merger Date.

2.5. “Average Monthly Compensation” means, effective for Participants whose Termination of Employment occurs after December 31, 1997, the amount determined under this Section. For Participants whose last Termination of Employment occurred prior to January 1, 1998, the rules in Supplement H will apply, along with the provisions of subsection (f) below. Prior to April 1, 2004, Average Monthly Compensation shall be determined in accordance with this Section 2.5 as in effect prior to this restatement (including all interpretations and administrative practices thereunder); provided that in no event shall any amendment to this Section 2.5 reduce any Participant’s Accrued Benefit as of March 31, 2004).

Average Monthly Compensation is the Participant’s Compensation paid while an Eligible Employee during the five consecutive Plan Years during the Participant’s compensation history which produces the largest amount, divided by 60. A Participant’s compensation history includes the ten consecutive Plan Years preceding his most recent Termination of Employment. However, if a Participant’s Termination Date is on or after December 7 of a Plan Year, such Plan Year will be included in the Participant’s ten-year compensation history. If a Participant has fewer than five consecutive Plan Years but at least one Plan Year in his Compensation history, the Compensation from those years will be divided by the number of months in those Plan Years.

A Participant’s compensation history and Average Monthly Compensation will be determined without regard to the following “drop-out years” and the Compensation earned in such years:

- (i) the Participant's first partial Plan Year of employment as an Eligible Employee,
- (ii) any Plan Year in which the Participant was an Eligible Employee and was credited with less than 1,000 Hours of Service,
- (iii) any Plan Year in which the Participant performed no services for an Employer, and
- (iv) any Plan Year in which the Participant was employed at any time during such Plan Year by a Non-Participating Employer other than an Employer that has adopted the Baxter Healthcare Corporation of Puerto Rico Pension Plan as described in subsection (d), below, unless the Participant transferred from a Participating Employer to any such Non-Participating Employer on or after December 7 of the Plan Year, in which case the Plan Year will be included in determining Average Monthly Compensation, subject to clause (ii), above; provided, that this exclusion will only apply to Plan Years beginning with 2007 if the Non-Participating Employer to which the Participant is transferred is not a United States domestic Employer.

Except as provided in Section 2.11(a)(i)(A)(20), and subject to other provisions of the Plan, Compensation for any Plan Year will not include Compensation paid more than 30 days after the Participant's Termination of Employment.

Compensation will not be disregarded solely because it was used to calculate an Accrued Benefit that was previously paid in a lump sum.

The following special rules will apply in determining Average Monthly Compensation:

- (a) **Participants with Less Than One Year of Compensation.** If, after the drop-out years are disregarded, a Participant has less than one Plan Year of Compensation while an Eligible Employee, Average Monthly Compensation means the Participant's total Compensation as an Eligible Employee annualized based on the period over which such Compensation was earned and divided by twelve.
- (b) **Disabled Participants.** The Average Monthly Compensation of a Participant entitled to disability retirement benefits will be subject to the modification described in Section 4.4(a).
- (c) **Imputed Compensation.** Participants transferred to Allegiance Corporation on or about September 30, 1996 who consequently did not receive a full year of Compensation during the 1996 Plan Year will have their Average Monthly Compensation adjusted as set forth in Supplement D.
- (d) **Transfers to/from Puerto Rico.** If a Participant transfers from a Participating Employer to a Non-Participating Employer that has adopted the Baxter Healthcare Corporation of Puerto Rico Pension Plan, or transfers from such Non-

Participating Employer doing business in the Commonwealth of Puerto Rico to a Participating Employer, his Average Monthly Compensation will take into account both his Compensation and the Plan Years while employed by such Non-Participating Employer doing business in the Commonwealth of Puerto Rico and the Participating Employer as if he were at all times an Eligible Employee.

- (e) Rehired Participants.
 - (i) A Participant's Compensation in the year he is rehired will be disregarded for purposes of determining his Average Monthly Compensation, except as otherwise provided in clause (ii).
 - (ii) If the Participant was rehired in the same year that he incurred a Termination of Employment, such Plan Year and the Compensation earned during such Plan Year may be included in determining Average Monthly Compensation, subject to the drop-out rules, above, but if such Plan Year is included the calculation of Average Monthly Compensation shall be adjusted to reflect the fraction of the Plan Year of rehire during which the Compensation was earned.
 - (iii) A rehired Participant's Compensation earned as an Eligible Employee prior to his Termination of Employment shall be included (subject to the drop-out rules) regardless of whether he incurred a One-Year Break in Service prior to being rehired and regardless of whether he received a Lump Sum payment upon Termination of Employment. The Administrative Committee may establish procedures for estimating a Participant's Compensation during a prior period of employment if the actual amount cannot be ascertained.
 - (iv) The provisions of this paragraph (e) will not apply to a Participant who is rehired after December 31, 2006.
- (f) Transition Rules. The rules in this Section will apply with respect to Participants whose Termination of Employment occurs after December 31, 1997. If a Participant commenced a new compensation history under the Plan prior to January 1, 1998 under the prior rules for determining Average Monthly Compensation because of non-continuous service (a "service break"), and the Compensation for the Plan Year following the Plan Year in which the service break ends was more than the Compensation for the Plan Year prior to the Plan Year in which the service break began, then the rules in this Section will apply only with respect to the compensation history following such service break. If the Compensation in the Plan Year following the Plan Year in which the service break ends is less than the Compensation in the Plan Year prior to the Plan Year in which the service break began, then the rules in this Section will apply to all Plan Years prior to such service break and to all Plan Years following such service break. However, the foregoing sentence will not apply if subsequent

increases in Compensation result in a reduction in a Participant's Accrued Benefit in violation of Code Section 411(d)(6).

- (g) Rehires after Divestitures. In any case in which a Participant ceases to participate in the Plan as the result of a sale or other divestiture of the business that employed the Participant, and the Participant's Accrued Benefit and the assets attributable to such Accrued Benefit are transferred to another plan in connection with the transaction, if such Participant is subsequently rehired by an Employer the Compensation paid to such Employee prior to such transaction shall not be included in Average Monthly Compensation unless the Participant is rehired prior to January 1, 2007, and the Accrued Benefit and attributable assets are transferred back to the Plan.

2.6. "Beneficiary" means the persons or trusts validly designated by a Participant or the Plan in accordance with Section 6.7 to receive any benefits payable on behalf of such Participant after his death.

2.7. "Benefit Reduction Factors" means the factors utilized to adjust the amount of a Participant's benefits to reflect that such benefits are paid earlier than the Participant's Normal Retirement Date. The Benefit Reduction Factors utilized for purposes of the Plan will be determined as follows:

- (a) Participants with 85 Points. Except as provided in (d) below, the benefits of a Participant will not be reduced to reflect early payment if the total number of the Participant's Points as of his Termination of Employment equals or exceeds 85 Points.
- (b) Participants with At Least 65 but Fewer Than 85 Points and Disabled Participants. Except as provided in (d) below, the benefits of a Participant whose total number of Points as of his Termination of Employment equals 65 or more Points but less than 85 Points, or who qualifies for Disability Retirement under Section 4.4, will be calculated in accordance with Table 1 of Supplement A as of the date his payments commence.
- (c) Reduction Factors Applicable to Participants with Fewer Than 65 Points. Except as provided in (d) below, a Participant who incurs a Termination of Employment prior to attaining 65 Points and elects to cause his Benefits to commence at or after attainment of 65 Points will be subject to the Benefit Reduction Factors described in Table 4 of Supplement A.
- (d) Reduction Factors Applicable to Pre-1990 Accrued Benefits. In the case of a Participant whose Accrued Benefit is determined on the basis of his American Merger Benefit in accordance with Section 2.1(b)(i), the Benefit Reduction Factors are set forth in Table 3 of Supplement A. In the case of a Participant whose Accrued Benefit is determined on the basis of his 1988 Accrued Benefit in accordance with Section 2.1(b)(v) or on the basis of his 1989 Accrued Benefit in accordance with Section 2.1(b)(vi), the Benefit Reduction Factors are set forth in

Table 2 of Supplement A. However, if any Participant is age 55 upon Termination of Employment and his Accrued Benefit is based on the 1988 Accrued Benefit or the 1989 Accrued Benefit, the reduction factor will be .25% per month for each month that the Payment Date precedes the Participant's Normal Retirement Date. A Participant entitled to the American Merger Benefit is entitled to the .25% factor only if he attained age 55 as of November 25, 1985.

In no case will the benefit calculated above be less than the benefit to which a participant who did not incur a Termination of Employment prior to January 1, 1985 would be entitled on December 31, 1984 using the Actuarial Equivalent assumptions then in effect.

2.8. "Board of Directors" means the Board of Directors of the Company.

2.9. "Code" means the Internal Revenue Code of 1986, as amended.

2.10. "Company" means Baxter International Inc.

2.11. "Compensation" means the amount determined with respect to a Participant in accordance with the following alternative definitions:

(a) Compensation. Except as required by (b), (c) or (d) below, for each Eligible Employee, "Compensation" means the amounts paid by the Participating Employers during the Plan Year to such Eligible Employee for services as an Employee which is included in such Compensation under the rules set forth in Section 2.11(a)(i) below, other than such Compensation which is excluded under the rules set forth in Section 2.11(a)(ii) below. Compensation also includes amounts paid by a Non-Participating Employer that has adopted the Baxter Healthcare Corporation of Puerto Rico Pension Plan while an Eligible Employee is on the payroll of such Non-Participating Employer.

(i) Included Pay. For purposes of this subsection 2.11(a), an Eligible Employee's Compensation will include the items described in (A) and (B), below:

(A) The portion of such earnings of an Employee which are required to be reported as taxable income on Form W-2 (or which would be required to be so reported but for the fact that such Compensation is paid by an Employer in the Commonwealth of Puerto Rico), including:

1. bonuses paid pursuant to the Management Incentive Compensation Plan bonuses or any annual bonus plan adopted in replacement thereof; payments in lieu of salary increases; bonuses paid to sales representatives if included in the compensation plan; and other bonuses under bonus plans specifically designated by the Administrative

Committee as constituting Compensation hereunder, other than bonuses described in Section 2.11(a)(ii)(C)(7);

2. call in pay;
3. commission pay;
4. double time pay;
5. draws toward commissions;
6. funeral pay;
7. holiday pay;
8. jury duty pay;
9. lead pay;
10. mileage pay for long haul truckers;
11. military pay;
12. on-call (beeper) pay
13. overtime pay;
14. paid absences;
15. retroactive pay;
16. salary or other regular pay;
17. shift differentials;
18. sick pay or other short-term disability pay;
19. straight time pay;
20. severance pay as follows: (a) for an Eligible Employee whose Termination of Employment occurred prior to January 1, 1990, an amount equal to the actual amount of severance paid, not to exceed six months of severance pay; and (b) for Participants whose Termination of Employment occurred after December 31, 1989 and before May 1, 1996, six months of severance pay;
21. vacation pay.

- (B) the amount of any salary reduction or cash or deferred contributions made by such Eligible Employee under any plan maintained by the Participating Employers which satisfies the requirements of Code Section 125 (other than the amounts described in Sections 2.11(a)(ii)(C)(11) and (12) below), Code Section 401(k), or Code Section 132(f).
- (ii) **Excluded Pay.** For purposes of this Section 2.11(a), an Eligible Employee's Compensation will exclude:
- (A) Amounts required to be reported on such form as imputed income arising from the Participating Employer's moving expense reimbursement policies, the Participating Employer's life insurance plans or the Participating Employer's other fringe benefit plans;
 - (B) Amounts paid to replace benefits not provided under any qualified plan due to the contribution or benefit limitations or non-discrimination restrictions; and
 - (C) The following amounts paid, accrued or imputed:
 - 1. attendance awards;
 - 2. automobile allowances;
 - 3. business expense reimbursements;
 - 4. cash prizes or awards;
 - 5. gifts;
 - 6. contest pay;
 - 7. deferred compensation, including deferred bonuses;
 - 8. discretionary awards;
 - 9. employee referral awards;
 - 10. executive perquisite allowances;
 - 11. flex credits;
 - 12. flex cash;
 - 13. hiring bonuses;
 - 14. income from sale of stock;

15. income from the exercise of stock options;
16. interest earnings on deferred compensation, including deferred bonuses;
17. invention fees and awards;
18. long term disability pay;
19. mortgage differential payments;
20. noncash prizes or awards;
21. pay for unused sick time;
22. performance shares;
23. promotional awards;
24. relocation expense reimbursements;
25. restricted stock rights;
26. retention bonuses;
27. severance pay, effective for Terminations of Employment occurring after April 30, 1996;
28. stock appreciation rights;
29. tax equalization payments to expatriates;
30. technical achievement awards;
31. travel allowances;
32. tuition reimbursements; and
33. workers' compensation benefits.

- (b) **Compensation of Commissioned Sales Representatives.** Except as provided in (c) and (d) below, the definition of Compensation set forth in Section 2.11(a) will apply with respect to an Eligible Employee who is a commissioned sales representative receiving Compensation without reimbursement for expenses under Pay Plan D, except that only eighty-five percent (85%) of the amounts included in Compensation will be recognized.
- (c) **“Compensation” for Certain Purposes.** For purposes of Section 13.12, and for purposes of determining whether an Employee is a Highly Compensated

Employee, "Compensation" means the compensation paid by an Employer during the Plan Year to an Employee for personal services rendered and which is reportable as taxable income on IRS Form W-2, plus the amount of any salary reduction or cash or deferred contributions made by such Eligible Employee under any plan maintained by the Participating Employers which satisfies the requirements of Code Section 125, Code Section 401(k), or Code Section 132(f). Anything else contained herein to the contrary notwithstanding, effective January 1, 2008, "Compensation" for such purposes shall not include any amount paid to an Employee after the Employee's termination of employment unless (i) such amount is paid by the later of the end of the year in which employment is terminated or two and one half months after the date of termination, (ii) such amount would otherwise have been included in the applicable definition of Compensation, and (iii) such amount constitutes either salary, wages (including overtime, shift differentials and similar amounts), commissions or bonuses that would have been paid prior to termination of employment if the Employee's employment had not terminated, payment for unused sick, vacation or other leave that the Employee would have been able to use if employment had continued, or payment of nonqualified deferred compensation that would have been paid at the same time had employment not terminated.

- (d) Maximum Amount of "Compensation." The annual Compensation for each Eligible Employee taken into account under the Plan in any Plan Year shall not exceed \$265,000, as adjusted for such Plan Year for cost-of-living as provided in Code Section 401(a)(17). If Compensation for any prior Plan Year is taken into account in determining an Employee's benefits accruing in the current Plan Year, the Compensation for that prior Plan Year will be subject to the compensation limit in effect for that prior Plan Year; provided that the compensation limit for Plan Years prior to 2003 shall be \$200,000.
- (e) Differential Military Pay. Any amount paid to a Participant while on active duty for a period of more than 30 days in the uniformed services of the United States, which represents all or a portion of the Compensation the Participant would have received if not on active duty, shall constitute Compensation for all purposes of the Plan.

2.12. "Computation Period" means the Plan Year or, solely for purposes of determining Years of Eligibility Service under Section 2.50(c), either the twelve-month period commencing on the Employment Date or any Plan Year beginning with the first Plan Year commencing after the Employment Date.

2.13. "Death Benefit" means the benefit, if any, provided under Article VI of the Plan.

2.14. "Disability" means a mental or physical condition which occurs prior to a Participant's Termination of Employment which entitles the Participant to disability benefits under the federal Social Security Act. To qualify as a Disability, the Participant must be

determined to be disabled by the Social Security Administration as of a date which falls on or before his Termination of Employment (determined without regard to Section 2.45(b))

2.15. “Early Retirement Date” means the date of the Participant’s Termination of Employment subsequent to the date he has accumulated 65 Points and five Years of Service as defined in Section 2.50(b) (or after he has attained age 55, in the case of a Participant who first became a Participant prior to January 1, 1990 and whose Benefit is determined on the basis of his Pre-1990 Accrued Benefit in accordance with Section 2.1(b)(i), (v) or (vi)).

2.16. “Effective Date” means January 1, 2016, except as expressly provided otherwise in the Plan.

2.17. “Eligible Employee” means any Employee who was on the payroll of a Participating Employer on December 31, 2006, and whose Compensation constitutes wages from employment within the meaning of Sections 3121(a) and (b) of the Federal Insurance Contributions Act on and after the effective date of the adoption of the Plan by the Participating Employer. Eligible Employees will not include any of the following:

- (a) **Collective Bargaining Exclusion.** An Employee who is a member of a unit of employees covered by a collective bargaining agreement if there is evidence that retirement benefits were the subject of good faith bargaining between representatives of such unit and an Employer;
- (b) **Excluded Classifications.** (i) Employees employed in the Commonwealth of Puerto Rico or an Excluded Division listed on Supplement C; (ii) non-resident aliens with no U.S.-source income; (iii) non-resident aliens with U.S.-source income who have been assigned one of the benefit entitlement codes listed in Supplement E; (iv) any Employees (including U.S. citizens) accruing benefits under the Company’s pension plan for international employees, (v) leased employees described in Code Section 414(n) or (vi) an independent contractor or self-employed individual. If an Employee is excluded from participation in the Plan as an independent contractor and is later reclassified as an employee for wage and hour purposes such Employee will be eligible as of the date of his reclassification to become a Participant, upon the completion of the eligibility requirements of Section 3.2, and will be credited with his Years of Service completed since the date as of which he became an employee for purposes of Section 2.50(b) but not for purposes of Section 2.50(a). If a Participant is reclassified for wage and hour purposes as an independent contractor or self-employed individual, any Accrued Benefit under the Plan attributable to service while the individual was improperly classified will be forfeited.
- (c) **Employees Hired after December 31, 2006.** Anything else contained herein to the contrary notwithstanding, an Employee who was not employed by a Participating Employer on December 31, 2006, shall not be an Eligible Employee, and shall not become a Participant or accrue any benefit hereunder.

2.18. “Employee” means any person who is an employee of an Employer (as determined under the law of the relevant state or country) in active employment or on an approved leave of absence (including the period of Disability described in Section 4.4), including the period of time before which it became an Employer, but excluding the period of time after which it ceases to be an Employer. An individual who is considered a leased employee of an Employer under the provisions of Code Section 414(n)(2), as amended by the Small Business Job Protection Act of 1996, will be an Employee.

For purposes of the Plan, including Section 2.17(b)(v), “leased employee” means any person (other than a common-law employee of an Employer) who, under an agreement between an Employer and any other person (the “leasing organization”), has performed services for an Employer or for an Employer and related persons (determined in accordance with Code Section 414(n)(6)) on a substantially full-time basis for a period of at least one year, provided that the services are performed under the primary direction or control of an Employer. Contributions provided to a leased employee that are attributable to services performed for an Employer will be treated as provided by the Employer. The term “leased employee” will not include any person who would otherwise be a leased employee if (a) the person is covered by a money purchase pension plan providing (i) a nonintegrated employer contribution rate of at least 10% of compensation, as defined in Code Section 415(c)(3), but including amounts contributed in accordance with a salary reduction agreement that are excludable from the person’s gross income under Code Section 125, 402(e)(3), 402(h), or 403(b), (ii) immediate participation, and (iii) full and immediate vesting; and (b) leased employees do not constitute more than 20% of the workforce of the Employer who are not Highly Compensated Employees.

2.19. “Employer” means:

- (a) **Controlled Group.** A Participating Employer and any corporation, trade or business, if it and the Participating Employer are members of a controlled group of corporations as defined in Code Section 414(b) or under common control as defined in Code Section 414(c); provided, however, that, solely for purposes of the provisions pertaining to maximum pensions set forth in Section 13.12, the standard of control under Code Sections 414(b) and 414(c) will be deemed to be “more than 50 percent” rather than “at least 80 percent”;
- (b) **Affiliated Service Group.** A Participating Employer and an organization, if it and the Participating Employer are members of an affiliated service group as defined in Code Section 414(m); or
- (c) **Other Related Organizations.** A Participating Employer and any other organization described in applicable regulations issued under Code Section 414(o).

2.20. “Employment Date” means the day a person is credited with his first Hour of Service, or in the case of an Employee who loses his prior Years of Eligibility Service, the first day on which the Employee is credited with an Hour of Service upon his rehire as an Employee.

2.21. “Entry Date” means January 1 and July 1 of each Plan Year, except as provided in Section 3.3(b).

2.22. “ERISA” means the Employee Retirement Income Security Act of 1974, as amended.

2.23. “Excluded Division” means a division or unit of a Participating Employer, the Employees of which are not Eligible Employees. Excluded Divisions are all divisions or units excluded from the Plan pursuant to Supplement C.

2.24. “Highly Compensated Employee” refers to an Employee if, for a Plan Year:

- (a) The Employee was a five-percent owner (as defined in Code Section 416(i)) of the Employer at any time during that Plan Year or the preceding Plan Year; and
- (b) for the preceding year, the Employee
 - (i) had Compensation in excess of \$120,000 (as adjusted pursuant to Code Section 414(q)(1)), and
 - (ii) was in the top 20% of Employees, ranked by Compensation paid during such Plan Year.

For purposes of paragraph (b)(ii) Compensation is not limited as provided in Code Section 401(a)(17). Employees who have not completed six months of service, who normally work less than 17½ hours per week, who normally work not more than six months during any Plan Year, who have not attained age 21 and union employees are excluded from the determination of the top 20% of Employees.

For purposes of this Section, non-resident aliens with no U.S.-source income are not considered Employees.

2.25. “Hour of Service” means:

- (a) **Duty Hours.** Each hour for which an Employee is directly or indirectly paid or entitled to payment by an Employer for the performance of duties.
- (b) **Non-Duty Hours (Paid).** Each hour for which an Employee is directly or indirectly paid or entitled to payment by an Employer for reasons (such as vacation, holidays, sickness, short-term disability, long-term disability, medical leave, family medical leave or jury duty) other than the performance of duties.
- (c) **Non-Duty Hours (Unpaid).** Each hour for which an Employee is not paid due to medical leave, family medical leave, approved leave of absence or on layoff. Up to a total of 501 Hours of Service will be credited under this subsection (c) to an Employee in a Computation Period on account of any single continuous period during which the Employee performs no duties; provided, however, that if such continuous period extends into the next Computation Period, up to 501 additional Hours of Service will be credited in such next Computation Period; and further provided that no Hours of Service will be credited under this subsection (c) for any period of time after the Employee’s Termination of Employment.

- (d) **Back-Pay Hours.** Each hour for which no credit has been given under subsections (a), (b) or (c) above, but for which back pay, irrespective of mitigation of damages, has been either awarded or agreed to by an Employer.
- (e) **Military Service Hours.** To the extent not taken into account under another subsection of this Section, each hour of the normally scheduled work week during a period when the Employee is absent from employment with an Employer for voluntary or involuntary military service with the armed forces of the United States, provided that either such Employee is receiving Compensation from the Employer representing the differential between the Employee's normal Compensation and the amount paid to the Employee by the armed forces, or that the Employee returns to work within 90 days after his discharge date or within such longer period of time as may be prescribed by USERRA.
- (f) **Worker's Compensation.** No Hours of Service will be credited if payment is made solely to comply with applicable workers' compensation or disability insurance laws.
- (g) **Disability.** For purposes of Section 2.50, Hours of Service will only be counted during a period for which a Participant receives payments on account of a Disability to the extent provided in Section 4.4.
- (h) **Intermittent Family Leave.** An Employee will be credited with Hours of Service for each week in which he is on Intermittent Family Leave. Subsection (c) will not apply to such Employees. "Intermittent Family Leave" has the meaning given in the Employer's policies and procedures manual for an Employee who periodically needs time off for the treatment and care of himself or family members due to conditions which require ongoing medical treatment but which do not require the Employee to take an extended leave of absence to provide or obtain such care.
- (i) **Maternity/Paternity Absences and FMLA Leave.** An Employee who is absent from work due to a Maternity/Paternity Absence (as hereinafter defined) or due to an unpaid leave of absence for which credit is required pursuant to the Family Medical Leave Act of 1993, as amended, to be given for purposes of avoiding a break in service shall be treated as having completed certain Hours of Service for a limited period. The Employee will be treated as completing either (i) the number of Hours of Service that normally would have been credited but for the absence (i.e., 45 Hours of Service per week) or (ii) if the normal work hours are unknown, eight Hours of Service for each normal workday during the leave, to a maximum per Plan Year of 501 Hours of Service. The Hours of Service required to be credited under this subsection must be credited only to prevent a One-Year Break in Service in the Plan Year in which the absence begins for one of the permitted reasons or, if crediting in such year is not necessary to prevent a One-Year Break in Service in the Plan Year, in the following Plan Year. For this purposes, a "Maternity/Paternity Absence" means a paid or unpaid absence from employment (including an unapproved leave of absence) with an Employer by

reason of the pregnancy of the Employee; by reason of the birth of a child of the Employee; by reason of the placement of a child under age 18 in connection with the adoption of the child by the Employee (including a trial period prior to adoption); or for purposes of caring for a child immediately following birth or adoption. The Employee must prove to the satisfaction of the Administrative Committee that the absence meets the above requirements and must supply information concerning the length of the absence unless the Administrative Committee has access to relevant information without the Employee submitting it

The number of Hours of Service to be credited to Employees will be calculated based on 45 hours for each week for which the Employee would be entitled to at least one Hour of Service. In the case of a payment which is made or due on account of a period during which an Employee performs no duties and which results in the crediting of Hours of Service under subsection (b), (c) or (e) above, or in the case of an award or agreement for back pay made with respect to a period described in subsection (d) above, the number of Hours of Service to be credited will be in accordance with the provisions of the Rules and Regulations for Minimum Standards for Employee Pension Benefit Plans, U.S. Department of Labor, 29 C.F.R. Section 2530.200b-2(b) which are hereby incorporated by reference. Such rules and regulations will apply to subsection (c) above as if absences described in such Section were paid absences. Hours of Service will be credited to a Plan Year in accordance with the provisions of subsection (c) of the above-cited Department of Labor Regulations. Hours required to be credited for more than one reason under this Section which pertain to the same period of time will be credited only once.

For purposes of determining the Hours of Service for eligibility, Years of Service under Section 2.50(b) and Points under Section 2.40, an Employee employed by a Non-Participating Employer outside of the United States (i.e., not on a U.S. payroll) will be credited with 190 Hours of Service for each month during which he is employed in such capacity.

2.26. “Investment Committee” means the committee which is responsible for directing the investment of the Trust Fund in accordance with Article VIII.

2.27. “Investment Manager” means a fiduciary who meets the requirements of ERISA Section 3(38) and to whom the Investment Committee has delegated the responsibility for investment of a portion of the assets of the Trust Fund.

2.28. “Joint and 50 Percent Survivor Annuity” means, except where specifically provided to the contrary in Sections 6.3(b) and 7.2(a), a reduced Pension Benefit payable monthly during the lifetime of the Participant with the provision that 50 percent of such monthly benefit will be payable to the Participant’s surviving Spouse in monthly installments commencing on the first day of the month following the month in which the Participant dies, and continuing thereafter on the first day of the month during the remaining lifetime of the Spouse.

2.29. “Lump Sum” means a lump sum payment in cash which is the Actuarial Equivalent of the Participant’s Accrued Benefit.

2.30. “Non-forfeitable” means, with respect to a Participant’s Accrued Benefit, 100% of such Accrued Benefit, provided that the Participant:

- (a) reached his Normal Retirement Date;
- (b) completed five Years of Service if the Participant was employed by an Employer after December 31, 1988;
- (c) completed ten Years of Service if the Participant was employed by an Employer prior to January 1, 1989, but not after December 31, 1988;
- (d) is entitled to the American Merger Benefit described in Section 2.1(b)(i), (but such Non-forfeitable interest obtained by this subsection (d) will be limited to such American Merger Benefit); or
- (e) is subject to accelerated vesting under Article V, but only with respect to the Accrued Benefit earned as of the date provided for in the resolution that grants full vesting of the Accrued Benefit.

2.31. “Normal Retirement Date” means the date on which a Participant attains age 65.

2.32. “One-Year Break in Service” means a Computation Period (other than the first Computation Period used to determine Eligibility Years of Service) in which an Employee has fewer than 501 Hours of Service.

2.33. “Participant” means a person who is participating in the Plan pursuant to the provisions of Article III.

2.34. “Participating Employer”; “Non-Participating Employer”. A Participating Employer means the Company or any Employer on and after the effective date of its adoption of the Plan in accordance with Section 10.1. A Non-Participating Employer means any Employer which is not a Participating Employer. For all purposes of the Plan, an Employee who is employed by a Non-Participating Employer, but who is nevertheless eligible to participate in the Plan under a grandfather rule or similar action by the Administrative Committee, shall be treated as employed by a Participating Employer.

2.35. “Participating Employer Contributions” means contributions by Participating Employers to the Trust under the terms of Section 9.8.

2.36. “Payment Date” means the date as of which the payment of a retirement or disability benefit commences as set forth in Sections 4.1 through 4.5. If a Participant is rehired by an Employer prior to his Normal Retirement Date, any Payment Date determined under Sections 4.3, 4.4 or 4.5 will be disregarded.

2.37. “Pension Benefit” means the benefit payable to a Participant under the provisions of Section 4.1, 4.2, 4.3, 4.4 or 4.5.

2.38. “**Plan**” means the Baxter International Inc. and Subsidiaries Pension Plan (as amended), as set forth in this document and the attached Supplements.

2.39. “**Plan Year**” means the twelve consecutive month period beginning January 1 and ending December 31.

2.40. “**Points**” means, with respect to any Participant, a number which is equal to

- (a) the sum of the number of full years of the Participant’s attained age and the number of his Years of Service described in Section 2.50(a); plus
- (b) the Participant’s service with Non-Participating Employer(s) that would have constituted Years of Service under Section 2.50(a) as if such Non-Participating Employer(s) were Participating Employer(s) and as if the Participant’s remuneration with such Employer(s) consisted of wages subject to the Federal Insurance Contributions Act while employed by such Employer; plus
- (c) the Participant’s service with an Employer after December 31, 2006, that would have constituted Years of Service if the Participant had not elected to cease accruing benefits as of December 31, 2006, pursuant to Section 3.1(c); minus
- (d) any Years of Service under Section 2.50(a) attributable to prior Lump Sums of \$5,000 or less.

For purposes of Section 2.40(b), above, a Participant will receive credit for 190 Hours of Service for each calendar month in which he is employed by a Non-Participating Employer outside of the United States.

2.41. “**Primary Social Security Benefit**” means the benefit amount specified in (a) below, subject to the provisions of (b), (c), (d) and (e) below:

- (a) **General Rule.** The estimated monthly primary insurance amount that a Participant is or would be entitled to receive commencing at age 65, or at Termination of Employment, if later, under the Social Security Act, whether or not he applies for or actually receives such benefit. For purposes of the Plan, such estimated amount will be determined as of the last date that he receives Compensation (“Date of Determination”) on the following basis.
 - (i) **Social Security Act.** The calculation is based on the provisions of the Social Security Act as in effect on the Date of Determination (regardless of any retroactive changes made by legislation enacted after said date). The factors for indexing wages, if any, and the table or formula that would be used to compute the Participant’s benefit upon his attaining age 65, or his Date of Determination if later, will remain unchanged from those in effect on the Date of Determination.
 - (ii) **Wages in Past Years.** If submitted by the Participant as described in (c) below, the Participant’s actual wages under Code Section 3121 for Past

Years; otherwise wages in Past Years are determined by projecting the Pivot Wage backwards from the Pivot Year by six percent (6%) per year..

(iii) Wages in Future Years. Wages in all Future Years are assumed to equal the Pivot Wage;

(iv) Definitions.

- (A) "Pivot Year" is the calendar year preceding the calendar year of the Date of Determination.
- (B) "Past Years" are those calendar years equal to or before the Pivot Year and equal to or after the later of the calendar year 1951 or the calendar year of the Participant's 22nd birthday.
- (C) "Future Years" are those calendar years after the Pivot Year and before the later of the calendar year of the Date of Determination or the calendar year of the Participant's 65th birthday.
- (D) "Annualized Compensation" for a calendar year is the actual Compensation received in the calendar year multiplied by a fraction, the numerator of which is the number of days in the calendar year and the denominator of which is the number of days in the calendar year included in the period or periods for which the Participant received Compensation.
- (E) "Pivot Wage" is the Participant's Annualized Compensation for the Pivot Year if the Participant received any Compensation in the Pivot Year; otherwise it is the Annualized Compensation for the calendar year of the Date of Determination discounted by six percent (6%).

(b) **Disability Exception.** The Primary Social Security Benefit for a Participant eligible to receive a disability retirement benefit under Section 4.4 will be calculated as described in subsection (a) above except that:

- (i) The Date of Determination will be the earlier of the date he ceases accruing an Accrued Benefit under Section 4.4 or his Normal Retirement Date; and
- (ii) The Participant's Pivot Year will be the calendar year next preceding the year in which his Disability arose for which a full year of such wages were paid.

(c) **Proof of Actual Benefit Amounts.** The Participant may submit his actual wage history on such forms, in such manner and at such times as the Administrative Committee will require for the purpose of determining wages through the Participant's Termination of Employment. In no case will the submission of a

Participant's actual wage history cause him to receive a smaller benefit than he would have been entitled to using estimated earnings. A Participant will have up to six months to submit his actual wage history after being informed of the opportunity to do so. A Participant may not submit his actual wage history later than 30 days prior to his Payment Date. A Participant who has attained age 65 may submit an actual award letter from the Social Security Administration at least 30 days prior to his Payment Date and such award will be used to determine the offset under Section 2.1, if the offset is less than the amount that would have been offset using the assumptions set forth in this Section 2.41. The date payments commence under such award letter (or the date of such award letter if there is no commencement date) must be no earlier than twelve months prior to the Participant's Payment Date.

- (d) **Limitation on Offset.** Notwithstanding the provisions of subsections (a), (b), or (c) above, where it can be demonstrated that the dollar amount of a Participant's Primary Social Security Benefit determined above and offset by this Plan exceeds the amount permitted to be offset for the Plan to remain qualified under Code Section 401(a), based on the Participant's actual detailed earnings history under Code Section 3121, such offset will be accordingly reduced.
- (e) **Accrued Benefit Prior to January 1, 1988.** Notwithstanding any other provisions of this Section, the Accrued Benefit of a Participant who terminated employment prior to January 1, 1988 will be determined by the AHSC Plan or Travenol Plan as in effect immediately prior to such date.'

2.42. "Projected Benefit Service" means a Participant's actual Years of Service plus the additional Years of Service he would be expected to earn if he continued in employment as an Eligible Employee who performs at least 1,000 hours of service each Plan Year until his Normal Retirement Date.

2.43. "Single Life Annuity" means the form of payment of a Participant's Pension Benefit described in Section 7.2(b).

2.44. "Spouse" means the person who is married to the Participant at the relevant time. If a Participant was lawfully married under the laws of the state or other jurisdiction in which the marriage ceremony was performed (including a marriage to a person of the same gender), or if a Participant entered into a common law marriage that was valid in the state or other jurisdiction in which the Participant resided at the time, the person to whom the Participant was married shall continue to be considered the Participant's Spouse regardless of the laws of the state or other jurisdiction in which the Participant currently resides. The Administrative Committee is entitled to rely on a Participant's representation of his marital status. A Participant whose records indicate that he is married may establish that he was subsequently divorced or abandoned upon delivery of a court order evidencing the same to the Administrative Committee.

2.45. "Termination of Employment" occurs when a person ceases to be an Employee. The Termination of Employment for an Employee incurring a separation from service prior to May 1, 1996 will occur as of the last day he is listed on an Employer's payroll.

The Termination of Employment of an Employee incurring a separation from service after April 30, 1996 will occur as of the date of such separation, regardless of whether any post-separation pay is owed to such Participant or included in such Participant's Compensation. The date of a Participant's Termination of Employment is subject to the provisions of Supplement D. The foregoing provisions also are subject to the following rules:

- (a) **Transfers.** A transfer of employment from a Participating Employer to any other Employer within the controlled group as defined in Section 2.19(a) will not constitute a Termination of Employment.
- (b) **Disability.** Effective for disabilities determined by the Social Security Administration to have occurred after September 30, 1996 a Participant's Termination of Employment, for purposes of determining whether an Employee is entitled to a Disability Pension Benefit under Section 4.4, occurs as of the end of the six-month period immediately following his separation from service with an Employer during which he is receiving disability pay. If no disability date is indicated by the Social Security Administration's award letter, then the disability date will be deemed to occur after September 30, 1996 as long as the Social Security award letter is dated after March 31, 1997. If the award letter is dated prior to April 1, 1997, the disability date will be deemed to occur prior to October 1, 1996 and the six-month period will be increased to twelve months. For purposes of determining his Accrued Benefit under Section 4.4(a), a Disabled Participant's Termination Date is his Normal Retirement Date, or if earlier, the date he elects to commence his Disability Retirement under Section 4.4(b).

2.46. "Trust" means the legal entity resulting from the Trust Agreements entered into by or on behalf of the Participating Employers and the Trustee pursuant to which assets of the Plan are received, held, invested and distributed to or for the benefit of Participants, Spouses, and Beneficiaries.

2.47. "Trust Agreement" means the agreements entered into by or on behalf of the Participating Employers and the Trustee establishing the Trust, as amended.

2.48. "Trust Fund" means all assets held by the Trustee, Investment Managers and insurance institutions in accordance with the Trust Agreement and the Plan.

2.49. "Trustee" means any individual(s) or corporation(s) designated in the Trust Agreement to execute the duties of the Trustee as set forth in the Trust Agreement.

2.50. "Year of Service" means each Computation Period during which an Employee earns at least 1,000 Hours of Service.

- (a) **Benefit Accrual.** For purposes of determining a Participant's Accrued Benefit and Projected Benefit Service, a Year of Service means a Year of Service (including periods of Disability to the extent provided in Section 4.4) earned while a Participant excluding:

- (i) Non-Participating Employer Service. All Years of Service due to employment with (a) an Employer prior to the date as of which it became a Participating Employer (except as otherwise agreed to by the Administrative Committee or its delegate in connection with such adoption); (b) a Non-Participating Employer; and (c) an Excluded Division of a Participating Employer.
- (ii) Service Prior to Participation. All Years of Service with a Participating Employer prior to becoming a Participant except that the following service prior to becoming a Participant will be recognized:
 - (A) Effective January 1, 1987, if an Eligible Employee becomes a Participant at any time during a Plan Year, his Hours of Service earned from January through the date participation commences in such Plan Year will count in determining whether a Year of Service is earned.
 - (B) Prior to January 1, 1986, the Plan was only applicable to Eligible Employees of American and its participating units. Effective as of such date, the Plan was extended to employees of the Company and its participating units. Accordingly, all Participants employed by the Company on or after January 1, 1986 will be credited with any Years of Service with respect to their employment with a Participating Employer prior to January 1, 1986, beginning with the January 1 or July 1 following the date such Participant attained age 18 and completed one Year of Service. Such Participants need not have been employed by the Company as of the date American was merged into the Company in order to receive such credit. Participants will receive credit for 190 Hours of Service for each month prior to January 1, 1986 during which the Eligible Employee was employed by a Participating Employer in lieu of the 45 Hours of Service equivalency set forth in Section 2.25.
 - (C) Effective for Participants who have not commenced their Pension Benefit as of the Effective Date but who became a Participant under the Plan's prior eligibility rules (age 30 and two Years of Service prior to January 1, 1976 and age 25 and one Year of Service between January 1, 1976 and January 1, 1985) such Participants are credited with Years of Service beginning on the January 1 or July 1 next following the date on which they attained the age and completed the service set forth in Section 3.1(b)(i) and (ii).
- (iii) Service Prior to Divestiture. In the case of a Participant who is rehired after ceasing to participate in the Plan as the result of a sale or other divestiture of the business that employed the Participant, in which the Participant's Accrued Benefit and the assets attributable to such Accrued

Benefit were transferred to another plan in connection with the transaction, all Years of Service earned prior to such transaction unless the Accrued Benefit and attributable assets are transferred back to the Plan, in which event the rules generally applicable to a rehired former Participant shall apply.

- (b) Vesting and Entitlement to Benefits. For purposes of determining (i) a Participant's Non-forfeitable interest in his Accrued Benefit, and (ii) entitlement to benefits under Articles IV and VI, a Year of Service includes a Year of Service as an Employee of an Employer. The following Years of Service will be recognized for purposes of this subsection (b):
- (i) Years of Service earned with an entity prior to its becoming an Employer will be recognized only if the Employee was employed on the date the entity became an Employer. For purposes of this paragraph (i), an Employee will receive 190 Hours of Service per month from the most recent date of hire until the date of acquisition.
 - (ii) Prior to January 1, 1986, the Plan was only applicable to Eligible Employees of American. Effective as of such date, the Plan was extended to Eligible Employees of the Company. Accordingly, for all Participants whose Termination of Employment occurs after the Effective Date, such Participants will be credited with Years of Service with respect to their employment with an Employer prior to January 1, 1986. In determining such Years of Service, Participants will receive credit for 190 Hours of Service for each month prior to January 1, 1986 during which the Eligible Employee was employed by an Employer in lieu of the 45 Hours of Service equivalency set forth in Section 2.25.
- (c) Eligibility to Participate. For purposes of determining an Employee's eligibility to participate in the Plan a Year of Service (sometimes referred to as a Year of Eligibility Service) shall be calculated in the same manner as in subsection (b), except that the first Computation Period shall be the twelve month period commencing on the Employment Date rather than the Plan Year in which the Employment Date occurs.
- (d) Years of Service Disregarded. If an Employee does not have a Non-forfeitable interest in the Plan and incurs a One-Year Break in Service and thereafter returns to employment with an Employer on or after January 1, 1985, his prior Years of Service for vesting, eligibility and benefit service will be disregarded only if he has five consecutive One-Year Breaks in Service and if the number of One-Year Breaks in Service equals or exceeds his Years of Service for vesting purposes prior to the One-Year Break in Service.
- (e) Special Rule for Certain Rehired Participants. In the case of a Participant who is rehired by the Company after ceasing to participate in the Plan as the result of the Company's spin-off of the Caremark and Dade divisions that employed the

Participant, in which the Participant's Accrued Benefit and the assets attributable to such Accrued Benefit were transferred to another plan in connection with such transaction, all Years of Service earned prior to the spin-off shall be included for purposes of determining the Participant's total number of Points under Section 2.7; provided, however, that such Participant has a Termination of Employment on or after January 1, 2003.

ARTICLE III.
Participation

3.1. **Becoming a Participant.** An Eligible Employee may become a Participant in accordance with the following requirements:

- (a) Continuation of Participation. Each Eligible Employee who was a Participant in the Plan immediately prior to the Effective Date will participate in the Plan on and after the Effective Date until his participation ceases in accordance with the Plan.
- (b) Initial Participation. Each Eligible Employee who is not a Participant as described in (a) will become a Participant on the first Entry Date coincident with or next following the date he satisfies the following requirements:
 - (i) He has completed one Year of Service; and
 - (ii) He has attained age 21.
- (c) Participation Freeze. Participation in the Plan is frozen effective December 31, 2006, and no Employees shall become Participants after such date, subject to the following:
 - (i) No Employee who was not employed by a Participating Employer on December 31, 2006, shall be eligible to Participate in the Plan.
 - (ii) An Eligible Employee who was employed by a Participating Employer on December 31, 2006, but who had not satisfied the requirements of paragraph (b) on such date, shall become a Participant on the first Entry Date after he satisfies such requirements, unless he elects not to become a Participant as provided in subparagraph (c)(iii) below.
 - (iii) Each Participant or Eligible Employee who either (A) was employed by a Participating Employer on December 31, 2006, and would not have been entitled to a Deferred Vested Benefit if he incurred a Termination of Employment on such date, or (B) is described in subparagraph (c)(ii) above, may irrevocably elect to either cease accruing benefits as of December 31, 2006, or not to become a Participant. The Accrued Benefit of a Participant who elects to cease accruing benefits shall thereafter be equal to his Accrued Benefit as of December 31, 2006, which shall not be adjusted for subsequent changes in his Average Monthly Compensation, Years of Service, Projected Benefit Service, or Primary Social Security Benefit, but such Participant shall continue to earn Years of Service for purposes of vesting, and Points, and his Accrued Benefit shall be payable upon retirement or other Termination of Employment as provided herein. An Eligible Employee who elects not to become a Participant shall thereafter be ineligible to become a Participant in the Plan. Such election shall be made in accordance with rules and procedures established by the

Administrative Committee, which rules and procedures shall specify the manner in which the election shall be made. Although it is anticipated that Participants and Eligible Employees who make such election will be eligible to receive additional contributions under the Baxter International Inc. and Subsidiaries Incentive Investment Plan (“IIP”), nothing contained herein shall be construed to limit the Company’s authority to amend the IIP, or to permit a Participant to resume participation in this Plan should it do so. A Participant or Eligible Employee who fails to affirmatively make the election described above shall continue to accrue benefits, or shall become a Participant, as applicable, in accordance with the remaining terms of the Plan.

3.2. Ceasing to Be a Participant. Once an Eligible Employee has become a Participant in accordance with Section 3.1, he will remain a Participant in the Plan until the later of the date such Participant ceases to be an Eligible Employee (or elects to cease accruing benefits pursuant to Section 3.1(c)(iii)) or the date that all of the benefits to which the Participant is entitled under the Plan, if any, have been distributed for his benefit in accordance with the Plan.

3.3. Reemployment. Reemployment following a Termination of Employment will affect the former Employee as follows:

- (a) **Eligible Employee and Prior Participant.** An Eligible Employee who previously was a Participant prior to his Termination of Employment will automatically become a Participant on the date he again earns an Hour of Service as an Eligible Employee.
- (b) **Eligible Employee with One or More Years of Service.** An Eligible Employee who previously satisfied the requirements of Section 3.1(b) but incurred a Termination of Employment before the next Entry Date, and who is rehired as an Eligible Employee with one Year of Eligibility Service, will automatically become a Participant on the later of (i) the Entry Date that would have applied without a Termination of Employment or (ii) the date he again earns an Hour of Service as an Eligible Employee.
- (c) **Eligible Employee without One or More Years of Service.** An Eligible Employee who did not have a Year of Eligibility Service when he incurred a Termination of Employment must earn a Year of Eligibility Service based on the eligibility Computation Period described in Section 2.12.
- (d) **Re-Employment after December 31, 2006.** Notwithstanding the foregoing, a Participant who incurs a Termination of Employment after December 31, 2006, and is subsequently re-employed, shall not be eligible to resume accruing benefits under the Plan, but such Participant’s Accrued Benefit shall be fixed as of the date on which he incurred the Termination of Employment. An Eligible Employee who incurs a Termination of Employment after December 31, 2006, prior to

having become a Participant and who is subsequently re-employed shall not be an Eligible Employee and shall not become a Participant.

3.4. Change of Job Status. An Employee who has satisfied the service requirement of Section 3.1(b)(i) but who is not a Participant because he is not an Eligible Employee will become a Participant on the later of (a) the Entry Date that would have applied had he been an Eligible Employee or (b) the date he becomes an Eligible Employee.

3.5. Transfers. A Participant who transfers to a Non-Participating Employer will continue to accrue Years of Service (as defined in Section 2.50(a)) after such transfer, unless the Non-Participating Employer is located outside of the United States, in which case he will not accrue any additional Years of Service after such transfer. If a Participant transferred to a Non-Participating Employer outside of the United States and is transferred back to a Participating Employer after December 31, 2006, he will not accrue any additional Years of Service, and his Accrued Benefit shall be fixed as of the date of the original transfer. For purposes of this Section 3.5, a Non-Participating Employer located in Puerto Rico shall be considered to be located outside of the United States.

3.6. International Employees. A Participant who becomes eligible to accrue benefits under the Company's pension plan for international employees will cease accruing any additional Years of Service (defined in Section 2.50(a)) effective as of the date he becomes a participant in such pension plan. If such a Participant ceases to accrue benefits under the pension plan for international employees after December 31, 2006, he will not accrue any additional Years of Service, and his Accrued Benefit shall be fixed as of the date he originally became eligible to accrue benefits under the pension plan for international employees.

3.7. Reemployment of Veterans. Notwithstanding any provision of this Plan to the contrary, benefit and service credit with respect to qualified military service will be provided in accordance with Code Section 414(u). If an Eligible Employee's or Participant's military service began prior to January 1, 2007, and Section 414(u) applies upon his re-employment after December 31, 2006, he shall resume or commence participation as required by Section 414(u), and if he would have been eligible to make the election described in Section 3.1(c)(iii) had he been employed on December 31, 2006, he shall be permitted to make the election upon his re-employment in accordance with rules and procedures established by the Administrative Committee. If he so elects, his Accrued Benefit shall thereafter be determined as of December 31, 2006, as if he had been employed through such date, in accordance with the requirements of Section 414(u). Effective January 1, 2009, the provisions of this Section shall also apply to a Participant who dies or becomes Disabled while performing qualified military service, as if such Participant had returned to employed on the day prior to the day on which he died or incurred such Disability.

ARTICLE IV.
Eligibility for and Amount of Pension Benefits

4.1. Normal Retirement. A Participant who incurs a Termination of Employment in the month in which he attains his Normal Retirement Date is entitled to his Pension Benefit.

- (a) **Amount.** The amount of the Participant's Pension Benefit will be his Accrued Benefit, or the Actuarial Equivalent of his Accrued Benefit if paid in one of the other forms of payment described in Article VII.
- (b) **Commencement.** A Participant will begin receiving his Pension Benefit in the form provided for in Article VII commencing effective as of the Payment Date. The Payment Date is the first day of the second month next following his Normal Retirement Date. However, if a Participant notifies the Administrative Committee of his intent to retire at least 30 days prior to his Normal Retirement Date, the Payment Date is the first day of the month following his Normal Retirement Date. In order to receive a Pension Benefit, the Participant must provide the Administrative Committee with a complete and accurate application finalized at least ten days before the Payment Date or the Payment Date may be delayed to the first day of the following month.

4.2. Late Retirement. A Participant who incurs a Termination of Employment during any month after the month in which his Normal Retirement Date occurs is entitled to a Pension Benefit.

- (a) **Amount.** The amount of the Participant's Pension Benefit will be his Accrued Benefit, or the Actuarial Equivalent of his Accrued Benefit if paid in one of the other forms of payment described in Article VII.
- (b) **Commencement.** A Participant will begin receiving his Pension Benefit in the form provided for in Article VII commencing effective as of the Payment Date. The Payment Date is the first day of the second month next following his Termination of Employment. However, if a Participant notifies the Administrative Committee of his intent to retire at least 30 days prior to his Termination of Employment, the Payment Date is the first day of the month following his Termination of Employment. In order to receive a Pension Benefit, the Participant must provide the Administrative Committee with a complete and accurate application finalized at least ten days before the Payment Date or the Payment Date may be delayed to the first day of the following month.

4.3. Early Retirement. A Participant who incurs a Termination of Employment on or after his Early Retirement Date is entitled to a Pension Benefit.

- (a) **Amount.** The amount of the Participant's Pension Benefit will be his Accrued Benefit determined as of his Early Retirement Date, or the Actuarial Equivalent of his Accrued Benefit, if paid in one of the other forms of payment described in Article VII. If the Participant elects to receive his Pension Benefit prior to his

Normal Retirement Date, his Accrued Benefit will be reduced to the extent required by the Early Pension Benefit Reduction Factors applicable to such Participant as described in Section 2.7.

- (b) **Commencement.** A Participant will begin receiving his Pension Benefit in the form provided for in Article VII commencing effective as of the Payment Date. The Payment Date is the first day of the month following his Normal Retirement Date. The Participant may designate an earlier Payment Date which will be the first day of any month which is at least 30 days after the Participant delivers notice of such designation on such form, in such manner and at such times as the Administrative Committee will require. In order to receive a Pension Benefit, the Participant must provide the Administrative Committee with a complete and accurate application finalized at least ten days before the Payment Date or the Payment Date may be delayed to the first day of the following month.

4.4. Disability Retirement. A Participant is entitled to a Disability Pension Benefit if he incurs a Termination of Employment described in Section 2.45(b)

- (i) after he has been credited with five Years of Service under Section 2.50(b) and has been credited with 65 Points, or
 - (ii) after he has been credited with ten Years of Service under Section 2.50(b) if he became a Participant prior to January 1, 1990.
- (b) **Amount of Benefit.** The amount of the Disability Pension Benefit will be the Participant's Accrued Benefit, or the Actuarial Equivalent of the Accrued Benefit if paid in one of the other forms of benefit described in Article VII. If the Participant elects to receive his Disability Pension Benefit prior to his Normal Retirement Date, his Accrued Benefit will be determined as if the Payment Date was the date of the Participant's Termination of Employment and will be reduced to the extent required by the Early Pension Benefit Reduction Factors applicable to such Participant as described in Section 2.7. The Accrued Benefit payable under this Section 4.4 will be determined by using the Participant's Years of Service earned at the time of his Disability, plus the Years of Service that he would have earned had he continued in employment as an Eligible Employee from the time of his Disability until his Normal Retirement Date, provided that such Participant is actually receiving disability payments from the Social Security Administration. The Accrued Benefit will be calculated using the Participant's Compensation in the Plan Year preceding the date as of which he is determined to be disabled by the Social Security Administration for the first year of Disability and for each year thereafter up to the earlier of the Participant's Termination of Employment or the first day of the month following his Normal Retirement Date in order to calculate the Participant's Average Monthly Compensation; provided, however, that for Participant's who are determined to be disabled on or after August 20, 2010, the Participant's Compensation for the Plan Year preceding the date as of which payment of disability benefits commences shall be used if it results in a higher Average Monthly Compensation.

- (c) **Commencement of Benefits.** Payment of the Accrued Benefit described in this Section 4.4 will commence effective on the Payment Date, in the form provided for under Article VII. The Payment Date is the first day of the month coincident with or next following the Participant's Normal Retirement Date. However, a Participant may elect an earlier Payment Date which may be the first day of any month following the Participant's accumulation of 65 Points if the Participant provides notice of such election to the Administrative Committee at least 30 days prior to such month. In order to receive a Pension Benefit, the Participant must provide the Administrative Committee with a complete and accurate application finalized at least ten days before the Payment Date or the Payment Date may be delayed to the first day of the following month.

A Participant eligible for a Disability Pension Benefit also may elect to receive a Lump Sum payment of his Accrued Benefit at any time when the Lump Sum value of such Accrued Benefit is \$5,000 or less, and, for purposes of determining such Lump Sum, the Participant will be deemed to have incurred a Termination of Employment on the Payment Date for such Lump Sum. Payment of any such Lump Sum will be subject to the provisions of Section 7.3.

- (d) **Recovery.** If a Participant who is earning an Accrued Benefit under this Section 4.4 recovers from his Disability prior to his Normal Retirement Date, such Participant will be deemed to have incurred a Termination of Employment as of the date of recovery, unless he is rehired as an Employee of an Employer at that time, in which case his prior Years of Service will be retained for all Plan purposes. If the Participant is rehired as an Eligible Employee, the Participant will continue accruing benefits under the provisions of the Plan applicable to all Eligible Employees. If such Participant is not reemployed by an Employer, he will become entitled to his Accrued Benefit under Section 4.3 or 4.5 depending upon his Points, Years of Service or age at the time of such Termination of Employment. The Participant's Accrued Benefit will be based on his Years of Service at the time of his Termination of Employment and his Average Monthly Compensation will be determined as set forth in 4.4(a). The Participant's Primary Social Security Benefit will be calculated based upon his Termination of Employment at the time of his recovery. For purposes of this subsection, a Participant will be deemed to be recovered from his Disability if he is no longer receiving disability payments from the Social Security Administration.

4.5. Deferred Vested Benefit. A Participant who incurs a Termination of Employment for any reason other than Disability or death before his Early Retirement Date, but after completing at least five Years of Service as defined in Section 2.50(b), is entitled to a Pension Benefit.

- (a) **Amount.** The amount of the Participant's Pension Benefit will be his Accrued Benefit determined at his Termination of Employment, or the Actuarial Equivalent of his Accrued Benefit, if paid in one of the other forms of payment described in Article VII. If the Participant elects to receive his Pension Benefit prior to his Normal Retirement Date, his Accrued Benefit will be reduced to the

extent required by the Early Pension Benefit Reduction Factors applicable to such Participant as described in Section 2.7.

- (b) **Commencement.** Payment of the Accrued Benefit described in this Section 4.5 will commence effective on the Payment Date, in the form provided for under Article VII. The Payment Date is the first day of the month following his Normal Retirement Date. However, such Participant may designate an earlier Payment Date which may be the first day of any month following the date on which he attains an age which causes his Points to equal or exceed 65 if the Participant provides notice of such election to the Administrative Committee at least 30 days prior to such date. Such election will be made on such form, in such manner and at such times as the Administrative Committee will require. In order to receive a Pension Benefit, the Participant must provide the Administrative Committee with a complete and accurate application finalized at least ten days before the Payment Date or the Payment Date may be delayed to the first day of the following month.

A Participant entitled to a minimum Accrued Benefit under an applicable Supplement is fully vested in the portion of the Participant's Accrued Benefit, if any, which is described in such Supplement. Such Participant may request, after he attains age 55 but prior to his Normal Retirement Date, on such form, in such manner and at such times as the Administrative Committee will require, to begin receiving his Accrued Benefit commencing effective as of the first day of any month after he attains age 55. In such event, the amount of the benefit which would be paid beginning on his Normal Retirement Date will be reduced according to the Deferred Vested Benefit Reduction Factors described in Table 2 of Supplement A.

ARTICLE V.
Special Vesting Provisions for Divested Employees

5.1. Accelerated Vesting. In the event of a sale by the Company on or after the Effective Date of the stock or substantially all of the assets of a Participating Employer, or a separate business unit of a Participating Employer, so that the Participating Employer, or such business unit, ceases to be an Employer, the Administrative Committee, in its sole discretion, may determine that all or a portion of the affected Participants of said Participating Employer will be fully vested in their Accrued Benefit, determined on the date as of which the Participating Employer is no longer an Employer. If such employment ceases prior to the accumulation of 65 Points (or age 55 in the case of Participants who first become Participants prior to January 1, 1990), the Participant is entitled to the forms of payment and early commencement reduction factors applicable to a terminated Participant entitled to a deferred vested benefit under Section 4.5. If his employment ceases on or after accumulation of 65 Points (or age 55 in the case of Participants who first become Participants prior to January 1, 1990), the Participant is entitled to the forms of payment and early commencement reduction factors applicable to a terminated Participant entitled to an early retirement benefit under Section 4.3.

5.2. Re-employment. If a Participant who fully vests under Section 5.1 is later rehired as an Eligible Employee, and that Participant received a distribution of his Accrued Benefit, his prior Years of Service for vesting purposes will be reinstated but no prior Years of Service for purposes of determining his Accrued Benefit will be reinstated. A repayment of the distribution is not required or permitted. The Pension Benefit to which the rehired Participant is entitled at his subsequent Termination of Employment will be paid under the terms and conditions applicable to all other Participants. If a Participant would be eligible for accelerated vesting under Section 5.1 if he was not rehired, and such Participant is rehired by the Employer before any benefit payments are made by the Plan, no such payment will be made and the Participant will not be entitled to the special vesting of Section 5.1. Such Participant will instead be subject to the regular vesting provisions as if no divestiture and Termination of Employment had ever occurred. The provisions of this Section 5.2 shall also apply to a Participant whose Accrued Benefit, and the assets attributable thereto, is transferred to another plan in connection with the divestiture as if such Participant had received a distribution of his Accrued Benefit, unless such Accrued Benefit is transferred back to the Plan upon rehire.

ARTICLE VI.
Benefits after Death

6.1. Death after Payment Date. The Death Benefit, if any, of a Participant who dies after his Payment Date under the Plan are those specified under the form in which his benefits were being paid at the time of his death.

6.2. Death before Payment Date. Except as otherwise provided in this Article and in Supplement I, no benefits are payable on behalf of a Participant who dies before his Payment Date. Death Benefits that have been paid under a prior version of the Plan or which are currently being paid under such prior version will not be affected by the provisions of this Article.

6.3. Death Benefits Payable to Spouses. A pre-retirement lifetime Death Benefit is payable under either (a) or (b) below to the surviving Spouse of a Participant who incurred a Termination of Employment after December 31, 1989 and who dies with a Non-forfeitable Accrued Benefit prior to the commencement of his Pension Benefits under the Plan. Section 6.3(a) and (b) of Supplement I applies in lieu of subsection 6.3(a) and (b) below to Participants who incurred a Termination of Employment prior to January 1, 1990 and have not be rehired as an Eligible Employee after December 31, 1989.

- (a) **Deferred Annuity.** A deferred pre-retirement lifetime Death Benefit is payable to the surviving Spouse of a Participant who dies prior to attaining his 65th Point. The Death Benefit will commence effective as of the first day of the month following the month in which the Participant would have attained an age that, when combined with his Years of Service credited as Points would have credited him with his 65th Point. Such Death Benefit is based upon the assumption that the Participant had elected a Joint and 50 Percent Survivor Annuity form of payment and, if he had not previously incurred a Termination of Employment, that he had incurred a Termination of Employment immediately prior to his death. The amount of the monthly Death Benefit paid to such surviving Spouse is based on an Accrued Benefit determined under Section 2.1(a) as of the date such payment commences and is not actuarially reduced for commencement prior to age 65.
- (b) **Immediate Annuity.** An immediate pre-retirement lifetime Death Benefit is payable to the surviving Spouse of a Participant who dies after attaining an age which, when combined with his Years of Service credited as Points as of the date of his death, equals or exceeds 65 Points. Such Benefit commences effective as of the first day of the month following the date of the Participant's death. The Death Benefit payable to the Participant's surviving Spouse is based upon the assumption that the Participant had elected a Joint and 100 Percent Survivor Annuity form of payment and, if he had not previously incurred a Termination of Employment, that he had incurred a Termination of Employment immediately prior to his death. The Death Benefit paid to the Participant's surviving Spouse is based on an Accrued Benefit determined under Section 2.1(a) as of the date of payment and is not actuarially reduced for early commencement prior to age 65.

- (c) Compliance with Code Section 417. Death Benefits under this Section 6.3(a) and (b) (and not Supplement I) are based on the Accrued Benefit described in Section 2.1(a) only, even if the Participant has a frozen Accrued Benefit under Section 2.1(b) that would have paid a greater retirement benefit at age 65. In most cases, the Death Benefit, with the Points-based Early Retirement Date and full subsidy for early commencement will begin earlier and in greater amounts than partially subsidized or unsubsidized Death Benefits based on a frozen Accrued Benefit and an early retirement age of 55. However, for some married Participants with a frozen Accrued Benefit, the minimum qualified pre-retirement annuity required under Code Section 417 based on such Accrued Benefit may be greater in value, or may commence earlier than the Death Benefit in 6.3(a) or (b). In such a case, the surviving Spouse's benefit described in 6.3(a) or (b) will be paid at such earlier times and in such minimum amounts as are necessary to satisfy Code Section 417. For purposes of determining the minimum qualified pre-retirement survivor annuity based on a frozen Accrued Benefit, the Benefit Reduction Factors of Section 2.7(d) apply (with the .25% monthly reduction factor applicable if the Participant incurred a Termination of Employment after attaining age 55).

6.4. Survivor Benefits Payable to Non-Spouse Beneficiaries. A pre-retirement Death Benefit is payable to the Beneficiary of a Participant with a Non-forfeitable Accrued Benefit who incurred a Termination of Employment after December 31, 1989 and dies without a surviving Spouse or who dies with a surviving Spouse who has consented to the designation of a non-Spouse Beneficiary as provided in Section 6.7. Such Benefit will commence effective as of the first day of the month following the date of the Participant's death under (a) or (b) below. Section 6.4 of Supplement I applies in lieu of this Subsection 6.4 to Participants who incurred their last Termination of Employment prior to January 1, 1990.

- (a) Calculation of Benefit. The pre-retirement Death Benefit payable under this Section 6.4 shall be the survivorship pension payable to his Beneficiary under a Ten-Year Certain and Life Annuity described in Section 7.2(c) (or an Actuarially Equivalent lump sum), calculated as if the Participant had
 - (i) incurred a Termination of Employment on his date of death if he had not already incurred a Termination of Employment prior to his death,
 - (ii) begun receiving the Annuity immediately if he had attained 65 Points at the time of his death, or, if he had not yet attained 65 Points, survived to the date he would have attained an age that, when combined with his Years of Service credited as Points, would have credited him with his 65th Point, and then begun receiving the annuity, in either case unreduced for early commencement, and
 - (iii) Died immediately after payment commenced.
- (b) Form of Payment. The Beneficiary of a Participant who had not yet attained 65 Points at the time of his death shall receive a lump sum payment that is the

Actuarial Equivalent of the annuity described in Section 6.4(a), which shall be paid not later than the last day of the year that includes the fifth anniversary of the Participant's death. The Beneficiary of a Participant who had attained 65 Points at the time of his death shall also receive a lump sum payment, unless the Beneficiary elects to survivorship benefit payable under the Ten Year and Certain Life Annuity. Such election must be made, in accordance with procedures established by the Administrative Committee, in sufficient time to allow the first annuity payment to be paid not later than the last day of the year that includes the first anniversary of the Participant's death, and if no such election is made by such date the Beneficiary shall instead receive the lump sum payment described above.

6.5. Death Benefits for Disability Retirees. The surviving Spouse or Beneficiary of a Participant who incurred a Disability and who was accruing additional Benefit Service at his death under the provisions of Section 4.4 is entitled to a Death Benefit determined in accordance with Sections 6.3 or 6.4, as applicable. If the Participant incurred a Disability, accrued additional benefits under Section 4.4, recovered from his Disability, did not return to employment with the Employer, and died before his Payment Date, his surviving Spouse or Beneficiary is entitled to a Death Benefit determined in accordance with Sections 6.3 or 6.4, as applicable.

6.6. Pre-Retirement Death Benefits Payable in a Lump Sum. If the present value of a Death Benefit payable in a form other than a Lump Sum is \$5,000 or less at the earliest date such Death Benefit may commence, such Death Benefit will be paid in a Lump Sum at such time, notwithstanding any provision of the Plan or election by the Participant or Beneficiary to the contrary. Any Lump Sum payable in accordance with this Section 6.5 to a Spouse is subject to the direct rollover provisions of Section 7.3.

6.7. Designation of Beneficiary. Subject to Sections 7.4(d) and 13.4, a Participant's surviving Spouse is entitled to the Death Benefit, if any, which is payable with respect to the Participant. A Participant may designate a Beneficiary who is not the Participant's surviving Spouse, provided that such surviving Spouse consents to the designation. The designation of such Beneficiary can be made only after the notice required by Code Section 417(a)(3)(B) is provided to the Participant during the time periods specified in Code Section 417 and will be effective only if the consent of the surviving Spouse:

- (i) is in writing;
- (ii) acknowledges the effect of the Participant's designation of a Beneficiary other than the Spouse and the identity of such Beneficiary and
- (iii) is witnessed by a notary public; provided, however, such consent will be deemed to have been granted where it is established to the satisfaction of the Administrative Committee that the consent of the Spouse cannot be obtained because (1) there is no surviving Spouse, (2) the surviving Spouse cannot be located, or (3) there exist such other circumstances as may be prescribed by regulations under ERISA or the Code. Consent of the surviving Spouse to a designated Beneficiary and any contingent

Beneficiary is irrevocable. Each change from one non-Spouse Beneficiary to another, or change of contingent Beneficiary, requires a new consent from the surviving Spouse.

If the Participant dies leaving no surviving Spouse and either (1) the Participant failed to file a valid beneficiary designation form, or (2) all persons designated on the beneficiary designation form have predeceased the Participant, the Participant's Death Benefit described in Section 6.4 will be paid in a lump sum to the Participant's estate.

6.8. Incapacitated Participants or Beneficiaries. If a Participant or Beneficiary is incompetent or a minor, and a conservator, guardian, or other person legally charged with his care has been appointed, any benefits to which such Participant or Beneficiary is entitled is payable to such conservator, guardian, or other person legally charged with his care. The decision of the Administrative Committee in such matters is final, binding, and conclusive upon all affected or interested parties. Neither the Plan nor any representative of the Plan has any duty to see to the proper application of such payments.

6.9. Death During Military Service. Notwithstanding any other provision of the Plan to the contrary, the death benefit payable to the surviving spouse or Beneficiary of a Participant who dies on or after January 1, 2007, while performing qualified military service as defined in Section 3.7, shall not be less than the death benefit that would have been payable had the Participant resumed employment immediately prior to his death and died while employed. Such Participant shall be credited with Hours of Service as if employed through the date of his death for purposes of vesting and entitlement to benefits pursuant to Section 2.50(b), but shall only be credited with any additional Accrued Benefit to the extent provided in Section 3.7.

ARTICLE VII.

Form and Payment of Pension Benefits and Death Benefits

7.1. Normal Form of Payment. Pension Benefits under the Plan will commence effective as of the Payment Date and will be payable as follows:

- (a) **Joint and 50 Percent Survivor Annuity.** A Participant who has a Spouse on his Payment Date will receive his Pension Benefit in the form of a Joint and 50 Percent Survivor Annuity (covering the Participant and his Spouse) unless the Participant elects not to receive such Joint and 50 Percent Survivor Annuity by electing in lieu thereof to receive payment under an available option described in Section 7.2.
- (b) **Life Annuity.** A Participant who does not have a Spouse on his Payment Date will receive his Pension Benefit in the form of a Single Life Annuity unless he has properly elected to have his Pension Benefit paid in an optional form of payment under Section 7.2 in accordance with the procedures set forth in Section 7.4.

7.2. Optional Forms of Payment. A Participant who is entitled to receive a Pension Benefit may elect to receive such Pension Benefit in one of the optional forms of payment described in this Section 7.2. All optional forms of payment will be the Actuarial Equivalent of the Participant's Pension Benefit. As of the Effective Date, the following optional forms of payment are available:

- (a) **Joint and 100 Percent, 75 Percent or 50 Percent Survivor Annuity.** A reduced Pension Benefit payable monthly during the lifetime of the Participant with the provision that 100 percent, 75 percent or 50 percent (as elected by the Participant) of such monthly benefit will be payable to the Participant's Beneficiary in monthly installments commencing effective on the first day of the month following the month in which the Participant dies and continuing thereafter on the first day of each month during the remaining lifetime of such Beneficiary.
- (b) **Single Life Annuity.** A Pension Benefit payable monthly during the lifetime of the Participant through the last monthly payment on or prior to such Participant's death.
- (c) **Ten-Year Certain and Life Annuity.** A reduced Pension Benefit payable monthly during the lifetime of the Participant with the provision that if the Participant dies before receiving 120 payments, his Beneficiary will receive the same monthly payment as the Participant until a total of 120 payments have been made in the aggregate to the Participant and Beneficiary. If such Beneficiary should die prior to the aggregate payment of 120 payments, a lump sum which is Actuarially Equivalent to the remaining payments will be paid to the Beneficiary's estate.
- (d) **Special Lump Sum Option for Clintec Transferees.** If the Plan received a transfer from the trustee of the Clintec Pension Plan on behalf of a Participant, such Participant may elect to receive a Lump Sum payment if the Lump Sum value of

his Accrued Benefit is not greater than \$10,000 at the time of the distribution from the Plan. The Lump Sum option under this subsection (d) will be subject to the provisions of Section 7.3(a) and (b) and Section 7.4(d) (if the Lump Sum value of the benefit is greater than \$5,000).

7.3. Lump Sum Cash-Out. Except as provided below, any Participant with a Non-forfeitable interest in the Plan having a Lump Sum value of \$5,000 or less on the Payment Date will receive a Lump Sum payment of the portion of his Accrued Benefit that is Non-forfeitable as soon as practicable. For purposes of this Section 7.3, if the Participant does not have a Non-forfeitable interest in his Accrued Benefit, such Participant will be deemed to have received a distribution of his entire Accrued Benefit of zero. Such Lump Sum payments will be subject to the following:

- (a) Reemployment prior to Payment. If such a Participant is rehired by the Employer before any benefit payment is made by the Plan, no such payment will be made.
- (b) Direct Rollovers of Lump Sums. Notwithstanding any provision of the Plan to the contrary that would otherwise limit a distributee's election under this Section, a distributee may elect, at the time and in the manner prescribed by the Administrative Committee, to have a Lump Sum paid directly to an eligible retirement plan specified by the distributee in a direct rollover. The following definitions will apply for purposes of this paragraph (b):
 - (i) Eligible Retirement Plan. An "Eligible Retirement Plan" is an individual retirement account described in Code Section 408(a), an individual retirement annuity described in Code Section 408(b), an annuity plan described in Code Section 403(a), or a qualified trust described in Code Section 401(a), that accepts the Distributee's eligible rollover distribution, an annuity contract described in Code Section 403(b), an eligible plan under Code Section 457(b) which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state and which agrees to separately account for amounts transferred into such plan from the Plan and, effective January 1, 2008, a Roth IRA as defined in Code Section 408A. The definition of Eligible Retirement Plan will also apply in the case of a distribution to a surviving Spouse, or to a Spouse or former Spouse who is the alternate payee under a qualified domestic relation order, as defined in Code Section 414(p).
 - (ii) Distributee. A "Distributee" includes an Employee or former Employee. In addition, the Employee's or former Employee's surviving Spouse and the Employee's or former Employee's Spouse or former Spouse who is the alternate payee under a Qualified Domestic Relations Order are distributees with regard to the interest of the Spouse or former Spouse. Effective January 1, 2007, any Beneficiary who is a "designated beneficiary" for purposes of Code Section 401(a)(9) and the Regulations thereunder (or, to the extent provided in Regulations, that is a trust

established for the benefit of one or more designated beneficiaries), shall also be a Distributee; provided that in the case of a Distributee who is not the Participant's Spouse or an alternate payee the term Eligible Retirement Plan shall mean only an individual retirement account or an individual retirement annuity that is treated as an inherited account or annuity under Code Section 408(c)(3)(B).

- (iii) Direct Rollover. A "direct rollover" is a payment by the Plan of an "Eligible Rollover Distribution" to the eligible retirement plan specified by a Distributee. An Eligible Rollover Distribution is the distribution of all or any portion of the present value of the Participant's Accrued Benefit, except that an Eligible Rollover Distribution does not include: (a) any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the Participant or the joint lives (or joint life expectancies) of the Participant and the Participant's designated beneficiary, or for a specified period of 10 years or more; (b) any distribution to the extent such distribution is required under Code Section 401(a)(9); or (c) any portion of any distribution that is not included in the recipient's gross income; provided that effective January 1, 2002, the portion that is not included in the recipient's gross income will be considered part of an eligible rollover distribution to the extent transferred to an eligible retirement plan that is described in paragraph (b)(i), or that is a defined contribution plan that agrees to separately account for the non-taxable portion of the distribution and the income attributable thereto.

In the event the amount of an Eligible Rollover Distribution payable to a Distributee who is an Employee or former Employee (but not to a surviving Spouse or alternate payee) prior to the Distributee's Normal Retirement Date exceeds \$1,000, if the Distributee does not elect to have such distribution paid directly to an Eligible Retirement Plan specified by the Distributee in a direct rollover or to receive the distribution directly, then the Plan will pay the distribution in a direct rollover to an Eligible Retirement Plan that is an individual retirement account described in Code Section 408(a) designated by the Administrative Committee.

7.4. Rules as to Election and Discontinuance of Optional Forms of Payment. A Participant's election of an optional form of payment specified in Section 7.2 will be subject to the following rules, to the extent appropriate:

- (a) Written Elections. An election of an optional form of payment must be made on such forms, in such manner and at such times as the Administrative Committee will require.
- (b) Election Period. A Participant may elect an optional form of payment any time during the 180-day period ending on his Payment Date. The Administrative

Committee will provide each Participant with a written explanation of the normal form of benefit under Section 7.1 Such explanation will advise such Participant:

- (A) of the circumstances in which the normal form of benefit will be provided unless the Participant has elected not to have benefits provided in that form;
- (B) of the availability of such election;
- (C) of the rights of the Spouse, if any; and
- (D) of the financial effect on a Participant's annuity of such election.

Such written notice will be provided at least 30, but not more than 180 days before the Payment Date. However, the written notice may be provided less than 30 days prior to the Payment Date (and may be provided after the Payment Date for Terminations of Employment occurring after December 31, 1996) provided that (i) the Participant is notified in writing of his right to a 30 day period to consider whether to waive the normal form of benefit and consent to a form of distribution other than the normal form of benefit; (ii) the Participant is permitted to revoke his election at any time prior to the Payment Date, or if later, the eighth day following the date he receives the written notice and (iii) no distribution is made to the Participant prior to the Payment Date, or if later, the eighth day following the date he receives the written notice. A Participant may elect to waive in writing (with the applicable spousal consent described in (d), below) his right to a full 30 days to consider whether to elect an optional form of benefit. If the Administrative Committee does not receive the Participant's election to waive the normal form of benefit by the first business day following the expiration of the 30 day period (or, if later, the Payment Date) then the Participant will be deemed to have consented to the normal form of benefit.

- (c) **Revocation.** Any election to receive an optional form of benefit pursuant to Section 7.2 may be revoked by a Participant by notifying the Administrative Committee in such manner as the Administrative Committee may require at any time during the 180-day period ending on the Payment Date. However, if the written explanation required in subsection (b) is provided less than 30 days before the Payment Date or after the Payment Date, a Participant may revoke his election any time up to the Payment Date, or if later, the eighth day following the date the written explanation is received by the Participant. Once revoked, an election for an optional form of benefit may again be made by submitting a new election to the Administrative Committee within the times specified in subsection (b).
- (d) **Spousal Consent.** Any election by a married Participant of an optional form of benefit described in Section 7.2 (other than Section 7.2(a) where the Spouse is the designated Beneficiary) must be consented to by the Participant's Spouse unless an optional form of payment is elected that provides a benefit to the Spouse that is equal to or greater than the Joint and 50 Percent Survivor Annuity. The consent

of a Participant's Spouse required under this subsection (d) will be effective only if such consent:

- (i) is in writing;
 - (ii) acknowledges the effect of the Participant's designation of a Beneficiary other than the Spouse and the identity of such Beneficiary; and
 - (iii) is witnessed by a notary public; provided, however, such consent will be deemed to have been granted where it is established to the satisfaction of the Administrative Committee that the consent of the Spouse cannot be obtained because (1) there is no Spouse, (2) the Spouse cannot be located, or (3) there exist such other circumstances as may be prescribed by regulations under ERISA or the Code. Consent of the Spouse to a designated Beneficiary and any contingent Beneficiary is irrevocable. Each change from one non-Spouse Beneficiary to another, or change of contingent Beneficiary, requires a new consent from the Spouse.
- (e) **Death before Retirement.** If a Participant who had elected an optional form of payment providing for a greater Death Benefit than would otherwise be paid under Article VI dies before his Payment Date, such optional form of payment will be in effect and any Death Benefit under Article VI will be canceled.
- (f) **Death of Beneficiary before Payment Date.** If the Beneficiary of a Participant who has elected an optional form of payment dies before the Participant's Payment Date, the optional form of payment will automatically be canceled and the Participant's Pension Benefit will be paid to him in the normal form unless a new election can be and is made by the Participant pursuant to the foregoing provisions of this Section.
- (g) **Change of Form or Beneficiary after Option Effective.** Except as otherwise provided below, a Participant may not change his optional form of payment or designate a new Beneficiary after his Payment Date (or, if later, after the last day on which he is permitted to revoke his election pursuant to subsection (c)), even if his Beneficiary dies or he is divorced from his Beneficiary. However, a Participant may designate a new Beneficiary to receive any unpaid portion of a Ten-Year Certain and Life Annuity option described in Section 7.2(c). If no Beneficiary is designated on the Participant's death, such unpaid portion will be payable to the Beneficiary specified under Section 6.7.
- (h) **Special Rules for Retroactive Payment Dates.** Effective January 1, 2004, if a Participant does not receive the written election described in subsection (a) until after the date that would otherwise be his Payment Date, he may elect (in accordance with procedures established by the Administrative Committee) to receive his benefit calculated as of the original Payment Date, provided that (A) the Participant receives a supplemental payment equal to the monthly annuity payments that would have been received had payment actually commenced on the

retroactive Payment Date, with an appropriate interest adjustment; (B) the person who is the Participant's Spouse on the date payment actually commences (if different from the person who is his Spouse on his Payment Date) consents to any optional form of benefit in accordance with subsection (d) (including an optional form described in Section 7.2(a) unless the survivorship payments to be received by the Spouse under such form are at least equal to the survivorship payments that would be received under one of the optional forms described in Section 7.2(a) with a Payment Date after the date the explanation was furnished; and (C) if the date on which payments commence is more than one year after the Payment Date, the benefit payments satisfy Section 13.12 based both upon the Payment Date and the date on which payments actually commence, in the latter case treating the supplemental payments (including the interest adjustment) as an additional benefit payment in the year of commencement.

7.5. Special Payment Limitations. Payment of benefits under the Plan to a Participant will commence not later than the sixtieth day after the end of the Plan Year in which the Participant attains his Normal Retirement Date or incurs a Termination of Employment, whichever occurs later. The following provisions will supersede any other provisions of this Plan:

- (a) **Maximum Payment Period.** No optional form of payment will be permitted that causes the Pension Benefit to be paid over a period extending beyond the life or life expectancy of the Participant or the combined lives or life expectancies of the Participant and his Beneficiary as determined in accordance with applicable mortality tables contained in applicable federal regulations.
- (b) **Five-Year Limit.** If the Participant dies without a Spouse and prior to commencement of benefits, no form of payment under the Plan will permit payments to continue beyond five years after the Participant's death except to the extent permitted by Code Section 401(a)(9).
- (c) **Age 70½ Benefit Payments.** A Participant's Pension Benefit will commence as of the April 1 following the later of the Plan Year in which he attained age 70½ or the Plan Year in which he incurs a Termination of Employment; provided that if the Participant owned 5% or more of the outstanding voting stock of the Company or 5% or more of the value of all classes of outstanding stock at any time during the Plan Year in which he attained age 70½ his Pension Benefit will commence as of the following April 1 regardless of whether he is an Employee as of such date.

Notwithstanding anything in the Plan or this Section to the contrary, the provisions of the Plan will be interpreted, construed and administered in a manner that complies with, and benefits shall be paid in accordance with the requirements of Code Section 401(a)(9) and regulations thereunder, including the minimum distribution incidental benefit requirement of Code Section 401(a)(9)(G). Minimum distributions will be determined in accordance with Treasury Regulations Section 1.401(a)(9)-2 through Section 1.401(a)(9)-6, which are

incorporated herein by reference. The provisions of such final regulations will control over any provision of the Plan to the contrary.

7.6. Effect of Prior Lump Sums on Pension Benefits. Except as otherwise provided in an applicable Supplement, a Participant who is rehired after receiving his Pension Benefit in a Lump Sum will be entitled to a Pension Benefit upon Termination of Employment equal to his Accrued Benefit (taking into account all of his Years of Service), reduced by the portion of such Accrued Benefit represented by such Lump Sum. Such reduction will occur prior to any reductions for commencement of the Pension Benefit prior to the Participant's Normal Retirement Date and prior to the conversion of the Accrued Benefit into a form other than a Single Life Annuity. If the Lump Sum was not more than \$5,000, only Years of Service after rehire will be taken into account and no reduction will be made to the Accrued Benefit based on such Years of Service.

7.7. Effect of Participant Resuming Employment after Benefits Commence. If a Participant whose Pension Benefit has commenced is rehired by the Employer, the following rules will apply:

- (a) **Resumption of Employment prior to Age 65.** If a Participant is rehired by Employer before his 65th birthday, his Pension Benefit payments will be discontinued and will not be paid or accrued during the period of such reemployment, his previous election of form of payment will be canceled, and he will have all Years of Service he had at the time of his Termination of Employment reinstated. Upon his subsequent Termination of Employment, his eligibility for a benefit and the amount of the benefit will be determined, calculated and paid as if he then first incurred a Termination of Employment based upon both reinstated Years of Service and any additional Years of Service credited, but such benefit will be actuarially reduced to recognize any Pension Benefit payments he received prior to his suspension. In no event will a Participant's Pension Benefit at his subsequent Termination of Employment be less than his benefit at his earlier Termination of Employment. However, if a Participant who is rehired as described above subsequently reaches his 65th birthday and is employed at a rate of fewer than ten hours per week, he is entitled to receive a Pension Benefit determined under Section 4.1. Such payments will continue every month thereafter until his rate of employment equals or exceeds ten hours per week, at which time his Pension Benefit payments will be suspended under the terms and conditions described below.
- (b) **Resumption of Employment after Age 65.** If a participant is rehired by the Employer after his 65th birthday, at a rate of at least ten hours per week, his Pension Benefit payments will be discontinued and will not be paid and no payment obligation will accrue during the period of such reemployment. Such suspension of benefits will be done in accordance with Department of Labor Regulation §2530.203-3 and will include the notice described below. Such Participant will thereafter continue to accrue further benefits, and his previous election of form of payment will remain in effect and will determine what Death Benefit, if any, is payable under the Plan. Upon the Participant's subsequent

Termination of Employment, he will resume receiving payments in the same form as he elected at his earlier Termination of Employment, but such benefit amount will be increased to reflect the value of any additional Accrued Benefit. If a Participant who has his benefits suspended under this subsection (b) elected a Ten-Year Certain and Life Annuity, payments that are not made due to the suspension do not count against the 120-payment guarantee. If a Participant is rehired by the Employer after his 65th birthday and his rate of employment is fewer than ten hours per week, he will receive the same type and amount of his benefit payment which he was entitled to receive preceding his reemployment during such period of reemployment. Such payments will continue every month thereafter until his rate of employment equals or exceeds ten hours per week, at which time his Pension Benefit payments will be suspended as described above. If a Participant continues in employment with the Employer after his 65th birthday at a rate of at least ten hours per week, his Pension Benefit payments will not commence during the period of such employment. Such suspension of benefits will be done in accordance with Department of Labor Regulation §2530.203-3 and will include the notice described below. Such Participant will continue to accrue further benefits under the Plan. During such employment the Provisions of Article VI will remain in effect and will determine what Death Benefit is payable under the Plan. If a Participant continues in employment with the Employer after his 65th birthday and his rate of employment is fewer than ten hours per week, he will receive a Pension Benefit under Section 4.1 under the same terms and conditions as a Participant who incurred a Termination of Employment. Such payments will continue every month thereafter until his rate of employment equals or exceeds ten hours per week, at which time his Pension Benefit payments will be suspended as described above.

- (c) Notice of Benefit Suspension. If a Participant's benefits are to be suspended after age 65 due to either reemployment or continued employment, the Administrative Committee will notify the Participant by personal delivery or first class mail during the first calendar month in which the Plan withholds payments, that benefits are suspended. The notice will contain the following information:
- (i) a general description of the reasons why payments are suspended;
 - (ii) a general description of Plan provisions relating to the suspension of benefits;
 - (iii) a copy of such Plan provisions;
 - (iv) a statement that applicable Department of Labor Regulations may be found in Section 2530.203-3 of the Code of Federal Regulations;
 - (v) a statement that a review of the suspension may be requested under the Plan's claims procedure; and

- (vi) if the Plan requires a benefit resumption notice or verification by the Participant that his benefits should not be suspended, the procedure and forms for such purposes.

The Plan will adopt a procedure whereby a Participant may request a determination of whether specific contemplated employment after age 65 will result in the suspension of benefits.

7.8. Special One Time Election for Immediate Payment of Certain Deferred Vested Benefits.

- (a) Each Eligible Participant (as hereinafter defined) shall be have the right to elect to begin receiving his Pension Benefit notwithstanding the fact that he has not attained his Early Retirement Age, and to receive his Pension Benefit in the form of a Lump Sum or Annuity, during an election period to be determined by the Plan Administrator, which election period shall be not fewer than thirty (30) days in length and shall end not later than December 31, 2012. Such election shall be offered only once, during the election period described above, shall not thereafter be available, and shall not be considered part of the Participants' Accrued Benefit after the end of the election period.
- (b) For purposes of this Section 7.8, the term "Eligible Participant" means any Participant who is identified by the Plan Administrator as having terminated employment on or prior to June 30, 2011, with a right to either an early retirement benefit or a deferred vested benefit pursuant to Section 4.3 or 4.5, who is not actively employed by the Company during the election period, whose benefit has not commenced (and who has not submitted an application for an early retirement pension) by the first day of the election period, and who (i) has not attained his Normal Retirement Age by the first day of the election period, (ii) is not a Spouse or Beneficiary of a deceased Participant, (iii) did not have a benefit under the BOC Group Cash Balance Retirement Plan, as described in Supplement J, regardless of whether such benefit has been cashed out, and (iv) did not terminate employment with a deferred vested benefit under the Immuno-U.S., Inc. Defined Benefit Plan, prior to the merger of such plan into the Plan effective December 31, 2003, as described in Supplement L. The list of Eligible Participants compiled by the Plan Administrator, who meet the above requirements and who are sent election materials, shall be final and binding, and no Participant who is not included on such list shall be an Eligible Participant even if he would otherwise be described in the preceding sentence unless otherwise determined by the Plan Administrator in its sole discretion, which shall be exercised on a uniform and non-discriminatory basis.
- (c) Each Eligible Participant who elects the immediate commencement of his Pension Benefit during the election period may also elect to waive the normal form of benefit and receive his Pension Benefit in the form of a Lump Sum equal to the present value of his Pension Benefit, payable not later than December 31, 2012. The Pension Benefit of an Eligible Participant who elects immediate commencement but who does not elect a Lump Sum, will be paid in the normal

form specified by Section 7.1 with a Payment Date of December 1, 2012, subject to the following:

- (i) If the Eligible Participant will have attained the age at which he is entitled to commence payment of his Pension Benefit without regard to this Section 7.8 on or before November 30, 2012, he may elect, in lieu of the normal form, to receive his Pension Benefit in any of the other optional forms provided by Section 7.2.
- (ii) If the Eligible Participant will not have attained the age at which he is entitled to commence payment of his Pension Benefit without regard to this Section 7.8 on or before November 30, 2012, but is married on his Payment Date, he may elect payment in the form of a 75% Joint and Survivor Annuity (but no other options).

For purposes of this Section 7.8, all Pension Benefits shall be calculated as otherwise provided in the Plan, except that (A) the Benefit Reduction Factors used to calculate the Pension Benefit of an Eligible Participant who does not elect a Lump Sum, but who has not yet attained the minimum age shown on the applicable Table in Supplement A, shall be calculated using the same actuarial assumptions used in calculating the applicable Table, and (B) the Lump Sum benefit shall be equal to the Actuarial Equivalent of the Participant's Normal Retirement Benefit paid at Normal Retirement Age, without any adjustment for the value of any subsidy that would be included if the Pension Benefit were paid in the form of an immediate annuity, regardless of whether the Participant would be eligible for an immediate annuity without regard to this Section 7.8.

- (d) If an Eligible Participant who is eligible for a Disability Pension pursuant to Section 4.4 elects immediate payment, his accrual of additional Years of Service during his period of Disability shall terminate on November 30, 2012, or such earlier date on which it is determined that he had recovered from the Disability. If an Eligible Participant notifies the Plan Administrator not later than the end of the election period that he has been determined to be disabled by the Social Security Administration, or has applied for such determination, then the Plan Administrator may pay such Eligible Participant's Pension Benefit and subsequently adjust the amount of the Pension Benefit based upon any additional Years of Service to which he may be entitled, but an Eligible Participant who elects a Lump Sum and does not so notify the Plan Administrator shall not be entitled to any additional benefit even if it is subsequently determined that he was disabled.
- (e) All elections pursuant to this Section 7.8 shall be made in accordance with the requirements of Section 7.4 (treating the Lump Sum option as if it were an optional form of benefit provided by Section 7.2), except that the election period described above shall be substituted for the 180 day period referred to in Section 7.4, and the Plan Administrator shall make such other changes to the procedures described in Section 7.4 as may be consistent with the intent of this Section 7.8

and applicable law. The Plan Administrator shall have the full authority and discretion to make all other determinations necessary or appropriate to implement the election provided for in this Section 7.8, in accordance with Article IX. Without limiting the generality of the foregoing, the Plan Administrator may permit Eligible Participants to elect to receive a Lump Sum payment, and make such payments by December 31, 2012, notwithstanding the fact that the Plan Administrator is still in the process of reviewing the Eligible Participant's service or compensation history or other factors relevant to the amount of his Pension Benefit, and make appropriate corrections to the amount so paid in years subsequent to 2012, may exclude groups of Participants other than those listed in Section 7.8(b) from the definition of Eligible Participant, on a nondiscriminatory basis, if it determines that the Plan's records are not sufficiently reliable to prepare election materials on a timely basis, or for similar reasons, and may determine the manner in which the election shall be made with respect to Eligible Participants whose Pension Benefit is or may be subject to a Qualified Domestic Relations Order. ”

ARTICLE VIII.
Plan Committees

8.1. Membership of Administrative and Investment Committees. The Administrative Committee, consisting of at least three persons, will be appointed by the Compensation Committee of the Board of Directors. The Investment Committee, consisting of at least three persons, will be appointed by the Board of Directors or its delegate. The Secretary of the Company will certify to the Trustee from time to time the appointment to (and termination from) office of each member of the Administrative Committee and the Investment Committee and the persons, if any, who are selected as secretaries of the Administrative Committee and the Investment Committee by the members of such committees. The appointment of a member of either Committee and acceptance of such appointment by any person constitutes an agreement by and between the Company and such Committee member that the member, acting in concert with the other Committee members, will have and will exercise the powers and duties described herein, including, with respect to the Administrative Committee, the power and duty to interpret this Plan and determine the benefits to which Participants are entitled hereunder.

8.2. Administrative Committee Powers and Duties. The Administrative Committee shall be the “plan administrator” for purposes of Code Section 414(g) and the “administrator” for purposes of Section 3(16)(A) of ERISA and will have such powers and duties necessary to discharge its duties hereunder, including, but not limited to, the following:

- (a) Within its complete and unfettered discretion to construe and interpret the Plan and Trust Agreement provisions and to resolve all questions arising under the Plan including questions of Plan participation, eligibility for Benefits and the rights of Employees, Participants, Beneficiaries and other persons to benefits under the Plan and to determine the amount, manner and time of payment of any benefits hereunder;
- (b) To prescribe procedures, rules and regulations to be followed by Employees, Participants, Beneficiaries and other persons or to be otherwise utilized in the efficient administration of the Plan consistent with the Trust;
- (c) To make determinations as to the rights of Employees, Participants, Beneficiaries and other persons to benefits under the Plan and to afford any Participant or Beneficiary dissatisfied with such determination with rights pursuant to a claims procedure adopted by the Administrative Committee;
- (d) To settle or compromise claims against the Plan by Participants, Beneficiaries and other persons;
- (e) To enforce the Plan in accordance with the terms of the Plan and the Trust and to enforce its procedures, rules and regulations;
- (f) To be responsible for the preparation and maintenance of records necessary to determine the rights and benefits of Employees, Participants and Beneficiaries or

other persons under the Plan and the Trust and to request and receive from the Participating Employers such information necessary to prepare such records;

- (g) To prepare and distribute in such manner as it deems appropriate and to prepare and file with appropriate government agencies information, disclosures, descriptions and reporting documents regarding the Plan, and in the preparation and review of such reports the Administrative Committee is entitled to rely upon information supplied to it by the Employees, accountants, counsel, actuaries, the Investment Managers and any insurance institutions described in the Trust Agreement;
- (h) To appoint or employ individuals to assist in the administration of the Plan and other agents (corporate or individual) that the Administrative Committee deems advisable, including legal counsel and such clerical, medical, accounting, auditing, actuarial and other services as the Administrative Committee may require in carrying out the provisions of the Plan. However, no agent except an Investment Manager or fiduciary named in the Plan will be appointed or employed in a position that would require or permit him: (i) to exercise discretionary authority or control over the acquisition, disposition or management of Trust assets; (ii) to render investment advice for a fee; or (iii) to exercise discretionary authority or responsibility for Plan administration;
- (i) To cause to be prepared and to cause to be distributed, in such manner as the Administrative Committee determines to be appropriate, information explaining the Plan and Trust;
- (j) To furnish to the Participating Employers upon request such annual or other reports with respect to the administration of the Plan as are reasonable and appropriate;
- (k) To receive, review and keep on file (as it deems convenient or proper) reports of the financial condition, receipts and disbursements, and assets of the Trust;
- (l) To determine the method by which all notices and other documents required or permitted to be given to a Participant, Beneficiary or other person under the Plan or any applicable law shall be given, and the method by which Participants and Beneficiaries may exercise any elections permitted by the Plan, which methods may include the use of e-mail, interactive internet sites, voice response systems, and other electronic media to the extent permitted by applicable regulations;
- (m) To amend the Plan to the extent provided in Section 11.1(d); and
- (n) To discharge all other duties set forth in the Plan.

Except as otherwise specifically provided herein, the Administrative Committee has no power to add to, subtract from or modify any of the terms of the Plan, nor to change or add to any benefits provided by the Plan, nor to waive or fail to apply any requirements of eligibility for benefits under the Plan; provided, however, that nothing contained herein shall be construed to limit the

Administrative Committee's authority to interpret and construe the Plan. Procedures and policies adopted by the Administrative Committee may be inconsistent with any provision of the Plan that is ministerial or administrative in nature, and shall be deemed an amendment to the Plan to the extent of the inconsistency. The authority of the Administrative Committee may also be exercised in routine matters by the Corporate Vice President-Human Resources of the Company or persons acting under his authority, and any action taken by any such person within the apparent scope of his authority shall be presumed authorized and binding on all Participants, subject to the review of the Administrative Committee.

8.3. Investment Committee Powers and Duties. The Investment Committee has such powers necessary to discharge its duties hereunder, including but not limited to the following:

- (a) To establish and from time to time revise the investment policy of the Plan, to communicate and consult with the Company, the Administrative Committee and the Trustee and any Investment Manager or insurance institution regarding the investment policy applicable to the Plan as a whole or as to any individual investment fund;
- (b) To supervise the performance by the Trustee and any Investment Manager or insurance institution regarding their responsibilities under the Plan and Trust. The Investment Committee will review and analyze performance information supplied by the Trustee and the Investment Managers or insurance institutions to the Investment Committee and/or any such performance information obtained independently by the Investment Committee and will report the results of such analysis to the Board of Directors or its delegate from time to time in such form and with such degree of frequency as the Investment Committee will determine proper. Such responsibilities of the Investment Committee with respect to supervision, review and analysis will be performed no less frequently than once each Plan Year and will ordinarily not be required more frequently than once each calendar quarter. The Trustee, Investment Managers and insurance institutions have been allocated the responsibility for day-to-day investment management of the Plan and Trust, and the responsibilities of the Investment Committee hereunder are not intended to relieve the Trustee, Investment Managers or insurance institutions of such ongoing investment management responsibilities;
- (c) To instruct the Trustee, the Investment Managers and insurance institutions with respect to the proper application of contributions made under the Plan;
- (d) To determine the proper allocation of investment responsibilities with respect to the assets of the Plan between the Trustee and any Investment Manager or insurance institution acting hereunder or under the terms of the Trust and to allocate fiduciary responsibilities among these parties;
- (e) To the extent not provided to the contrary in the Trust Agreement, to appoint the Trustee and any Investment Managers or insurance institutions, to direct the establishment of any investment fund and to remove the Trustee and any

Investment Managers or insurance institutions or appoint additional Trustees, Investment Managers or insurance institutions;

- (f) To review any accounts submitted by the Trustee and any Investment Managers or insurance institutions and to report to the Board of Directors or its delegate with respect to any such accounts;
- (g) Following the Administrative Committee's determination of the benefit rights of any Participant or Beneficiary, to collect information concerning such benefits and authorize and direct the Trustee with respect to the commencement, modification or cessation of such benefit payments;
- (h) To supervise the performance of fiduciary responsibilities by others, including the Trustee and any Investment Managers;
- (i) To appoint and utilize the services of administrative staff employees of the Company and the other Participating Employers for the performance of duties delegated to the Investment Committee hereunder and to rely upon information received from such staff employees; provided that in both cases the Investment Committee reasonably believes the performance of such services and the preparation of such information is within the competence of such staff employees;
- (j) To furnish to the Participating Employers, upon reasonable request, such annual or other reports as the Participating Employers deem necessary regarding the administration of the Plan; and
- (k) To employ reputable agents and to delegate to them any of the administrative powers or duties imposed upon the Investment Committee or the Participating Employers.

8.4. Conflicts of Interest. No member of the Administrative Committee or the Investment Committee will participate in any action on matters involving solely such member's rights or benefits as a Participant under the Plan.

8.5. Compensation; Reimbursement. No member of the Administrative Committee or the Investment Committee will receive compensation for his services, but the Participating Employers will reimburse him for any necessary expenses incurred in the discharge of his duties.

8.6. Standard of Care. The Administrative Committee and the Investment Committee will perform their duties under this Plan in accordance with the terms of this document and the Trust Agreement solely in the interest of the Participants and for the exclusive purposes of providing retirement benefits to Participants and defraying the reasonable expenses of Plan administration and operation. The Administrative Committee and the Investment Committee will also perform their duties under this Plan with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of a like character and with like aims.

8.7. Action by Committees. Action by each Plan Committee (i.e., the Administrative Committee and the Investment Committee) is subject to the following special rules:

- (a) Each Committee may act by meeting or by document signed without meeting and documents may be signed through the use of a single document or concurrent documents;
- (b) Each Committee will act by a majority, and such action will be as effective as if such action had been taken by all Committee members, provided that by majority action one or more Committee members or other persons may be authorized to act with respect to particular matters on behalf of all Committee members;
- (c) Each Committee may, but is not required to, select a secretary, who may but need not be a Committee member, and the certificate of such secretary that the Committee has taken or authorized any action will be conclusive in favor of any person relying upon such certificate; and
- (d) Each Committee may act through agents or other delegates and may retain legal counsel, auditors or other specialists to aid in the Committee's performance of its responsibilities.

8.8. Resignation or Removal of Committee Member. Any person serving as an Administrative Committee member may resign from such Committee at any time by written notice to the Compensation Committee of the Board of Directors or may be removed by the Compensation Committee at any time by written notice to such member. Any person serving as an Investment Committee member may resign from such Committee at any time by written notice to the Board of Directors or its delegate or may be removed by the Board of Directors or its delegate at any time by written notice to such member. The Compensation Committee will fill any vacancy in the membership of the Administrative Committee as soon as practicable. The Board of Directors or its delegate will fill any vacancy in the membership of the Investment Committee as soon as practicable. Until any such vacancy is filled, the remaining members of the applicable Committee may exercise all of the powers, rights and duties conferred on such Committee.

8.9. Uniform Application of Rules by Administrative Committee. The Administrative Committee will apply all rules, regulations, procedures and decisions uniformly and consistently to all Employees and Participants similarly situated. Any ruling, regulation, procedure or decision of the Administrative Committee which is consistent with the provisions of the Plan or the Trust will be conclusive and binding upon all persons affected by it. There will be no appeal of any ruling by the Administrative Committee which is within its authority, except as provided in Section 8.10 below. When making a determination or a calculation, the Administrative Committee is entitled to rely on information supplied by the Participating Employer, Trustee, Investment Managers, insurance institutions, accountants and other professionals including legal counsel for the Company.

8.10. Claims Procedure. Each person entitled to benefits under the Plan (the "Applicant") must submit a written claim for benefits to the Administrative Committee. Such

claim shall be filed not more than one year after the Applicant knows (or with the exercise of reasonable diligence would know) of the existence of a basis for a claim; provided that nothing herein shall be construed to permit the forfeiture of a Participant's benefit for failure to file a timely application for such benefit; and provided further that the Administrative Committee may waive or extend such requirement in its sole discretion. If a claim for benefits by the Applicant is denied, in whole or in part, the Administrative Committee will furnish the Applicant, within 90 days after receipt of such claim (or within 180 days after receipt if special circumstances require an extension of time), a written notice which specifies the reason for the denial, refers to the pertinent provisions of the Plan on which the denial is based, describes any additional material or information necessary for properly completing the claim and explains why such material or information is necessary, and explains the claim review procedures of this Section 8.10. Such notice will further describe that the Applicant has a right to bring a civil action under Section 502 of ERISA if his claim is denied after an appeal and review. Any Applicant whose claim is denied under the provisions described above, or who has not received from the Administrative Committee a response to his claim within the time periods specified in the provisions described above may request a review of the denied claim by written request to the Administrative Committee within 60 days after receiving notice of the denial. In connection with such request, the Applicant or his authorized representative may review pertinent documents and may submit issues and comments in writing. If such a request is made, the Administrative Committee will make a full and fair review of the denial of the claim and will make a decision not later than 60 days after receipt of the request, unless special circumstances (such as the need to hold a hearing) require an extension of time, in which case a decision will be made as soon as possible but not later than 120 days after receipt of the request for review, and written notice of the extension will be given to the Applicant before the commencement of the extension. The decision on review will be in writing and will include specific reasons for the decision and specific references to the pertinent provisions of the Plan on which the decision is based. Such notice will further describe that the Applicant has a right to bring a civil action under Section 502 of ERISA if his claim is denied after an appeal and review. No person entitled to benefits under the Plan will have any right to seek review of a denial of benefits, or to bring any action to enforce a claim for benefits, in any court prior to his filing a claim for benefits and exhausting all of his rights under this Section 8.10, or more than six months after receipt of the decision on review. Although not required to do so, an Applicant may choose to state the reason or reasons he believes he is entitled to benefits, and may choose to submit written evidence, during the initial claim process or review of claim denial process. However, failure to state any such reason or submit such evidence during the initial claim process or review of claim denial process, or by written notice to the Administrative Committee within 60 days of the date of the decision on the review of the claim denial, will permanently bar the Applicant, and his successors in interest, from raising such reason or submitting such evidence in any forum at any later date. An Applicant whose claim is denied initially or on review is entitled to receive, on request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to such claim for benefits.

8.11. Correction of Errors. In the event that the Administrative Committee discovers that an error has been made in the calculation of a benefit, it will correct the error as soon as is administratively feasible. In the event of an underpayment, the Administrative Committee will either pay the amount of the underpayment in a single sum or will increase future monthly payments to the extent necessary to pay the underpayment within a reasonable period of time,

with interest at a reasonable rate not less than the interest rate specified in Section 2.2(a)(ii). If an overpayment was made, the Committee will reduce future monthly payments to the extent necessary to recover the overpayment within a reasonable period of time, using life expectancy as of the calculation date. If an overpayment was made in a Lump Sum, the Administrative Committee will seek reimbursement; provided, that if the Administrative Committee determines that the expense or burden of seeking recovery would be greater than the likely recovery, it may exercise discretion in determining not to pursue a recovery.

ARTICLE IX.
Trust, the Trustee and Plan Financing

9.1. Trust Agreement. The Trust Agreement provides for the administration of the Trust. The Trust Agreement, as amended, will continue in force and will be deemed to form a part of this Plan, and any and all rights or benefits which may accrue to any person under this Plan will be subject to all the terms and provisions of the Trust Agreement.

9.2. Selection of Trustee. As provided in the Trust Agreement, the Investment Committee will have the power to remove the Trustee and to appoint a successor Trustee.

9.3. Trustee's Duties. The powers, duties and responsibilities of the Trustee will be as stated in the Trust Agreement, and nothing contained in the Plan either expressly or by implication will be deemed to impose any additional powers, duties or responsibilities upon the Trustee. The foregoing notwithstanding, the Trustee will have no investment authority not specifically granted to the Trustee by the terms of the Trust and the Trustee will be bound by the instructions of the Investment Committee or Investment Manager as provided in Article VIII. All Participating Employer Contributions will be paid into the Trust and all benefits payable under the Plan will be paid from the Trust. No Participating Employer will have any rights or claims of any nature in or to the assets of the Trust Fund except the right to require the Trustee to hold, use, apply and pay such assets in its possession, in accordance with the directions of the Investment Committee for the exclusive benefit of the Participants, Spouses and Beneficiaries, except as otherwise provided in the Plan.

9.4. Trust Income. The net income derived from the Trust will be accumulated and will from time to time be invested as a part of the Trust Fund.

9.5. Expenses. Unless paid by the Participating Employers, all costs and expenses incurred in connection with the general administration of the Plan and Trust will be paid by the Trust.

9.6. Trust Entity. The Trust will be a separate entity aside and apart from the Participating Employers or their assets. The Trust and the corpus and income thereof will in no event and in no manner whatsoever be subject to the rights or claims of any creditor of any Participating Employer.

9.7. Funding Policy. The Investment Committee will establish and direct the implementation of a funding policy and method for the Plan which will be consistent with the objectives of the Plan and with the minimum funding standards established under Code Section 412.

9.8. Participating Employer Contributions. Each Participating Employer will make contributions to the Trust to fund benefits of the Plan in such amounts and at such times as the Investment Committee, in accordance with the funding policy and method of the Plan, will from time to time direct; provided that any such contribution will be made not later than the due date for the Participating Employer's federal income tax return (including extensions) for the taxable year and Plan Year for which such contribution is made. All Participating Employer

Contributions are conditioned upon the qualification of the Plan under Code Section 401(a) and upon the deductibility of such contributions by the Participating Employer under Code Section 404. Participating Employer Contributions can be made in cash or in securities of the Company; provided that in no case will the Plan acquire or hold securities of the Company if the aggregate fair market value of the securities exceeds ten percent of the fair market value of the Plan assets or if the securities fail to qualify as “Qualifying Participating Employer Securities” under Section 407 of ERISA.

9.9. Forfeitures. Forfeitures of benefits under the Plan arising for any reason will be applied to reduce the cost of the Plan and will not be used to increase the benefits under the Plan otherwise payable to or on behalf of Participants.

9.10. Exclusive Benefit of Participants. Except to the extent provided below, all Participating Employer Contributions under the Plan will be paid to the Trustee and deposited in the Trust Fund and will be held, managed and distributed solely in the interest of the Participants, their Spouses and Beneficiaries for the exclusive purposes of providing benefits to such persons and paying all costs and expenses incurred in connection with the general administration of the Plan and Trust, to the extent such costs and expenses are not paid by the Participating Employers. Notwithstanding the foregoing, Participating Employer Contributions and the earnings thereon may be applied as follows:

- (a) **Non-Deductible Contribution Reversion.** Participating Employer contributions are conditioned upon the deductibility of such contributions and if, and to the extent, deduction of a Participating Employer Contribution under Code Section 404 is disallowed, such Participating Employer Contributions, adjusted for any investment losses, will be returned to the Participating Employers within one year after the disallowance of the deduction, provided that this reversion provision will not be applicable to the extent that it is determined by the Administrative Committee that such reversion will adversely affect the qualified status of the Plan;
- (b) **Mistake of Fact Reversions.** If, and to the extent, a Participating Employer Contribution is made through mistake of fact, such Participating Employer Contribution and any earnings on such contributions will be returned to the Participating Employers within one year of the payment of the contribution;
- (c) **Excess Assets Reversions.** If any amounts arising out of the variation between expected actuarial requirements and actual requirements remain in the Trust Fund after termination of the Plan and if all liabilities of the Plan to persons entitled to benefits under the Plan have been satisfied in accordance with applicable law, such remaining amounts will be distributed to the Participating Employers in such amounts as the Investment Committee in its sole discretion will determine, provided such distribution is in accordance with applicable law.
- (d) **Exercise of Plan Sponsor or Settlor Authority.** Notwithstanding the foregoing, the provisions of this Section 9.10 will not be applicable with respect to Plan design

decisions including decisions made pursuant to Section 1.3, Article VII or Article VIII, or with respect to exercises of any other Plan sponsor or settlor authority.

9.11. Benefits Payable Only from Trust Fund. All benefits provided by the Plan will be paid solely from the Trust Fund, and neither any Participating Employer nor any agent or representative of a Participating Employer will be liable in any manner for any such benefits.

ARTICLE X.

Adoption and Withdrawal from Plan

10.1. Procedure for Adoption. Any Participating Employer may adopt the Plan for the benefit of its Employees as of a date specified. Any Employer that employs Participants shall be deemed to have adopted the Plan unless otherwise determined by the Administrative Committee. Notwithstanding any term or provision of the Plan to the contrary (including, but not limited to, terms and conditions concerning Years of Service, Compensation and amount of Pension Benefits), the terms and provisions as may be imposed with respect to such Employees in an applicable Supplement will govern. A partnership, limited liability company, or other noncorporate entity may be a Participating Employer, subject to such conditions as may be required by the Administrative Committee.

10.2. Procedure for Withdrawal. Any Participating Employer may, with the consent of the Company, and subject to such conditions as may be imposed by the Company, terminate its adoption of the Plan.

ARTICLE XI.
Amendment and Termination

11.1. Amendments.

- (a) Power to Amend. The Company will have the right at any time to amend in whole or in part any or all of the provisions of the Plan except as expressly set forth below:
- (i) no amendment will increase the duties or liabilities of the Trustee without its written consent;
 - (ii) no amendment will have the effect of vesting in any Employer any interest in any funds, securities or other property subject to the terms of the Plan and Trust;
 - (iii) no amendment will authorize or permit at any time any part of the corpus or income of the Trust Fund to be used for or diverted to purposes other than for the purposes specified in the Plan, except as permitted by Section 11.14;
 - (iv) no amendment will reduce a Participant's Accrued Benefit, or the Non-forfeitable portion thereof, subject to Section 11.1(c);
 - (v) effective January 1, 2008, no amendment will shall increase the Plan's liabilities in violation of Section 13.13(b).

The Company's authority to amend the Plan has been delegated to the Administrative Committee to the extent provided in Section 11.1(d). The authority to amend the Plan in any respect (whether or not such amendment is within the authority delegated to the Administrative Committee) may also be exercised by the Board of Directors or any other person to whom the Board delegates such authority.

- (b) Effect of Amendment. If a person is not an Eligible Employee on or after the effective date of any amendment to the Plan, the amendment will be deemed as having no effect on the amount of such person's benefits unless the amendment specifically provides otherwise.
- (c) Restriction on Amendment. Except as otherwise permitted by Code Section 411 or regulations or other administrative guidance issued thereunder,
- (i) no amendment to the Plan shall reduce a Participant's Accrued Benefit as of the effective date of the amendment.
 - (ii) any amendment that affects the determination of the Non-forfeitable portion of a Participant's Accrued Benefit shall apply to a Participant who as of the date that is sixty days after the effective date of the amendment

has completed at least three Years of Vesting Service only if the effect of the amendment is to increase the Non-forfeitable portion of the Participant's Accrued Benefit (including the portion accrued after the effective date of the amendment). The preceding language concerning an amendment to the Plan's vesting schedule will also apply when a Plan with different requirements for non-forfeitability is merged into the Plan.

- (iii) the Plan will not be amended so as to eliminate or reduce an early retirement benefit or a retirement-type subsidy, or eliminate an optional form of payment, with respect to a Participant's Accrued Benefit as of the effective date of the Amendment; provided, however, the retirement-type subsidy need only be preserved for those Participants who before or after the date of the amendment (but before incurring a Termination of Employment) satisfy the eligibility requirements for the subsidy prior to the amendment. The foregoing limitations do not apply to benefit accrual occurring after the date of the amendment.

- (d) Authority of Administrative Committee. The Administrative Committee has been delegated the authority of the Company to adopt any amendments to the Plan as the Administrative Committee may determine to be necessary or appropriate, except that no amendment shall be made to any Plan without approval of the Board of Directors unless the Administrative Committee determines that such amendment will not significantly change the overall level of benefits provided by such Plan; significantly change the requirements for eligibility for participation in the Plan; or add any material new benefit that would significantly increase the cost of the Plan. In illustration but not limitation of the foregoing, the Administrative Committee is authorized to adopt any amendment to a Plan that it determines to be:
 - (i) an amendment that provides for the Plan to be adopted by any business entity acquired by the Company, including providing any special rules applicable to the employees of such business entity;
 - (ii) an amendment that the Administrative Committee determines to be of an administrative, ministerial or technical nature only;
 - (iii) an amendment that the Administrative Committee determines to be necessary or appropriate to carry out any amendment approved by, or other resolution adopted by, the Board;
 - (iv) an amendment that the Administrative Committee determines to be necessary or appropriate to comply with any applicable law, including without limitation any amendment required by the Internal Revenue Service as a condition to the issuance of a favorable determination letter with respect to the Plan, or necessary to conform the terms of the Plan to established administrative practices or procedures; or

- (v) an amendment that the Administrative Committee determines to be necessary or appropriate to clarify or to resolve any inconsistency or ambiguity in the terms of the Plan.

The adoption by the Administrative Committee of any amendment to the Plan shall constitute conclusive evidence that the Administrative Committee has determined such amendment to be authorized under the terms of the foregoing resolution, which determination shall be conclusive and binding on all employees, participants, beneficiaries and other persons claiming any benefit under the Plan.

11.2. Termination. It is the expectation of the Company that it will continue the Plan and the payment of contributions hereunder indefinitely, but the continuation of the Plan and the payment of Participating Employer Contributions hereunder is not assumed as a contractual obligation of the Company or any other Participating Employer; and the right is reserved by the Company or any Participating Employer at any time to reduce, suspend or discontinue its contributions hereunder; provided, however, that the Participating Employer Contributions for any Plan Year accrued or determined prior to the end of such Plan Year will not after the end of such Plan Year be retroactively reduced, suspended or discontinued except as may be permitted by law. The Plan will terminate upon the occurrence of any of the following events:

- (a) **Business Form.** Legal adjudication of the Company as bankrupt, a general assignment by the Company to or for the benefit of its creditors, or dissolution of the Company other than by form of or as a result of a reorganization where the business of the Company is continued; or
- (b) **Board of Directors Action.** Termination of the Plan by the Board of Directors at any time when, in its judgment, business, financial or other good causes make such termination advisable, to become effective upon the execution and delivery by the Company to the Administrative Committee and Investment Committee and to the Trustee of a written resolution signed on its behalf by an officer of the Company and stating the fact of such termination and the date as of which it is to be effective.

Upon the termination of the Plan or partial termination of the Plan, the rights of affected persons to the benefits provided under the Plan which are not vested and Non-forfeitable as of the date of such termination or partial termination will be fully vested and Non-forfeitable to the extent then funded; provided, however, notwithstanding any other provision of the Plan, the rights of all persons entitled to vested and Non-forfeitable benefits under the Plan will be limited to the assets of the Trust Fund, and to the extent benefits are guaranteed by the PBGC, and no Participating Employer or Employer will have any obligation to make any contributions to pay any benefits under the Plan subsequent to a termination or partial termination of the Plan.

11.3. Disposition of Fund on Termination. Subject to the provisions of Section 9.10, upon an entire termination of the Plan the Trust Fund will be liquidated by making provisions (if not already so provided) for payments, after providing for the costs and expenses of the Plan and Trust Fund, to the extent the assets in the Trust Fund are sufficient therefor, in the order of precedence established under ERISA Section 4044; provided however, in the event the Plan terminates or there is a spin-off of part of the Plan (other than a de minimis spin-off permitted

under Treasury Regulations Section 1.414(1)-(n)(2)) within five years of the effective date of any de minimis merger of any defined benefit plan (the “Smaller Plan”) into the Plan (the “Larger Plan”) as permitted by Treasury Regulations Section 1.414(1)-1(h), there will be payable to Participants, on whose behalf assets and liabilities were transferred from the Smaller Plan to the Larger Plan, a special schedule of benefits (consisting of all the benefits that would be provided by the Smaller Plan on a termination basis just prior to the merger) in a priority category higher than the highest priority category payable under Section 4044 of ERISA. Plan assets will be allocated to that schedule in accordance with the allocation of assets to scheduled benefits in Treasury Regulations Section 1.414(1)-1(f)(3). The preceding provisions for payments will be made regardless of whether the Participant has incurred a Termination of Employment and regardless of the Participant’s age.

11.4. Disposition Medium. The allocations, referred to in Section 11.3, may be implemented through the continuance of the Trust Fund (as a wasting trust), through a new Trust Fund, through the purchase of insurance company annuity contracts or by a combination of these methods. Notwithstanding the previous sentence, every Participant with an Accrued Benefit in excess of \$5,000 (or such higher amount permitted by applicable law) is entitled to receive his Accrued Benefit in the form of an insurance company annuity contract (with such contract including all optional forms of payment available under the Plan at plan termination, any retirement-type subsidy and qualified joint and survivor and pre-retirement survivor annuity features as are required by Code Section 411(d)(6) or Treasury regulations thereunder) unless such Participant elects a different form of payment. Any election by a married Participant of a form of payment other than an annuity contract with joint and survivor and pre-retirement survivor annuity features (with the Spouse designated as the survivor) must be consented to by the Participant and, to the extent applicable, the Spouse.

ARTICLE XII.
Special Top-Heavy Rules

12.1. Application. Notwithstanding any provisions of the Plan to the contrary, the provisions of this Article XII will apply and be effective for any Plan Year for which the Plan will be determined to be a “Top-Heavy Plan” as provided and defined herein.

12.2. Special Terms. For purposes of this Article XII, the following terms will have the following meanings:

- (a) “Active Participant” means an Eligible Employee who is a Participant in the Plan at the time of reference.
- (b) “Aggregate Benefit” means the sum of:
 - (i) the present value of the accrued benefit under each and all defined benefit plans in the Aggregation Group determined on each plan’s individual Determination Date as if there were a termination of employment on the most recent date the plan is valued by an actuary for purposes of computing plan costs under Code Section 412 within the 12-month period ending on the Determination Date of each such plan, but with respect to the first plan year of any such plan determined by taking into account the estimated accrued benefit as of the Determination Date; provided, the actuarial assumptions to be applied for purposes of this paragraph (i) will be the same assumptions as those applied for purposes of determining the actuarial equivalents of optional benefits under the particular plan, except that the interest rate assumption will be five percent; nonproportional subsidies will be valued as required under Regulation 1.416-1;
 - (ii) the present value of the accrued benefit (i.e., account balances) under each and all defined contribution plans in the Aggregation Group, valued as of the valuation date coinciding with or immediately preceding the Determination Date of each such plan, including (A) contributions made after the valuation date but on or prior to the Determination Date, (B) with respect to the first plan year of any plan, any contribution made subsequent to the Determination Date but allocable as of any date in the first plan year, or (C) with respect to any defined contribution plan subject to Code Section 412, any contribution made after the Determination Date that is allocable as of a date on or prior to the Determination Date; and
 - (iii) the sum of each and all amounts distributed (other than a rollover or plan-to-plan transfer) from any Aggregation Group Plan, plus a rollover or plan-to-plan transfer initiated by the Employee and made to a plan which is not an Aggregation Group Plan within the Current Plan Year or within the preceding four plan years of any such plan, provided such amounts are not already included in the present value of the accrued benefits as of the

valuation date coincident with immediately preceding the Determination Date. Effective January 1, 2002, the present value of the accrued benefits and amounts of account balances of an Employee as of the Determination Date will be increased by the distributions made with respect to the Employee under the Plan, and any plan aggregated with the Plan under Code Section 416(g)(2), during the one-year period ending on the determination date. The preceding sentence will also apply to distributions under a terminated plan which, had it not been terminated, would have been aggregated with the Plan under Section Code 416(g)(2)(A)(i). In the case of a distribution made for reason other than severance from employment, death, or disability, this provision will be applied by substituting “five-year period” for “one-year period”. The accrued benefits of any individual who has not performed an hour of service for an Employer during the one-year period ending on the Determination Date will not be taken into account.

The Aggregate Benefit will not include the value of any rollover or plan-to-plan transfer, the contribution or transfer of which to an Aggregation Group Plan was initiated by a Participant, was from a plan which was not an Aggregation Group Plan and was made after December 31, 1983, nor will the Aggregate Benefit include the value of employee contributions which are deductible pursuant to Code Section 219.

- (c) “Aggregate Compensation” means one-twelfth of the average of an Active Participant’s Compensation from a Participating Employer, as defined in Code Section 415, earned during the five-consecutive-Plan-Year period in which the Active Participant’s compensation is the highest and during which the Plan is a Top-Heavy Plan, and during which the Active Participant earns a Year of Aggregate Service. If a person has less than five consecutive Plan Years of compensation, or if the Plan is not a Top-Heavy Plan during five consecutive Plan Years, “Aggregate Compensation” will mean one-twelfth of the average of the Active Participant’s compensation earned during the Plan Years the Plan was a Top-Heavy Plan and during which the Active Participant earned a Year of Aggregate Service, divided by the number of such Plan Years. An Active Participant’s Aggregate Compensation will exclude all compensation earned prior to January 1, 1984 or during any Plan Year the Plan is not a Top-Heavy Plan.
- (d) “Aggregation Group” means the Plan and one or more plans (including plans that terminated) which are described in Code Section 401(a), is an annuity contract described in Code Section 403(a) or is a simplified employee pension described in Code Section 408(k) maintained or adopted by the Employer in the Current Plan Year or one of the four preceding Plan Years which is either a “Required Aggregation Group” or a “Permissive Aggregation Group”:
 - (i) A “**Required Aggregation Group**” means all Aggregation Group Plans in which either (A) a Key Employee participates or (B) which enable any

Aggregation Group Plan in which a Key Employee participates to satisfy the requirements of Code Section 401(a)(4) or Code Section 410.

- (ii) A **“Permissive Aggregation Group”** means Aggregation Group Plans included in the Required Aggregation Group, plus one or more other Aggregation Group Plans, as designated by the Board of Directors of the Company in its sole discretion, which satisfy the requirements of Code Sections 401(a)(4) and 410 when considered with the other component plans of the Required Aggregation Group.
- (e) “Aggregation Group Plan” means the Plan and each other plan in the Aggregation Group.
- (f) “Current Plan Year” means (i) with respect to the Plan, the Plan Year in which the Determination Date occurs, and (ii) with respect to each other Aggregation Group Plan, the plan year of such other plan in which occurs the Determination Date of such other plan.
- (g) “Determination Date” means (i) with respect to the Plan and its Plan Year, the last day of the preceding Plan Year; or (ii) with respect to any other Aggregation Group Plan in any calendar year during which the Plan is not the only component plan of an Aggregation Group, the determination date of each plan in such Aggregation Group to occur during the calendar year as determined under the provisions of each such plan.
- (h) “Former Key Employee” means an Employee (including a terminated Employee) who is not a Key Employee in the Current Plan Year but who was a Key Employee at any time prior to the four preceding Plan Years.
- (i) “Key Employee” means an Employee or former terminated Employee (including any deceased Employee) who at any time during the Plan Year that includes the Determination Date is:
 - (i) An officer of the Employer whose compensation from a Participating Employer and an Employer during the Plan Year is greater than \$170,000 (as adjusted under Code Section 416(i)(1)); provided, however, that no more than the lesser of (A) 50 Employees, or (B) the greater of (1) three Employees or (2) ten percent (rounded to the next whole integer) of the greatest number of Employees during the Plan Year will be considered as officers for this purpose. Such officers considered will be those with the greatest annual compensation as an officer during the Plan Year;
 - (ii) A person who owns more than five percent of the value of outstanding stock of the Company or of any Employer or more than five percent of the total combined voting power of all stock of the Company or any Employer (considered separately) or 5%

- (iii) A person who owns more than one percent of the value of the outstanding stock of a Participating Employer or of any Employer or more than one percent of the total combined voting power of all stock of a Participating Employer or of any Employer (considered separately) and whose total annual compensation from a Participating Employer and an Employer is in excess of \$150,000.

For the purposes of this Section, compensation will mean compensation as defined in Code Section 415(c)(3). The determination of who is a Key Employee will be made in accordance with Code Section 416(i)(1) and the applicable regulations and other guidance of general applicability issued thereunder. Any person who is a Key Employee under more than one of the three paragraphs of this Section 12.2(i) will have his Aggregate Benefit under the Aggregate Group Plans counted only once with respect to computing the Aggregate Benefit if Key Employees as of any Determination Date.”

- (j) “Top-Heavy Plan” means the Plan with respect to any Plan Year if the Aggregate Benefit of all Key Employees or the Beneficiaries of Key Employees determined on the Determination Date is an amount in excess of 60 percent of the Aggregate Benefit of all persons who are Employees within the Current Plan Year (excluding Former Key Employees), plus the Aggregate Benefit of persons who have been Employees (but are not Former Key Employees) within the four preceding Plan Years, but who are not Employees in the Current Plan Year. With respect to any calendar year during which the Plan is not the only Aggregation Group Plan, the ratio determined under the preceding sentence will be computed based on the sum of the Aggregate Benefits of each Aggregation Group Plan totaled as of the last Determination Date of any Aggregation Group Plan to occur during the calendar year.
- (k) “Year of Aggregate Service” means a Plan Year in which an Active Participant earns at least 1,000 Hours of Service, provided that any Plan Year when the Plan is not a Top-Heavy Plan will be disregarded.

12.3. Vested Percentage. For any Plan Year that the Plan is a Top-Heavy Plan, the Non-forfeitable percentage of the Accrued benefit of any person who is an Employee for such Plan Year will be determined under the following table, where the first column is the Employee’s Years of Service and the second column is the Employee’s Non-forfeitable percentage in such Accrued benefit:

<u>Years of Service</u>	<u>Vesting Percentage</u>
Less than 2 years	0%
2 years but less than 3 years	20%
3 years but less than 4 years	40%
4 years but less than 5 years	60%
5 years or more	100%

For any Plan Year following a Plan Year in which the Plan was a Top-Heavy Plan but during which Plan Year the Plan is not a Top-Heavy Plan, the Employee's Non-forfeitable percentage in his accrued Benefit will be not less than the Non-forfeitable percentage as of the date the Plan was last a Top-Heavy Plan; provided that any Employee who has accrued not less than three Years of Service as of the first day of the Plan Year following the Plan Year the Plan was last determined to be a Top-Heavy Plan will have his Non-forfeitable percentage for future benefits as well as accrued benefits determined under this Section 12.3. For purposes of this Section 12.3, only Employees who perform an Hour of Service after the Plan becomes a Top-Heavy Plan are entitled to the special vesting provisions.

12.4. Minimum Benefit. Notwithstanding any provision of the Plan to the contrary, for any Plan Year that the Plan will be a Top-Heavy Plan, the Accrued Benefit under the Plan for an Active participant who has completed a Year of Aggregate Service during such Plan Year (regardless of whether he is still employed on the last day of the Plan Year) but who is neither a Key Employee nor a Former Key Employee will be not less than a monthly benefit payable to the Employee in the form of a Single Life Annuity commencing at his Normal Retirement Date or the attained age, if later, were the person to have a Termination of Employment on the Determination Date, considering his Aggregate Compensation and Years of Aggregate Service earned prior to the Determination Date in an amount equal to (a) reduced by (b):

- (a) Is an amount equal to two percent of the Participant's Aggregate Compensation multiplied by the Participant's Years of Aggregate Service not to exceed ten such Years of Aggregate Service.
- (b) Is the monthly benefit payable to the Participant in the form of a Single Life Annuity commencing at his Normal Retirement Date or the attained age, if later, were the person to have a Termination of Employment on the Determination Date, such monthly benefit being the Actuarial Equivalent of the accrued benefit of the Participant under any other Aggregation Group Plan, plus the additional amount, if any, of any distribution from the other Aggregation Group Plan which has not been recontributed to the other plan as of the Determination Date.

Any benefit paid under the Plan which satisfies the requirements of this Section 12.4 will be paid at such time, in such form, and subject to such conditions as benefits are otherwise payable under the Plan, except that any such benefit payable commencing after the person's Normal Retirement Date will be the Actuarial Equivalent of the person's benefit at his Normal Retirement Date.

For purposes of satisfying the minimum benefit requirements of Code Section 416(c)(1) and the Plan, in determining Years of Service, any Service with an Employer will be disregarded to the

extent that such Service occurs during a Plan Year when the Plan benefits (within the meaning of Code Section 410(b)) no Key Employee or former Key Employee.

12.5. Maximum Benefit Accrual. For any Plan Year that the Plan is a Top-Heavy Plan, the denominator of the “Defined Benefit Plan Fraction” and the denominator of the “Defined Contribution Plan Fraction” (as defined in Section 13.11) will be determined by substituting “1.0” for “1.25.” The preceding sentence will not apply with respect to any Plan Year that the Plan is a Top-Heavy Plan if (a) Section 12.4 is applied by substituting “three percent” for “two percent” and (b) the Plan would not be a Top-Heavy Plan if “90 percent” were substituted for “60 percent” in Section 12.2(j). The first sentence of this Section 12.5 will not apply with respect to an Employee for any Plan Year during which he accrues no benefit under any plan of the Aggregation Group.

12.6. Termination of Top-Heavy Status. If the Plan has been determined to be a Top-Heavy Plan for one or more Plan Years and thereafter ceases to be a Top-Heavy Plan, the provisions of this Article XII will cease to apply to the Plan effective as of the Determination Date on which the Plan is not a Top-Heavy Plan.

ARTICLE XIII.
Miscellaneous Provisions

13.1. Company Merger. In the event any successor corporation to the Company by merger, consolidation, purchase or otherwise, will elect to adopt the Plan, such successor corporation will be substituted hereunder for the Company upon filing in writing with the Trustee its election to do so.

13.2. Plan Merger. The Plan will not merge or consolidate with, or transfer any assets or liabilities to, any other plan, unless each person entitled to benefits would receive a benefit immediately after the merger, consolidation or transfer (if the Plan were then terminated) which is equal to or greater than the benefit he would have been entitled to immediately before the merger, consolidation or transfer (if the Plan were then terminated).

13.3. Nonalienation of Benefits. Except as provided in Section 13.4, no benefit payable at any time under the Plan will be subject in any manner to alienation, sale, transfer, assignment, pledge, attachment, or other legal proceeding or processes, or encumbrance of any kind. Any attempt to alienate, sell, transfer, assign, pledge, attach or otherwise encumber any such benefits, whether currently or thereafter payable, will be void. No benefit, nor any fund which may be established for the payment of such benefits, will, in any manner, be liable for or subject to the debts or liabilities of any person entitled to such benefits. If any person will attempt to, or will, alienate, sell, transfer, assign, pledge or otherwise encumber his benefits under the Plan or, if by reason of his bankruptcy or other event happening at any time, such benefits would devolve upon any other person or would not be enjoyed by the person entitled thereto under the Plan, then the Administrative Committee, in its discretion, may terminate the interest in any such benefits of the person entitled thereto under the Plan and hold or apply them to or for the benefit of such person entitled thereto under the Plan in such manner as the Administrative Committee may deem proper.

13.4. Qualified Domestic Relations Orders. Notwithstanding the provisions of Article VI or Article VII, if a former Spouse, child or other dependent of a Participant (an "alternate payee" for purposes of this Section 13.4) is entitled to receive all or a portion of a Participant's Accrued Benefit pursuant to a Qualified Domestic Relations Order (as defined below), then the Participant's Accrued Benefit will be payable pursuant to such Qualified Domestic Relations Order and consistent with the Plan procedures identified below. The Participant's Accrued Benefit will be reduced to the extent necessary to reflect the time, manner and amount of such payments to such alternate payee(s) pursuant to a Qualified Domestic Relations Order. A "Qualified Domestic Relations Order" is a judgment, decree or order (including approval of a property settlement agreement) relating to the provision of child support, alimony payments or marital property rights to an alternate payee which is made pursuant to a state domestic relations law (including a community property law), which creates or recognizes the existence of an alternate payee's right to, or assigns to an alternate payee the right to, receive all or a portion of the benefits payable with respect to such Participant under the Plan, and which satisfies the other requirements of Code Section 414(p). The Administrative Committee will establish procedures to determine the qualified status of domestic relations orders and to administer distributions pursuant to Qualified Domestic Relations Orders.

13.5. No Employment Guarantee. Neither the establishment of the Plan nor any modification thereof, nor the creation of any fund or benefit, nor the payment of any benefits will be construed as giving to any Participant or any other person any legal or equitable right against the Participating Employers, the Administrative Committee, the Investment Committee, the Trustee or any Plan representative except as herein provided. Under no circumstances will the terms of employment with the Participating Employer of any Participant be modified or in any way affected hereby. The maintenance of this Plan will not constitute a contract of employment with the Participating Employer, nor will anything contained in the Plan be construed as such a contract. Participation in the Plan will not give any Participant a right to be retained as an Employee of the Participating Employer.

13.6. Termination of Employment. When a person incurs a Termination of Employment, his right to benefits from the Plan will be determined only by the terms of the Plan.

13.7. Limitation on Vesting. No person will have any vested right to benefits under the Plan until all of the applicable requirements for such benefits set forth in Article IV or V have been fulfilled, and then any such rights will be subject to the limitation of Section 11.2.

13.8. No Duplication of Benefits. No benefits will be paid to any person under more than one provision of the Plan for the same period of time.

13.9. Source of Benefits. All benefits payable under the Plan will be paid or provided for solely from the Trust, and the Participating Employers assume no liability or responsibility therefor.

13.10. Reduction for Overpayment. The Administrative Committee will, whenever it determines that a person has received benefit payments under the Plan in excess of the amount to which the person is entitled under the terms of the Plan, make reasonable attempts to collect such overpayment from the person. If the person to whom such overpayments were made does not, within a reasonable time, make the requested repayment to the Administrative Committee, and if the overpayment was due to an error by the Plan that the Participant would have no reasonable way of knowing was an error, the overpayment will be considered as an advance payment of benefits and the Administrative Committee will direct the Trustee to reduce future benefits until the overpayment has been recouped. Nothing contained herein shall be construed to limit the authority of the Administrative Committee to recover any overpayment by any method otherwise available at law or equity. Any payment made to a person in error shall be considered a separate fund held by such person in trust for the benefit of the Plan.

13.11. Limitations on Pension Benefits Payable to Highly Compensated Participants. In the event of Plan termination for any reason other than the failure to obtain Internal Revenue Service approval, the benefit of any highly compensated active or former Employee of the Participating Employer or any Related Participating Employer is limited to a benefit that is nondiscriminatory under Code Section 401(a)(4). In any other event, benefits distributed to any Participant who is one of the 25 most highly compensated active and former highly compensated Employees are restricted such that the annual payments are no greater than an amount equal to the payment that would be made on behalf of the Participant under a single

life annuity that is the Actuarial Equivalent of the sum of the Participant's Accrued Benefit and the Participant's other benefits under the Plan. The preceding sentence will not apply if:

- (a) after payment of the benefit to the Participant, the value of Plan assets equals or exceeds 110 percent of the value of current liabilities, as defined in Code Section 412(1)(7), or
- (b) the value of the benefits for the Participant is less than 1 percent of the value of current liabilities.

The limitations in this Section will automatically become inoperative and of no effect upon a ruling by the Internal Revenue Service that they are not required. If regulations are issued modifying the limitations described in this Section, the Plan will be amended in a timely fashion to incorporate such modified regulations; and, prior to such amendment, the Plan will be administered in accordance with the modified regulations. For purposes of this Section 13.11, the term "benefit" includes loans in excess of the amount set forth in Code Section 72(p)(2)(A), any periodic income, and any Death Benefits not provided for by insurance on the Participant's life.

13.12. Maximum Pensions. Notwithstanding any provisions of the Plan to the contrary, the Benefit to which a person is entitled at any time during any Plan Year will be subject to the provisions of Code Section 415, which are hereby incorporated by reference. If a Participant has an accrued benefit under a defined contribution plan or a defined benefit plan (other than this Plan) which is intended to meet the requirements of Code Section 401(a) and which is maintained by an Employer, benefits will be reduced under this Plan in order to satisfy the requirements of Code Sections 415(b)(1) or 415(e). For limitation years beginning on and after January 1, 2008, the limitations of Code Section 415 shall be applied in accordance with the final Treasury Regulations issued April 5, 2007, which are incorporated herein by this reference.

Benefit increases resulting from the increase in the limitations under Code Section 415(b) shall be provided to all current and former Participants with benefits limited by Section 415(b) who (a) have an Accrued Benefit under the Plan immediately prior to January 1, 2002, and (b) have not then commenced receiving benefit payments from the Plan. Notwithstanding any other Plan provisions to the contrary, for purposes of adjusting any benefit or limitation under Code Section 415(b)(2)(B), (C), or (D), the "applicable mortality table" for distributions with an annuity start date on or after December 31, 2002, is the mortality table prescribed by the Secretary of the Treasury as set forth in Revenue Ruling 2001-62.

13.13. Funding-Based Limitations on Benefits. Notwithstanding any other provision of the Plan to the contrary, effective January 1, 2008, the following limitations shall apply, as and to the extent required by the Pension Protection Act of 2006. This Section shall be interpreted and applied consistent with Code Section 436 and any guidance issued thereunder. For all purposes of this Section 13.13, the Plan's "funding target attainment percentage" and "adjusted funding target attainment percentage" shall have the meanings set forth in Code Section 436(j).

(a) **Unpredictable Contingent Event Benefits**

In accordance with Code Section 436(b), an “unpredictable contingent event benefit” (as defined in Code Section 436) to which a Participant would otherwise be entitled during any Plan Year shall not be provided to such Participant if the Plan’s adjusted funding target attainment percentage for any Plan Year:

- (i) is less than 60%; or
- (ii) would be less than 60% taking into account the event for which such benefit is payable.

The preceding sentence shall cease to apply with respect to any Plan Year, effective as of the first day of such Plan Year, upon payment by the Company of a contribution (in addition to any minimum required contribution under Code Section 430) equal to: (A) in the case of subparagraph (i), the amount of the increase in the funding target of the Plan (under Code Section 430) for the Plan Year attributable to the event for which such benefit is payable; or (B) in the case of subparagraph (ii), the amount sufficient to result in a ‘funding target attainment percentage’ (as defined in Code Section 436) of 60%.

Notwithstanding the foregoing, any payments restricted under this paragraph shall not automatically resume upon the date on which such payments are no longer restricted, but shall resume only upon adoption of a Plan amendment that otherwise meets the requirements of this Section.

(b) **Plan Amendments Increasing Liability for Benefits**

In accordance with Code Section 436(c), an amendment to the Plan which would have the effect of increasing the Plan’s liabilities by increasing benefits, establishing new benefits, changing the rate of benefit accrual or changing a vesting formula, may not take effect during any Plan Year in which the Plan’s adjusted funding target attainment percentage:

- (i) is less than 80%; or
- (ii) would be less than 80% taking into account such amendment.

The preceding sentence shall cease to apply with respect to any Plan Year, effective as of the first day of such Plan Year (or if later, the effective date of the amendment), upon payment by the Company of a contribution (in addition to any minimum required contribution under Code Section 430)) equal to: (A) in the case of subparagraph (i), the amount of the increase in the funding target of the Plan (under Code Section 430) for the Plan Year attributable to the amendment; or (B) in the case of subparagraph (ii), the amount sufficient to result in a funding target attainment percentage of 80%. Notwithstanding the foregoing, this paragraph shall not apply to an amendment providing for an increase in benefits under a formula which is not based on a Participant’s Compensation, but only if the rate

of such increase is not in excess of the contemporaneous rate of increase in average wages of all Participants subject to the amendment.

Notwithstanding the foregoing, any amendments restricted under this paragraph shall not automatically take effect upon the date on which such amendments are no longer restricted, but shall resume only upon the adoption of an additional Plan amendment that otherwise meets the requirements of this Section.

(c) **Accelerated Benefit Distributions**

- (i) In accordance with Code Section 436(d)(1), in any case in which the Plan's adjusted funding target attainment percentage for a Plan Year is less than 60%, the Plan may not pay any "prohibited payment" (as defined in subparagraph (iv) below) after the valuation date for the Plan Year.
- (ii) In accordance with Code Section 436(d)(2), during any period in which the Company is a debtor in a case under Title 11 of the United States Code, or similar Federal or State law, the Plan shall not pay any prohibited payment. The preceding sentence shall not apply on or after the date on which the enrolled actuary of the Plan certifies that the adjusted funding target attainment percentage of such Plan is not less than 100%.
- (iii) In accordance with Code Section 436(d)(3), in any case in which the Plan's adjusted funding target attainment percentage for a Plan Year is 60% or greater but less than 80%, the Plan shall not pay any prohibited payment after the valuation date for the Plan Year to the extent the amount of the payment exceeds the lesser of: (A) 50% of the amount of the payment which could be made without regard to the limits in Code Section 436(d); or (B) the present value (determined under guidance prescribed by the Pension Benefit Guaranty Corporation, using the interest and mortality assumptions under Code Section 417(e)) of the maximum guarantee with respect to the Participant under ERISA Section 4022. In addition to the foregoing restriction as to payment amount, only one prohibited payment meeting the requirements of this paragraph may be made with respect to any Participant during any period of consecutive Plan Years to which the limitations under subparagraph (i) or (ii) of this paragraph apply. For purposes of the foregoing, a Participant and any Beneficiary on his behalf (including an alternate payee, as defined in Code Section 414(p)(8)) is treated as one Participant. As a result, if the Participant's Accrued Benefit is allocated to an alternate payee and one or more other persons, the amount under this subparagraph shall be allocated among such persons in the same manner as the Accrued Benefit is allocated, unless a QDRO provides otherwise.

A Participant or Beneficiary who elects an optional form of benefit that is not available as of the Participant's Annuity Starting Date due to the application of this subparagraph shall have the option either (A) to defer

payment to a later date (to the extent permitted under the Plan); or (B) to bifurcate the benefit into restricted and unrestricted portions. If the Participant elects to bifurcate payment of the benefit, with respect to the unrestricted portion, the Participant may elect any optional form of benefit then available under the Plan and, with respect to the restricted portion, the Participant may elect any optional form of benefit then available under the Plan that is not a prohibited payment. For purposes of this subparagraph, the “unrestricted portion” of the benefit is the lesser of (A) 50% of the benefit; or (B) the portion of the benefit that has a present value equal to the Pension Benefit Guaranty Corporation guarantee amount described in Treasury Regulation Section 1.436-(1)(d)(3)(iii)(C). Notwithstanding the foregoing, the form of a Participant’s benefit that had commenced while the restriction under this paragraph applied shall not be adjusted to another form of payment on or after the date on which such payments are no longer restricted.

- (iv) For purposes of this paragraph, a “prohibited payment” shall mean (A) any amount that the Participant elects to have paid in a lump sum pursuant to Section 7.2(d) or any Supplement (but not any amount paid as a lump sum pursuant to Section 7.3)), (B) any other payment in excess of the monthly amount paid under a life only annuity (plus any social security supplements paid in accordance with Code Section 411(a)(9)) to any Participant or Beneficiary whose annuity starting date (as defined in Code Section 417(f)(2)) occurs during a limitation period described in subparagraph (i) or (ii); (C) any payment for the purchase of an irrevocable commitment from an insurer to pay benefits; or (D) any other payment specified in the Treasury Regulations.

(d) **Future Benefit Accruals**

In accordance with Code Section 436(e), in any case in which the Plan’s adjusted funding target attainment percentage for a Plan Year is less than 60%, benefit accruals under the Plan shall cease as of the valuation date for the Plan Year. The preceding sentence shall cease to apply with respect to any Plan Year, effective as of the first day of such Plan Year, upon payment by the Company of a contribution (in addition to any minimum required contributions under Code Section 430) equal to the amount sufficient to result in an adjusted funding target attainment percentage of 60% or more. Notwithstanding the foregoing, benefit accruals shall not automatically resume upon the date on which benefit accruals are no longer restricted, but shall resume only upon adoption of a Plan amendment that otherwise meets the requirements of this Section.

13.14. Indemnity. To the extent permitted by applicable law, and to the extent that they are not indemnified or saved harmless under any liability insurance contracts, any present or former Administrative Committee or Investment Committee members, officers, Employees or directors of the Participating Employers or their subsidiaries or affiliates, if any, and each of them will be indemnified and saved harmless by the Participating Employers from and against

any and all liabilities or allegations of liability to which they may be subjected by reason of any act done or omitted to be done in good faith in the administration of the Plan and Trust, including all expenses reasonably incurred in their defense in the event that the Participating Employers fail to provide such defense after having been requested to do so.

13.15. Gender and Number. Words denoting the masculine gender will include the feminine and neuter genders and the singular will include the plural and the plural will include the singular wherever required by the context.

13.16. Severability. If any provision of the Plan is held illegal or invalid for any reason, such illegal or invalid provision will not affect the remaining provisions of the Plan, and the Plan will be construed and enforced as if such illegal or invalid provisions had never been contained in the Plan.

13.17. Headings. The headings or articles are included solely for convenience of reference, and if there is any conflict between such headings and the text of the Plan, the text will control.

13.18. Uniform and Nondiscriminatory Treatment. Except with respect to the Plan design decisions, including decisions made pursuant to Section 1.3, Article VII or Article VIII, or with respect to exercises of any other Plan sponsor or settlor authority, any discretion exercisable hereunder by the Company, a Participating Employer, or either Committee will be exercised in a uniform and nondiscriminatory manner.

13.19. Applicable Law. The Plan and Trust will be construed in accordance with the provisions of ERISA and other applicable federal laws. To the extent not inconsistent with such laws, this Plan will be construed in accordance with the laws of Illinois.

13.20. Action by the Participating Employer. Action required or permitted to be taken by a Participating Employer may be taken by action of the board of directors (or the person or body exercising authority similar to that of a board of directors in the case of a noncorporate Participating Employer) of that Participating Employer or by a person or committee of persons authorized to act by said board. The Company's powers may be exercised by its Board of Directors or a person or committee of persons authorized to act by said Board or by a committee of said Board or by the Company's authorized officers or their delegates. The Company reserves the right to delegate a portion or all of its reserved authority as Plan sponsor or settlor of the Plan to any person, persons, committee or committees, including, but not limited to, its Compensation Committee, the Administrative Committee or the Investment Committee. Notwithstanding the other duties or responsibilities any such person or committee may have under this Plan or the Trust when acting in another capacity, any such delegated authority exercised by such person or committee will constitute the exercise of reserved Plan sponsor or settlor powers.

13.21. Participant Litigation. In any action or proceeding regarding the Plan, Employees, Participants, Spouses or any other persons having or claiming to have an interest in this Plan will not be necessary parties and will not be entitled to any notice or process. Any final judgment which is not appealed or appealable and may be entered in any such action or proceeding will be binding and conclusive on the parties hereto and all persons having or

claiming to have any interest in this Plan. To the extent permitted by law, if a legal action is begun against the Company, any Participating Employer, the Administrative or Investment Committee or any member thereof, or any of their directors, officers, partners, members, managers, shareholders, employees, or agents, by or on behalf of any person and such action results adversely to such person or if a legal action arises because of conflicting claims to a Participant's or other person's benefits, the costs to such person of defending the action will be charged to the amounts, if any, which were involved in the action or were payable to the Participant or other person concerned. To the extent permitted by applicable law, acceptance of participation in this Plan will constitute a release of the Company, any Participating Employer, the Administrative and Investment Committees and all members thereof, or their respective directors, officers, partners, members, managers, shareholders, employees, or agents, from any and all liability and obligation not involving willful misconduct or gross neglect.

IN WITNESS WHEREOF, the Administrative Committee has caused this restatement of the Plan to be executed on the ____ day of January, 2016.

**BAXTER INTERNATIONAL INC.
ADMINISTRATIVE COMMITTEE**

By: /s/ Salvatore Dadouche
Salvatore Dadouche
Administrative Committee Member

**FIRST AMENDMENT TO THE
BAXTER INTERNATIONAL INC. AND SUBSIDIARIES
PENSION PLAN
(Amended and Restated as of January 1, 2016)**

Pursuant to Section 11.1 of the Baxter International Inc. and Subsidiaries Pension Plan, as amended and restated effective as of January 1, 2016 (the "Plan"), the Plan is further amended as follows effective as of the date of adoption:

1. Effective as of January 1, 2016, a new Section 4.6 is added to Article IV of the Plan to read as follows:

"4.6 **Deferral of Payment Date.** Notwithstanding the foregoing, a Participant who is entitled to a benefit under any of the foregoing provisions of this Article IV may elect to defer the Payment Date to not later than the latest date permitted by Section 7.5(c). A Participant who does not file a retirement application electing to retire on the Payment Date specified in the applicable provision of this Article IV will be deemed to have elected to defer his Payment Date until the date specified on an application that he subsequently files, and if he does not file a subsequent application, he will be deemed to have elected to defer his Payment Date until the latest date permitted by Section 7.5(c)."

2. Effective as of January 1, 2016, Section 7.5 is amended by revising the first sentence of to read as follows: "Unless a Participant otherwise elects (or is deemed to elect pursuant to Section 4.6), payment of benefits under the Plan to a Participant will commence not later than the sixtieth day after the end of the Plan Year in which the Participant attains his Normal Retirement Date or incurs a Termination of Employment, whichever occurs later." In addition, Section 7.5 is further amended by adding a new subsection (d) to the end of said Section to read as set forth below:

"(d) **Inability to Locate Participants and Beneficiaries.** In the event that the Administrative Committee is unable after a reasonable effort to locate a Participant or Beneficiary to whom a benefit is due by the date as of which payment is required to commence pursuant to the applicable provision of this Section 7.5, such benefit shall be forfeited as of the day immediately preceding the date on which payment is required to commence; provided that if such Participant or Beneficiary subsequently makes an application for such benefit, the forfeited benefit shall be restored, with appropriate adjustments. Nothing contained herein shall be construed to preclude the Administrative Committee from using any other method permitted by applicable law to satisfy the Plan's obligations to a missing Participant or Beneficiary, including use of the Pension Benefit Guaranty Corporation Missing Participant Program, if applicable."

3. Effective as of the date of adoption, Section 8.11 of the Plan is amended in its entirety to read as follows:

"8.11 Correction of Errors. In the event that the Administrative Committee discovers that an error has been made in the calculation of a benefit, it will correct the error as soon as is administratively feasible. In the event of an underpayment, the Administrative Committee will

either pay the amount of the underpayment in a single sum or will increase future monthly payments to the extent necessary to pay the underpayment within a reasonable period of time, with interest at a reasonable rate not less than the interest rate specified in Section 2.2(a)(ii). If an overpayment was made, the Committee will reduce future monthly payments, either to the Participant or his Beneficiary or both, to the extent necessary to recover the overpayment within a reasonable period of time. If an overpayment cannot be recovered in a reasonable period of time through offsetting future benefits, including without limitation an overpayment made in a Lump Sum or a payment erroneously made after the death of a Participant or Beneficiary where no further benefits are payable, the Administrative Committee may exercise such other legal or equitable remedies as the Plan may have, including filing suit for reimbursement of the overpayment; provided, that if the Administrative Committee determines that the expense or burden of seeking recovery would be greater than the likely recovery, it may exercise discretion in determining not to pursue a recovery. Each Participant, Beneficiary or other person who receives an overpayment shall be deemed to hold such overpayment in trust for the Plan, and the Plan may recover such overpayment by an appropriate action in law or equity to the maximum extent permitted by law or equity.”

4. Effective as of January 1, 2008 (except that the parenthetical phrase beginning “determined by not taking into account” in Section 131.13(c)(ii) shall be effective as of January 1, 2015), Section 13.13 of the Plan is amended in its entirety to read as follows:

“13.13 Funding-Based Limitations on Benefits. Notwithstanding any other provision of the Plan to the contrary, effective January 1, 2008, the following limitations shall apply, as and to the extent required by the Pension Protection Act of 2006. This Section shall be interpreted and applied consistent with Code Section 436, Treas. Reg. §1.436-1 and any other guidance issued thereunder.

(a) **Unpredictable Contingent Event Benefits**

In accordance with Code Section 436(b), an “unpredictable contingent event benefit” (hereinafter defined) to which a Participant would otherwise be entitled during any Plan Year shall not be provided to such Participant if the Plan’s AFTAP for any Plan Year:

- (i) is less than 60%; or
- (ii) would be less than 60% taking into account the event for which such benefit is payable.

The preceding sentence shall cease to apply with respect to any Plan Year, effective as of the first day of such Plan Year, upon payment by the Company of a contribution (in addition to any minimum required contribution under Code Section 430) equal to: (A) in the case of subparagraph (i), the amount of the increase in the funding target of the Plan (under Code Section 430) for the Plan Year attributable to the event for which such benefit is payable; or (B) in the case of subparagraph (ii), the amount sufficient to result in a ‘AFTAP’ (as defined in Code Section 436) of 60%.

Notwithstanding the foregoing, any payments restricted under this paragraph shall not automatically resume upon the date on which such payments are no longer restricted, but shall resume only upon adoption of a Plan amendment that otherwise meets the requirements of this Section.

For purposes of this Section 13.13, an unpredictable contingent event benefit means any benefit or increase in benefits to the extent the benefit or increase would not be payable but for the occurrence of an unpredictable contingent event. For this purpose, an unpredictable contingent event means a plant shutdown (whether full or partial) or similar event, or an event (including the absence of an event) other than the attainment of any age, performance of any service, receipt or derivation of any compensation, or the occurrence of death or disability, as more fully set forth in Treas. Reg. §1.436-1(j)(9).

(b) **Plan Amendments Increasing Liability for Benefits**

In accordance with Code Section 436(c), an amendment to the Plan which would have the effect of increasing the Plan's liabilities by increasing benefits, establishing new benefits, changing the rate of benefit accrual or changing a vesting formula, may not take effect during any Plan Year in which the Plan's AFTAP:

- (i) is less than 80%; or
- (ii) would be less than 80% taking into account such amendment.

The preceding sentence shall cease to apply with respect to any Plan Year, effective as of the first day of such Plan Year (or if later, the effective date of the amendment), upon payment by the Company of a contribution (in addition to any minimum required contribution under Code Section 430)) equal to: (A) in the case of subparagraph (i), the amount of the increase in the funding target of the Plan (under Code Section 430) for the Plan Year attributable to the amendment; or (B) in the case of subparagraph (ii), the amount sufficient to result in an AFTAP of 80%. Notwithstanding the foregoing, this paragraph shall not apply to an amendment providing for an increase in benefits under a formula which is not based on a Participant's Compensation, but only if the rate of such increase is not in excess of the contemporaneous rate of increase in average wages of all Participants subject to the amendment.

Notwithstanding the foregoing, any amendments restricted under this paragraph shall not automatically take effect upon the date on which such amendments are no longer restricted, but shall resume only upon the adoption of an additional Plan amendment that otherwise meets the requirements of this Section.

(c) **Accelerated Benefit Distributions**

- (i) In accordance with Code Section 436(d)(1), in any case in which the Plan's AFTAP for a Plan Year is less than 60%, the Plan may not pay any
-

“prohibited payment” (as defined in subparagraph (iv) below) after the valuation date for the Plan Year.

- (ii) In accordance with Code Section 436(d)(2), during any period in which the Company is a debtor in a case under Title 11 of the United States Code, or similar Federal or State law, the Plan shall not pay any prohibited payment. The preceding sentence shall not apply on or after the date on which the enrolled actuary of the Plan certifies that the AFTAP of such Plan (determined by not taking into account any adjustment of segment rates pursuant to Code Section 430(h)(2)(C)(iv)) is not less than 100%.
- (iii) In accordance with Code Section 436(d)(3), in any case in which the Plan’s AFTAP for a Plan Year is 60% or greater but less than 80%, the Plan shall not pay any prohibited payment after the valuation date for the Plan Year to the extent the amount of the payment exceeds the lesser of: (A) 50% of the amount of the payment which could be made without regard to the limits in Code Section 436(d); or (B) the present value (determined under guidance prescribed by the Pension Benefit Guaranty Corporation, using the interest and mortality assumptions under Code Section 417(e)) of the maximum guarantee with respect to the Participant under ERISA Section 4022. In addition to the foregoing restriction as to payment amount, only one prohibited payment meeting the requirements of this paragraph may be made with respect to any Participant during any period of consecutive Plan Years to which the limitations under subparagraph (i) or (ii) of this paragraph apply. For purposes of the foregoing, a Participant and any Beneficiary on his behalf (including an alternate payee, as defined in Code Section 414(p)(8)) is treated as one Participant. As a result, if the Participant’s Accrued Benefit is allocated to an alternate payee and one or more other persons, the amount under this subparagraph shall be allocated among such persons in the same manner as the Accrued Benefit is allocated, unless a QDRO provides otherwise.

A Participant or Beneficiary who elects an optional form of benefit that is not available as of the Participant’s Annuity Starting Date (as defined for all purposes of this Section 13.13 pursuant to Treas. Reg. §1.436-1(j)(2)) due to the application of this subparagraph shall have the option either (A) to defer payment to a later date (to the extent permitted under the Plan); or (B) to bifurcate the benefit into restricted and unrestricted portions. If the Participant elects to bifurcate payment of the benefit, with respect to the unrestricted portion, the Participant may elect any optional form of benefit then available under the Plan and, with respect to the restricted portion, the Participant may elect any optional form of benefit then available under the Plan that is not a prohibited payment. For purposes of this subparagraph, the “unrestricted portion” of the benefit is the lesser of (A) 50% of the benefit; or (B) the portion of the benefit that has a present value equal to the Pension Benefit Guaranty Corporation guarantee amount described in Treasury Regulation Section 1.436-1(d)(3)(iii)(C). Notwithstanding the

foregoing, the form of a Participant's benefit that had commenced while the restriction under this paragraph applied shall not be adjusted to another form of payment on or after the date on which such payments are no longer restricted.

- (iv) For purposes of this paragraph, a "prohibited payment" shall mean (A) any amount that the Participant elects to have paid in a lump sum pursuant to Section 7.2(d) or any Supplement (but not any amount paid as a lump sum pursuant to Section 7.3)), (B) any other payment in excess of the monthly amount paid under a life only annuity (plus any social security supplements paid in accordance with Code Section 411(a)(9)) to any Participant or Beneficiary whose annuity starting date (as defined in Code Section 417(f)(2)) occurs during a limitation period described in subparagraph (i) or (ii); (C) any payment for the purchase of an irrevocable commitment from an insurer to pay benefits; or (D) any other payment specified in the Treasury Regulations, all as set forth in Treas. Reg. §1.436-1(j)(6).

(d) **Future Benefit Accruals**

In accordance with Code Section 436(e), in any case in which the Plan's AFTAP for a Plan Year is less than 60%, benefit accruals under the Plan shall cease as of the valuation date for the Plan Year. The preceding sentence shall cease to apply with respect to any Plan Year, effective as of the first day of such Plan Year, upon payment by the Company of a contribution (in addition to any minimum required contributions under Code Section 430) equal to the amount sufficient to result in an AFTAP of 60% or more. Notwithstanding the foregoing, benefit accruals shall not automatically resume upon the date on which benefit accruals are no longer restricted, but shall resume only upon adoption of a Plan amendment that otherwise meets the requirements of this Section.

- (e) **Notice Requirement.** The Administrator shall provide written notice to all Participants and Beneficiaries in accordance with Section 101(j) of ERISA within 30 days after the Plan becomes subject to the limitations described in Section 13.13(a) or (c) or if the limitation described in Section 13.13(d) applies, within 30 days the date on which the AFTAP is determined (or presumed) to be less than 60%.

- (f) **Definition and Calculation of AFTAP.** For all purposes of this Section 13.13:

- (i) "AFTAP" for a Plan Year shall mean the fraction (expressed as a percentage), the numerator of which is the adjusted plan assets for the Plan Year and the denominator of which is the adjusted funding target for the Plan Year, calculated in accordance with Treas. Reg. §1.436-1(j)(1).
-

- (ii) A “436 measurement date” shall mean the date used to determine the dates as of which certain of the restrictions set forth in this Section 13.13 begin or cease to apply, as determined under Treas. Reg. §1.436-1(j)(8).
 - (iii) The Plan’s AFTAP for each Plan Year shall be certified by the Plan’s enrolled actuary in accordance with Treas. Reg. §1.436-1(h)(4). During certain periods, the Plan’s presumed AFTAP shall be determined using the following presumptions, all as determined pursuant to Treas. Reg. §1.436-1(h):
 - (A) The Plan’s AFTAP for one Plan Year shall be presumed to be its AFTAP for the following Plan Year until the AFTAP is certified for the following Plan Year, except as provided below.
 - (B) If the Plan’s AFTAP has not been certified for a Plan Year by April 1 of such Plan Year, then its AFTAP shall be presumed to be its AFTAP for the preceding Plan Year reduced by 10 percentage points until its AFTAP for the current Plan Year is certified.
 - (C) If the Plan’s AFTAP has not been certified by October 1 of a Plan Year, it shall be presumed to be less than 60%.
 - (D) During any period during which a presumed AFTAP is in effect, this Section 13.13 shall be applied as if the presumed AFTAP were the Plan’s actual AFTAP, subject to the special rules set forth in Treas. Reg. §1.436-1(g).
 - (iv) Notwithstanding the foregoing, pursuant to Section 203(a)(2) of the Preservation of Access to Care for Medicare Beneficiaries and Pension Relief Act of 2010 (“PRA 2010”), for purposes of (A) the limitation on benefit accruals under Section 13.13(d) and (B) the application of the limitations on prohibited payments under Section 13.13(c) to payments under a social security leveling option, the AFTAP for a Plan Year beginning on or after October 1, 2008, and before October 1, 2010, is the greater of the AFTAP for that Plan Year, determined without regard to section 203(a)(2) of PRA 2010, or the AFTAP for the Plan Year beginning after October 1, 2007, and before October 1, 2008.
 - (g) **Special Rules.**
 - (i) In the event of a termination of the Plan, any restrictions that were in effect immediately prior to the termination shall continue to apply, except that the limitations on prohibited payments pursuant to Section 13.13(c) shall not apply to prohibited payments that are made to carry out the termination of the Plan in accordance with applicable law.
 - (ii) In any Plan Year in which one of the limitations set forth in this Section 13.13 would otherwise apply, the Company may avoid such limitations
-

either by electing to reduce the Plan's prefunding balance or funding standard carryover balance, or by making additional contributions, in accordance with and subject to Treas. Reg. §1.436-1(f)."

5. Effective January 1, 2017, Section I.e of Supplement J to the Plan is amended by striking the phrase "the lesser of" and substituting the phrase "the least of" in the introductory language, and adding a new subsection iii to the end of said Section to read as follows:

"iii. The monthly average of the third segment rate under Code Section 430(h) for the August preceding the applicable Plan Year."

6. Except as otherwise provided herein, the Plan shall remain in full force and effect.

[Signature on Following Page]

IN WITNESS WHEREOF, this First Amendment is adopted this 21st day of December, 2016.

**BAXTER INTERNATIONAL INC.
ADMINISTRATIVE COMMITTEE**

By: /s/ Salvatore Dadouche
Salvatore Dadouche
Administrative Committee Member

[Signature Page for First Amendment to Baxter International Inc. and Subsidiaries Pension Plan]

**BAXTER INTERNATIONAL INC. AND SUBSIDIARIES
SUPPLEMENTAL PENSION PLAN**

(Amended and Restated Effective January 1, 2015)

TABLE OF CONTENTS

ARTICLE I GENERALI

1.1 Purpose and Effective Date	1
1.2 Plan Administration; Source of Benefit Payments	1
1.3 Limitation on Provisions	1
1.4 Inactive Participation	1
1.5 Plan Supplements	1
1.5 Baxalta Incorporated Spin-Off	2

ARTICLE II DEFINITIONS3

2.1 Accrued Benefit	3
2.2 Administrative Committee	3
2.3 Beneficiary	3
2.4 Benefit	3
2.5 Code	3
2.6 Controlled Group	3
2.7 Corporation	3
2.8 Deferred Compensation Plan	3
2.9 Effective Date	3
2.10 ERISA	3
2.11 Excess Benefit	3
2.12 Non-Participating Employer	3
2.13 Participant	3
2.14 Participating Employer	3
2.15 Pension Make-Whole Benefit	4
2.16 Pension Plan	4
2.17 Plan	4
2.18 Points	4
2.19 Qualified Benefit	4
2.20 Section 409A	4
2.21 Special Supplemental Benefit	4
2.22 Termination of Employment	4

ARTICLE III PARTICIPATION IN THE PLAN6

3.1 Eligibility	6
3.2 Restricted Participation	6
3.3 No Contract of Employment	6
3.4 Participation Freeze	6

ARTICLE IV AMOUNT AND PAYMENT OF PLAN BENEFITS8

4.1 Plan Benefits	8
4.2 Excess Benefit	8
4.3 Pension Make-Whole Benefit	8
4.4 Special Supplemental Benefits	8
4.5 Actuarial Equivalence	9
4.6 Time and Form of Payment	9
4.7 Death Benefits	12
4.8 Withholding Taxes	13
4.9 Compliance with Section 409A	13
4.10 Correction of Errors	13

TABLE OF CONTENTS

ARTICLE V ADMINISTRATION¹⁴

5.1 Administrative Committee	14
5.2 Administrative Committee Powers	14
5.3 Effect of Administrative Committee Decisions	15
5.4 Claims Procedure	15
5.5 Action by Administrative Committee	16
5.6 Indemnity	16

ARTICLE VI AMENDMENT AND TERMINATION¹⁷

6.1 Amendment and Termination	17
6.2 Successors and Assigns	17

ARTICLE VII MISCELLANEOUS¹⁸

7.1 Unfunded Plan	18
7.2 Unsecured General Creditor	18
7.3 Nonassignability	18
7.4 Not a Contract of Employment	18
7.5 Protective Provisions	18
7.6 Governing Law	19
7.7 Severability	19
7.8 Notice	19
7.9 Successors	19
7.10 Action by Corporation	19
7.11 Effect on Benefit Plans	19
7.12 Participant Litigation	19

**BAXTER INTERNATIONAL INC. AND SUBSIDIARIES
SUPPLEMENTAL PENSION PLAN**

(Amended and Restated Effective January 1, 2015)

**ARTICLE I
GENERAL**

1.1 Purpose and Effective Date. Baxter International Inc. (the “Corporation”) established the Baxter International Inc. and Subsidiaries Supplemental Pension Plan (the “Plan”), effective as of January 1, 1989, to assist in providing retirement and other benefits to certain employees of the Corporation and its affiliates which are in addition to those provided under the Baxter International Inc. and Subsidiaries Pension Plan (the “Pension Plan”). The Plan was previously amended effective January 1, 2005 and January 1, 2009. The following provisions constitute an amendment and restatement of the Plan effective as of January 1, 2015, the “Effective Date” of the Plan set forth herein. The Plan is intended to constitute an unfunded plan maintained primarily for the purpose of providing deferred compensation to a select group of management or highly compensated employees for purposes of ERISA.

1.2 Plan Administration; Source of Benefit Payments. The authority to control and manage the operation and administration of the Plan shall be vested in the Administrative Committee, as set forth in Article V. A Participating Employer’s obligation under the Plan shall be reduced to the extent that any amounts due under the Plan are paid from one or more trusts, the assets of which are subject to the claims of general creditors of the Participating Employer or any affiliate thereof, provided, however, that nothing in the Plan shall require the Corporation or any Participating Employer to establish any trust to provide benefits under the Plan.

1.3 Limitation on Provisions. Any benefit payable under the Pension Plan shall be paid solely in accordance with the terms and conditions of the Pension Plan and nothing in the Plan shall operate or be construed in any way to modify, amend or affect the terms and provisions of the Pension Plan.

1.4 Inactive Participation. Except as otherwise specifically provided herein, the benefits, if any, payable to or on behalf of Participants who terminated employment with the Corporation and its affiliates prior to the Effective Date shall be determined in accordance with the terms of the Plan as in effect on such Termination of Employment; provided that any provision of the Plan that is required to be effective as of an earlier in order to comply with Section 409A of the Code shall be effective as of such date.

1.5 Plan Supplements. The provisions of the Plan as applied to any Participating Employer or Participant may be modified and/or supplemented from time to time by the adoption of one or more Supplements. In the event of any inconsistency between a Supplement and the Plan document, the terms of the Supplement shall govern; provided that no Supplement shall alter the provisions of Section 4.9 (except that a Supplement may provide that the portion of any Special Supplemental Benefit is not subject to the provisions of the Plan intended to comply with Section 409A to the extent such portion was accrued and vested on December 31, 2004, and that

the Special Supplemental Benefit is not materially modified after October 3, 2004) or otherwise cause the Plan to be administered in a manner that does not comply with Section 409A.

1.6 Baxalta Incorporated Spin-Off. In connection with the Company's spin-off of its biopharmaceutical business, the Company underwent an internal reorganization and incorporated Baxalta Incorporated ("Baxalta") as a subsidiary of the Company. The Company anticipates that Baxalta shall be spun-off on or around July 1, 2015 (the "Spin-Off") pursuant to a Separation and Distribution Agreement (the "Agreement"). Effective as of the Spin-Off (the "Spin-Off Date"), Baxalta shall be an independent, publicly traded corporation which owns and operates the biopharmaceutical business previously owned and operated by the Company. As described in the Agreement and the Employee Matters Agreement, Baxalta shall establish the Baxalta Incorporated Supplemental Pension Plan (the "Baxalta Plan"), an unfunded nonqualified deferred compensation plan that generally mirrors the Plan, to provide for the benefits of the following Employees who were Participants immediately prior to the date such Employee transfers to employment with Baxalta from the Company:

- (a) An Employee (including an Employee who is on an approved leave of absence from the Company) who transfers to employment with Baxalta, or one of its subsidiaries, from the Company on or before the Spin-Off Date;
- (b) An Employee who transfers to employment with Baxalta, or one of its subsidiaries, from the Company in accordance with the Transition Services Agreement.

As described in the Agreement and the Employee Matters Agreement, Baxalta shall assume the obligation to pay all benefits accrued under the Plan for the benefit of each Employee who transfers to employment with Baxalta as described in this Section (a "Baxalta Participant"). As a result of the Spin-Off, a Baxalta Participant shall cease to have any benefit under the Plan following his transfer of employment to Baxalta, and shall instead participate under the Baxalta Plan. To the maximum extent permitted by Treas. Reg. §1.409A-1(h)(4), a Baxalta Participant shall not be considered to have incurred a Termination of Employment for purposes of the Plan or a separation from service as defined in Section 409A solely as a result of the transfer describe above.

ARTICLE II DEFINITIONS

- 2.1 Accrued Benefit. Accrued Benefit shall have the meaning ascribed to such term under the Pension Plan.
- 2.2 Administrative Committee. Administrative Committee shall have the meaning ascribed to such term under the Pension Plan.
- 2.3 Beneficiary. A Participant's Beneficiary shall be the Participant's beneficiary under the Pension Plan (or the person who would be the Participant's beneficiary under the Pension Plan if the Participant's Qualified Benefit were paid in the same form and at the same time as his Benefit hereunder).
- 2.4 Benefit. A Participant's Benefit means the sum of the Participant's Excess Benefit, Make-Whole Benefit, and Special Supplemental Benefit, if any, unless otherwise provided.
- 2.5 Code. Code means the Internal Revenue Code of 1986, as amended.
- 2.6 Controlled Group. Controlled Group means the Corporation and all other business entities, whether or not incorporated, which, together with the Corporation, would be considered a single employer under section 414(b) or (c) of the Code.
- 2.7 Corporation. Corporation has the meaning ascribed to such term in Section 1.1.
- 2.8 Deferred Compensation Plan. Deferred Compensation Plan means Baxter International Inc. and Subsidiaries Deferred Compensation Plan.
- 2.9 Effective Date. Effective Date means the effective date of this amendment and restatement of the Plan, which January 1, 2015. The original effective date of the Plan was January 1, 2002.
- 2.10 ERISA. ERISA means the Employee Retirement Income Security Act of 1974, as amended.
- 2.11 Excess Benefit. Excess Benefit means the benefit determined under Section 4.2.
- 2.12 Non-Participating Employer. A Non-Participating Employer means any Employer which is not a Participating Employer.
- 2.13 Participant. Participant means an employee of a Participating Employer who is eligible for an Excess Benefit, Pension Make-Whole Benefit or Special Supplemental Benefit, as set forth in Section 3.1.
- 2.14 Participating Employer. Participating Employer means the Corporation and any affiliate of the Corporation, which is a Participating Employer under the Pension Plan.

- 2.15 Pension Make-Whole Benefit. Pension Make-Whole Benefit means the benefit determined under Section 4.3.
- 2.16 Pension Plan. Pension Plan has the meaning ascribed to such term in Section 1.1.
- 2.17 Plan. Plan has the meaning ascribed to such term in Section 1.1.
- 2.18 Points. A Participant's Points shall be equal to the number of Points the Participant has accumulated as of any date under the terms of the Pension Plan as in effect on December 31, 2008, without regard to any amendments to the Pension Plan adopted after such date which directly or indirectly affect the Participant's Points.
- 2.19 Qualified Benefit. Qualified Benefit means the Participant's actual Accrued Benefit payable under the Pension Plan.
- 2.20 Section 409A. Section 409A means Section 409A of the Internal Revenue Code of 1986, as enacted by the American Jobs Creation Act of 2004 and as subsequently amended, and including all Treasury Regulations and other authoritative guidance issued pursuant thereto.
- 2.21 Special Supplemental Benefit. Special Supplement Benefit means the benefit determined under Section 4.4.
- 2.22 Termination of Employment. A Termination of Employment occurs on the date on which a Participant incurs a separation from service as defined in Treasury Regulations issued pursuant to Section 409A. The following rules are intended to implement the requirements of Section 409A, and may be adjusted by the Administrative Committee as required to comply with guidance issued under Section 409A:
- (a) The Participant shall not be considered to have separated from service so long as the Participant is on military leave, sick leave, or other bona fide leave of absence if the period of such leave does not exceed six months, or if longer, so long as the Participant retains a right to reemployment with a Participating Employer under an applicable statute or by contract.
 - (b) Regardless of whether his employment has been formally terminated, the Participant will be considered to have separated from service as of the date it is reasonably anticipated that no further services will be performed by the Participant for any Participating Employer, or that the level of bona fide services the Participant will perform after such date will permanently decrease to no more than 20 percent of the average level of bona fide services performed over the immediately preceding 36-month period (or the full period of employment if the Participant has been employed for less than 36 months). For purposes of the preceding test, during any paid leave of absence the Participant shall be considered to have been performing services at the level commensurate with the amount of compensation received, and unpaid leaves of absence shall be disregarded.

- (c) For purposes of determining whether the Participant has separated from service, all services provided for any Employer, or for any entity that is a member of the Controlled Group, shall be taken into account, whether provided as an employee or as a consultant or other independent contractor; provided that the Participant shall not be considered to have not separated from service solely by reason of service as a non-employee director of the Corporation or any other such entity. Solely for purposes of this Section 2.19, the term "Controlled Group" shall be modified by substituting "50 percent" for "80 percent" for all purposes of section 414(b) and (c) of the Code (and Section 1563 to the extent incorporated therein).
- (d) A Participant who is employed by a Participating Employer, and continues to be employed by the Participating Employer following a stock sale, spin-off, or other transaction that causes the Participant's employer to cease to be a member of the Controlled Group, shall not be considered to have incurred a Termination of Employment as a result of such transaction. A Participant who ceases to be employed by the Corporation or any member of the Controlled Group as a result of a sale of substantially all of the assets constituting a division, facility, or separate line of business, shall be considered to have incurred a Termination of Employment unless the Corporation (or Participating Employer selling such assets) and the purchaser agree in writing, not later than the closing date of such transaction, that all Participants affected by such transaction shall not be considered to have incurred a Termination of Employment, and that the purchaser agrees to assume the obligation for payment of the Benefits of all such Participants in accordance with the Plan.

**ARTICLE III
PARTICIPATION IN THE PLAN**

3.1 Eligibility. An employee of a Participating Employer shall become a Participant in the Plan on the first date such employee is eligible for an Excess Benefit, Pension Make-Whole Benefit or Special Supplemental Benefit, in accordance with the following:

- (a) Each participant in the Pension Plan who has a fully vested interest in his or her Accrued Benefit under the Pension Plan and whose benefit under the Pension Plan is limited by reason of the application of Section 415 or Section 401(a)(17) of the Code shall be eligible for an Excess Benefit, determined in accordance with Section 4.2.
- (b) Each participant in the Pension Plan who has a fully vested interest in his or her Accrued Benefit under the Pension Plan and who also is a participant in the Deferred Compensation Plan shall be eligible for a Pension Make-Whole Benefit, determined in accordance with Section 4.3.
- (c) The Administrative Committee (or the person or persons delegated such authority by the Administrative Committee), in its sole discretion, shall designate the individuals, if any, who shall be eligible for Special Supplemental Benefits.

3.2 Restricted Participation. Notwithstanding any other provision of the Plan to the contrary, if the Administrative Committee determines that participation by one or more Participants shall cause the Plan as applied to any Participating Employer to be subject to Part 2, 3 or 4 of Subtitle B of Title I of ERISA, the entire interest of such Participants under the Plan shall be segregated from the Plan, and such Participants shall cease to have any interest under the Plan. In the event the Participant has died, the foregoing provisions of this Section 3.2 shall apply to the Participant's interest, if any, which is payable to the Participant's surviving spouse or other beneficiary.

3.3 No Contract of Employment. The Plan does not constitute a contract of employment, and participation in the Plan will not give any employee the right to be retained in the employ of the Corporation or any Participating Employer nor any right or claim to any benefit under the Plan, unless such right or claim has specifically accrued under the terms of the Plan.

3.4 Participation Freeze. Participation in the Plan is frozen effective December 31, 2006, and no Employees shall become Participants after such date, subject to the following:

- (a) No Employee who is hired by a Participating Employer after December 31, 2006, or who was hired by a Non-Participating Employer prior to January 1, 2007, and transferred to a Participating Employer after December 31, 2006, shall be eligible to Participate in the Plan.
- (b) An Eligible Employee who was employed by a Participating Employer on December 31, 2006, but who had not satisfied the requirements of Section 3.1(b)

of the Pension Plan on such date, shall become a Participant on the first Entry Date after he satisfies such requirements, unless he elects not to become a Participant as provided in subparagraph (c) below.

- (c) The election of a Participant or Eligible Employee (as defined in the Pension Plan) to either cease accruing benefits as of December 31, 2006, under the Pension Plan, or not to become a Participant in the Pension Plan after December 31, 2006, shall also apply under this Plan. The Plan Benefit of a Participant who elects under the Pension Plan to cease accruing benefits shall thereafter be equal to his Plan Benefit as of December 31, 2006, which shall not be adjusted for subsequent changes in his Average Monthly Compensation, Years of Service, Projected Benefit Service, or Primary Social Security Benefit, but such Participant shall continue to earn Years of Service for purposes of vesting, and Points, and his Benefit shall be payable as otherwise provided herein. An Eligible Employee who elects not to become a Participant in the Pension Plan shall thereafter be ineligible to become a Participant in this Plan.
- (d) Notwithstanding the foregoing, an Employee hired prior to December 31, 2006, and who did not elect to cease accruing benefits under the Pension Plan as of December 31, 2006, but who was not eligible for either an Excess Benefit or a Make-Whole Benefit prior to December 31, 2006, solely because his Qualified Benefit was not limited by the application of Section 415 or Section 401(a)(17) of the Code and he had not deferred any compensation under the Deferred Compensation Plan, shall be eligible to participate beginning with the first year in which he is eligible for either an Excess Benefit or a Make-Whole Benefit.
- (e) To the extent permitted by Section 4.4, an Employee not otherwise eligible to participate in the Plan may be eligible to receive a Special Supplemental Benefit.

**ARTICLE IV
AMOUNT AND PAYMENT OF PLAN BENEFITS**

4.1 Plan Benefits. Eligible Participants under the Plan shall receive an Excess Benefit, Pension Make-Whole Benefit or Special Supplemental Benefit, in the amount and payable at the times set forth in the following provisions of this Article

4. Effective January 1, 2009, the amount of a Participant's Excess Benefit and Pension Make-Whole Benefit shall be calculated as if the Participant's Qualified Benefit had commenced as of the same date, and in the same form, as the Participant's Excess Benefit and Pension Make-Whole Benefit, regardless of when and in what form the Qualified Benefit is paid, and no adjustment shall be made to the Excess Benefit or Pension Make-Whole Benefit when the Qualified Benefit commences. To the extent a Supplemental Benefit is defined in whole or part by reference to the Qualified Benefit, the preceding sentence shall apply unless the terms of the Supplemental Benefit clearly provide for a different method of calculation.

4.2 Excess Benefit. As of any date, an eligible Participant's "Excess Benefit" under the Plan shall be an amount equal to the Qualified Benefit the Participant would be eligible for under the Pension Plan as of such date if such Qualified Benefit were determined without regard to limitations of Section 415 and Section 401(a)(17) of the Code, reduced by the Participant's Qualified Benefit as of such date. A Participant's Excess Benefit, if any, shall be paid at the time and in the form provided in Section 4.6.

4.3 Pension Make-Whole Benefit. As of any date, an eligible Participant's "Pension Make-Whole Benefit" under the Plan shall be an amount equal to:

- (a) the Qualified Benefit the Participant would be eligible for under the Pension Plan as of such date if such Qualified Benefit were determined (i) without exclusion of compensation deferred under the Deferred Compensation Plan, and (ii) without regard to the limitations of Code Sections 415 and 401(a)(17),

reduced by

- (b) the sum of (i) the Participant's actual Qualified Benefit under the Pension Plan as of such date, and (ii) the amount of any Excess Benefit determined under Section 4.2 without regard to such deferred compensation.

A Participant's Pension Make-Whole Benefit, if any, shall be paid at the time and in the form provided in Section 4.6.

4.4 Special Supplemental Benefits. The amount, if any, of a Participant's "Special Supplemental Benefit" shall be determined by the Administrative Committee, shall be subject to such terms and conditions as the Administrative Committee may establish, and shall be payable at the times and in the form determined by the Administrative Committee. Effective as of January 1, 2005, the time and form of payment of any Special Supplemental Benefit shall be specified by the Administrative Committee at the time the Administrative Committee establishes the Participant's right to the Special Supplemental Benefit. In the event that any right to a Special Supplemental Benefit was not fully vested on December 31, 2004, and is not amended

not later than December 31, 2008 to specify the time and form of payment in a manner that satisfies the requirements of Section 409A, such Special Supplemental Benefit shall be paid in the form specified in Section 4.6. The Administrative Committee, in its sole discretion, may delegate its authority under this Section 4.4 to any person or persons in connection with the award of Special Supplemental Benefits to a particular Participant, a class of Participants, or all Participants. All rights to Special Supplemental Benefits shall be set forth in writing, which writing may include an employment contract or similar agreement, and a copy of all actions taken by the Administrative Committee or its delegate with respect to Special Supplemental Benefits under the Plan shall be sent to the Corporate Counsel in charge of the Company's employee benefit plans. Anything else contained herein to the contrary notwithstanding, no person shall have any right to a Special Supplemental Benefit in the absence of a written instrument setting forth the terms of such Special Supplemental Benefit.

4.5 Actuarial Equivalence. To the extent applicable, the benefits payable to any person under the Plan shall be determined by applying the appropriate interest rate and other actuarial assumptions set forth in the Pension Plan.

4.6 Time and Form of Payment.

- (a) The Benefit (excluding for all purposes of this Section 4.6 any Special Supplemental Benefit unless otherwise provided in Section 4.4) of the following Participants shall commence at the same time and be paid in the same manner as the Participant's Qualified Benefit: (i) Participants whose Qualified Benefit commences not later than December 31, 2008, and (ii) Participants whose entire Benefit was fully accrued and vested on December 31, 2004.
- (b) The Benefit of a Participant who is not described in paragraph (a) shall become payable upon the later of the occurrence of the first day of the month following the Participant's Termination of Employment or, in the case of a Participant who was a Participant prior to December 31, 2008, a specified date, if any, elected by the Participant in accordance with paragraph (c) (in either case, the "Commencement Date"). Such Benefit shall be paid in the following form:
 - (i) If the actuarial present value of the Benefit as of the Commencement Date does not exceed \$50,000, the Benefit shall be paid in a lump sum equal to the actuarial present value, which payment shall be in full satisfaction of the Participant's right to the Benefit. Such payment shall be made not later than 90 days following the Commencement Date, subject to paragraph (d). For purposes of determining whether the present value of the Benefit exceeds \$50,000, any Special Supplemental Benefit shall be included if and only if the terms of the agreement creating the Special Supplemental Benefit provided for the Special Supplemental Benefit to be paid at the same time and in the same form as remainder of the Benefit not later than the later of the date the Participant first had a legally binding right to the Special Supplemental Benefit or December 31, 2008, and in such event the Special Supplemental Benefit shall be included notwithstanding any change in the terms of the Special Supplemental

Benefit after such date. If the preceding sentence does not apply, the Special Supplemental Benefit shall not be included in determining whether the present value exceeds \$50,000, and the provisions of this paragraph (b) shall be applied separately to the Special Supplemental Benefit.

- (ii) If the actuarial present value of the Benefit exceeds \$50,000 as of the Commencement Date, Benefit shall be paid in a monthly life annuity of the type set forth below. The first annuity payment shall be paid, subject to paragraph (d), on the first day of the month following the first month beginning with month that includes the Commencement Date in which the Participant's has accumulated at least 65 Points (the "Annuity Start Date.")
 - (A) If the Participant's Qualified Benefit commences as of or prior to the Annuity Start Date, his Benefit shall be paid in the same form of annuity as the Qualified Benefit.
 - (B) If the Participant's Qualified Benefit has not yet commenced by the Annuity Start Date, and the Participant is not married on the Annuity Start Date, his Benefit shall be paid in an annuity for the life of the Participant with no survivor benefits.
 - (C) If the Participant's Qualified Benefit has not yet commenced by the Annuity Start Date, and the Participant is married on Annuity Start Date, his Benefit shall be paid in an annuity that pays an actuarially reduced benefit to the Participant during the Participant's life, and pays 50% of such annuity to the Participant's spouse for the balance of the spouse's life if the spouse survives the Participant. No adjustment to such annuity shall be made if the Participant's spouse predeceases the Participant or the Participant and this spouse are divorced after the Annuity Start Date.
 - (D) The Administrative Committee may permit a Participant to elect a different form of annuity that is treated as a life annuity for purposes of Section 409A. Anything else contained herein to the contrary notwithstanding, all forms of life annuity shall be actuarially equivalent as defined in Section 409A, and any procedures adopted by the Administrative Committee to permit Participant's to elect different forms of annuity shall comply with the requirements of Section 409A.
- (c) Each person who was a Participant prior to January 1, 2009, and who is anticipated to have a Benefit accrued under this Plan as of December 31, 2008 (as determined by the Administrative Committee in its sole discretion) may elect a Commencement Date, which shall be either the first day of a specific month or the first day of the month following the date on which the Participant attains a

specified age. Such elections shall apply to the Participant's entire Benefit (including any Special Supplemental Benefit to be paid in the same form as the Benefit), and shall be made, in writing, in accordance with procedures specified by the Administrative Committee, not later than December 31, 2008, and shall not thereafter be revoked or changed; provided that no such election shall cause any amount to be paid in 2008 that would otherwise have been paid in a later year, or cause any amount that would otherwise have been paid in 2008 to be paid in a later year, and such elections shall otherwise comply with the requirements for transitional relief under IRS Notice 2007-86. An agreement (including a provision of an employment agreement) entered into between a Participant and the Corporation not later than December 31, 2008, that refers specifically to this Plan and specifies a time and/or form of payment of the Participant's Benefit shall constitute an election for purposes of this paragraph (c), and, in lieu of a specific date, may provide for the Participant's Commencement Date to occur upon the Participant's separation from service or the occurrence of any other event that satisfies the requirements of Section 409A.

- (d) If a Participant's Commencement Date is the first day of the month following his Termination of Employment, and the Participant is a specified employee as hereinafter defined on the Commencement Date, payment of his Benefit shall be deferred until six months after his Termination of Employment, as described below. If payment is to be made in a lump sum (based on actuarial present value as of the Commencement Date), the lump sum shall be paid on the first day of the seventh month following the month that includes the Termination of Employment, and the amount shall be recalculated as of such date even if such recalculated amount exceeds \$50,000. If payment is to be made in an annuity, the first annuity payment shall be paid on the later of the first day of the seventh month following the month that includes the Termination of Employment or the Annuity Start Date, but if such date is later than the Annuity Start Date the annuity payments shall be calculated as of the Annuity Start Date, and the Participant shall receive a supplemental payment, with or following the first annuity payment, equal to the sum, without interest, of the annuity payments that would have been paid prior to such date but for this paragraph (d). For purposes of this paragraph (d), the term "specified employee" shall have the same meaning as in the Baxter International Inc. and Subsidiaries Deferred Compensation Plan.
- (e) Anything else contained herein to the contrary notwithstanding, the Administrative Committee at any time in its sole discretion may distribute to any Participant the entire actuarial present value of his Benefit (including any Special Supplemental Benefit) in a single lump sum in full satisfaction of his rights under the Plan, provided that the entire interest of the Participant in all other plans required to be aggregated with the Plan pursuant to Treas. Reg. §1.409A-1(c)(2) is also distributed and that the total amount distributed does not exceed the limit in effect under Section 402(g) of the Code at the time of distribution.

4.7 Death Benefits.

- (a) If a Participant whose Benefit is payable in an annuity dies after the Annuity Start Date, the only death benefit payable shall be the survivorship benefit, if any, payable under the applicable form of annuity.
- (b) If a Participant whose Benefit is payable in a lump sum dies after his Commencement Date but before actual payment of his Benefit (including but not limited to a Participant whose benefit is deferred pursuant to Section 4.6(d)), the lump sum payment shall be made to his Beneficiary as soon as practical, but not more than 90 days after the date of his death.
- (c) If a Participant either dies prior to his Commencement Date, or after his Commencement Date but prior to his Annuity Start Date if his Benefit is payable as an annuity, and if his Beneficiary is entitled to a pre-retirement survivor annuity under the Pension Plan (or would be entitled to a preretirement survivorship benefit but for the fact that payment of his Qualified Benefit had commenced at the time of his death), his Beneficiary shall be entitled to a preretirement survivor benefit (the "Survivor Benefit") under the terms of this paragraph (c). The Survivor Benefit shall be paid on the first day of the first month following the month that includes the Participant's death in which the Participant either had completed 65 Points, or would have completed 65 Points had he not died. The Survivor Benefit shall be paid in a single lump sum equal to the actuarial present value of the excess of (i) the amount of the preretirement survivor annuity that would be paid to the Beneficiary under the Pension Plan if the Participant's Benefit were calculated with the adjustments described in Sections 4.2 and 4.3 (and included the Special Supplemental Benefit, if applicable), over (ii) the amount of pretirement survivor annuity actually payable under the Pension Plan, in both cases calculated as if payment of the preretirement survivor annuity under the Pension Plan commenced on the date of payment of the Survivor Benefit.
- (d) Notwithstanding the foregoing, if a Participant whose benefit is paid in the form of an annuity and whose Benefit is deferred pursuant to Section 4.6(d) dies after his Annuity Start Date but before the date to which payment of his benefit is deferred, his Beneficiary shall not receive a Survivor Benefit under paragraph (c), but shall instead receive whatever survivorship benefits are provided by the Participant's form of annuity, determined as if payment had commenced on the Annuity Start Date, and in addition shall receive a payment equal to the annuity payments that would have been paid prior to the Participant's death but for the requirement of Section 4.6(d).
- (e) Except as otherwise provided in this Section 4.7, no person shall receive any form of death or survivorship benefits following the death of a Participant, whether before or after his Commencement Date.

4.8 Withholding Taxes. Benefits and payments under the Plan are subject to the withholding of all applicable taxes. Notwithstanding any provision of the Plan to the contrary, a Participant's initial benefit payment under the Plan shall be in an amount sufficient pay any remaining employment tax required to be withheld with respect to Plan benefits. To the extent such amount is in excess of the first distribution that would otherwise have been made based on the form of benefit elected by the Participant, subsequent payments will not begin until the aggregated payments that would have been made under the form of benefit elected by the Participant exceed the amount of such initial distribution.

4.9 Compliance with Section 409A. Anything else in this Plan to the contrary notwithstanding, effective January 1, 2005, the Plan is intended to comply in all regards with Section 409A and shall be so construed and administered. Without limiting the generality of the preceding sentence, (i) in no event shall any benefit under the Plan be paid at any time other than under the terms of the Plan as in effect on the date on which the Participant first acquires a legal right to such benefit (whether or not vested), whether by amendment of the Plan, exercise of the Administrative Committee's discretion, or otherwise, except as permitted by Section 409A, and (ii) in the event that the Administrative Committee, in its sole discretion, determines that any time or form of payment provided for in the Plan, or the existence of a right to elect a time or form of distribution (including without limitation the payment of benefits in the same form elected by a Participant under the Pension Plan), would cause the Plan to fail to meet the requirements of Section 409A, or otherwise cause Participants to be subject to any adverse federal income tax consequences, such provision shall to the maximum extent permitted by law be deemed amended to the extent required to comply with Section 409A, or the Plan shall be construed as if such provision were not included therein. The restrictions of Section 409A shall apply to the entire benefit of a Participant if any portion of the Participant's benefit was accrued or vested on or after January 1, 2005, but shall not apply to a Participant whose entire benefit was accrued and vested prior to such date.

4.10 Correction of Errors. The Administrative Committee shall have the authority to correct any error in the calculation of Benefits, regardless of the reason for the error and regardless of whether payment of the Benefit has commenced. By his participation in the Plan and acceptance of Benefits hereunder, each Participant agrees that he will promptly repay to the Plan any Benefit or other payment that exceeds the amount to which he was entitled under the Plan (an "excess payment"), and will hold any excess payment, and any proceeds of any excess payment, or property acquired with any excess payment, in trust for the benefit of the Plan, which trust shall remain in effect, and shall continue to apply to any excess payment, proceeds or other property even if transferred to a third party, until the total amount of the excess payment has been repaid to the Plan. The Administrative Committee may, on behalf of the Plan, commence an action to enforce such trust, or take any other available action in law or equity, including setting off any other amount owed to the Participant, to recover such excess payment.

**ARTICLE V
ADMINISTRATION**

5.1 Administrative Committee. The Plan is administered by the Administrative Committee, which is the “administrator” for purposes of Section 3(16)(A) of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”). Baxter has appointed the members of the Administrative Committee to administer the Plan. Members of the Administrative Committee may be Participants in the Plan.

5.2 Administrative Committee Powers. The Administrative Committee has such powers as may be necessary to discharge its duties hereunder, including, but not by way of limitation, the following powers, rights and duties:

- (a) Interpretation of Plan. The Administrative Committee has the power, right and duty to construe, interpret and enforce the Plan provisions and to determine all questions arising under the Plan including, but not by way of limitation, questions of Plan participation, eligibility for Plan benefits and the rights of employees, Participants, Beneficiaries and other persons to benefits under the Plan and to determine the amount, manner and time of payment of any benefits hereunder;
- (b) Plan Procedures. The Administrative Committee has the power, right and duty to adopt procedures, rules, regulations and forms to be followed by employees, Participants, Beneficiaries and other persons or to be otherwise utilized in the efficient administration of the Plan which may alter any procedural provision of the Plan without the necessity of an amendment, and which procedures may provide for any election or consent to be made, or any other action to be taken (including without limitation filing claims and requesting review of denied claims), by electronic mail, internet website, telephone or voice response system or other electronic method to the extent permitted by applicable law;
- (c) Benefit Determinations. The Administrative Committee has the power, right and duty to make determinations as to the rights of employees, Participants, Beneficiaries and other persons to benefits under the Plan and to afford any Participant or beneficiary dissatisfied with such determination with rights pursuant to a claims procedure adopted by the Committee; and
- (d) Allocation of Duties. The Administrative Committee is empowered to employ agents (who may also be employees of Baxter) and to delegate to them any of the administrative duties imposed upon the Administrative Committee or Baxter.
- (e) Plan Amendments. The Administrative Committee has the power and right, at any time, to amend or supplement the Plan. Notwithstanding the foregoing provisions of this Section 5.2(e), no amendment of the Plan shall reduce the benefit to which a Participant would be entitled if he had terminated employment immediately prior to the adoption of the resolution amending the Plan; provided, however, the Administrative Committee or Corporation, as applicable, may

amend the Plan at any time to take effect retroactively or otherwise, as deemed necessary or advisable for purposes of conforming the Plan to any present or future law, regulations or rulings relating to plans of this or a similar nature.

5.3 Effect of Administrative Committee Decisions. Any ruling, regulation, procedure or decision of the Administrative Committee will be conclusive and binding upon all persons affected by it. There will be no appeal from any ruling by the Administrative Committee which is within its authority, except as provided in Section 5.4 below. When making a determination or a calculation, the Administrative Committee will be entitled to rely on information supplied by any Employer, accountants and other professionals including, but not by way of limitation, legal counsel for Baxter or any Employer.

5.4 Claims Procedure. Each person entitled to benefits under the Plan (the "Applicant") must submit a written claim for benefits to the Administrative Committee. Such claim shall be filed not more than one year after the Applicant knows, or with the exercise of reasonable diligence would know, if the basis for the claim. A formal claim shall not be required for the distribution of a Participant's Accounts in the ordinary course of business, but in any case a claim that relates to a dispute over the amount of a distribution shall be filed not more than one year after payment of the distribution commences. The Administrative Committee may, in its sole discretion accept a claim that is filed late if it determines that special circumstances warrant acceptance of the claim.

If a claim for benefits by the Applicant is denied, in whole or in part, the Administrative Committee, or its delegate, shall furnish the Applicant within 90 days after receipt of such claim, a written notice which specifies the reason for the denial, refers to the pertinent provisions of the Plan on which the denial is based, describes any additional material or information necessary for properly completing the claim and explains why such material or information is necessary, and explains the claim review procedures of this Section 5.4. Such notice will further describe that the Applicant has a right to bring a civil action under Section 502 of ERISA if his claim is denied after an appeal and review. The 90 day period may be extended by up to an additional 90 days if special circumstances required, in which event the Applicant shall be notified in writing by the end of the initial 90 day period of the reason for the extension and an estimate of when the claim will be processed.

Any Applicant whose claim is denied under the provisions described above, or who has not received from the Administrative Committee a response to his claim within the time periods specified in the provisions described above may request a review of the denied claim by written request to the Administrative Committee within 60 days after receiving notice of the denial. If such a request is made, the Administrative Committee shall make a full and fair review of the denial of the claim and shall make a decision not later than 60 days after receipt of the request, unless special circumstances (such as the need to hold a hearing) require an extension of time, in which case a decision shall be made as soon as possible but not later than 120 days after receipt of the request for review, and written notice of the reason for the extension and an estimate of when the review will be complete shall be given to the Applicant before the commencement of the extension. The decision on review shall be in writing and shall include specific reasons for the decision and specific references to the pertinent provisions of the Plan on which the decision

is based. Such notice will further describe that the Applicant has a right to bring a civil action under Section 502 of ERISA.

No person entitled to benefits under the Plan shall have any right to seek review of a denial of benefits, or to bring any action to enforce a claim for benefits, in any court or administrative agency prior to his filing a claim for benefits and exhausting all of his rights under this Section 5.4, or more than 180 days after he receives the Administrative Committee's decision on review of the denial of his claim. Although not required to do so, an Applicant, or his representative, may choose to state the reason or reasons he believes he is entitled to benefits, and may choose to submit written evidence, during the initial claim process or review of claim denial process. However, failure to state any such reason or submit such evidence during the initial claim process or review of claim denial process, shall permanently bar the Applicant, and his successors in interest, from raising such reason or submitting such evidence in any forum at any later date. An Applicant whose claim is denied initially or on review is entitled to receive, on request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to such claim for benefits.

5.5 Action by Administrative Committee. Action by the Administrative Committee will be subject to the following special rules:

- (a) Meetings and Documents. The Administrative Committee may act by meeting or by document signed without meeting and documents may be signed through the use of a single document or concurrent documents.
- (b) Action by Majority. The Administrative Committee will act by a majority decision which action will be as effective as if such action had been taken by all Administrative Committee members, provided that by majority action one or more Administrative Committee members or other persons may be authorized to act with respect to particular matters on behalf of all Administrative Committee members.
- (c) Resolving Deadlocks. If there is an equal division among the Administrative Committee members with respect to any question a disinterested party may be selected by a majority vote to decide the matter. Any decision by such disinterested party will be binding.

5.6 Indemnity. To the extent permitted by applicable law and to the extent that they are not indemnified or saved harmless under any liability insurance contracts, any present or former Administrative Committee members, officers, or directors of Baxter, the Employers or their subsidiaries or affiliates, if any, will be indemnified and saved harmless by the Employers from and against any and all liabilities or allegations of liability to which they may be subjected by reason of any act done or omitted to be done in good faith in the administration of the Plan, including all expenses reasonably incurred in their defense in the event that Baxter fails to provide such defense after having been requested in writing to do so.

**ARTICLE VI
AMENDMENT AND TERMINATION**

6.1 Amendment and Termination. As indicated in Section 5.2 above, the Administrative Committee may, at any time, amend or supplement the Plan. The Board of Directors of the Corporation may, at any time, terminate the Plan. Notwithstanding the foregoing provisions of Sections 5.2 or 6.1, neither an amendment or termination of the Plan shall reduce the benefit to which a Participant would be entitled if he had terminated employment immediately prior to the adoption of the resolution amending or terminating the Plan; provided, however, the Administrative Committee or Corporation, as applicable, may amend or terminate the Plan at any time to take effect retroactively or otherwise, as deemed necessary or advisable for purposes of conforming the Plan to any present or future law, regulations or rulings relating to plans of this or a similar nature. Upon termination of the Plan, all benefits accrued through the date of termination shall be paid as provided herein; provided that the Administrative Committee may, to the extent permitted under Section 409A, provide for the payment of actuarially equivalent lump sums in full satisfaction of some or all of the accrued benefits.

6.2 Successors and Assigns. The obligations of the Corporation and the Participating Employers under the Plan shall be binding upon any assignee or successor in interest thereto.

**ARTICLE VII
MISCELLANEOUS**

7.1 Unfunded Plan. This Plan is intended to be an unfunded retirement plan maintained primarily to provide retirement benefits for a select group of management or highly compensated employees. All credited amounts are unfunded, general obligations of the appropriate Participating Employer. This Plan is not intended to create an investment contract, but to provide retirement benefits to eligible employees who participate in the Plan. Eligible employees are members of a select group of management or are highly compensated employees, who, by virtue of their position with a Participating Employer, are uniquely informed as to such Participating Employer's operations and have the ability to affect materially Participating Employer's profitability and operations.

7.2 Unsecured General Creditor. In the event of a Participating Employer's insolvency, Participants and their Beneficiaries, heirs, successors and assigns will have no legal or equitable rights, interest or claims in any property or assets of such Participating Employer, nor will they be Beneficiaries of, or have any rights, claims or interests in any life insurance policies, annuity contracts or the proceeds therefrom owned or which may be acquired by such Participating Employer (the "Policies") greater than those of any other unsecured general creditors. In that event, any and all of the Participating Employer's assets and Policies will be, and remain, the general, unpledged, unrestricted assets of Participating Employer. Participating Employer's obligation under the Plan will be merely that of an unfunded and unsecured promise of Participating Employer to pay money in the future.

7.3 Nonassignability. Neither a Participant nor any other person will have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate or convey in advance of actual receipt the amounts, if any, payable hereunder, or any part thereof, which are, and all rights to which are, expressly declared to be nonassignable and nontransferable. No part of the amounts payable will, prior to actual payment, be subject to seizure or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Participant or any other person, nor be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency.

7.4 Not a Contract of Employment. The terms and conditions of this Plan will not be deemed to constitute a contract of employment between a Participant and such Participant's Participating Employer, and neither the Participant nor the Participant's beneficiary will have any rights against such Participant's Participating Employer except as may otherwise be specifically provided herein. Moreover, nothing in this Plan is deemed to give a Participant the right to be retained in the service of his or her Participating Employer or to interfere with the right of such Participating Employer to discipline or discharge him or her at any time.

7.5 Protective Provisions. A Participant will cooperate with the Corporation by furnishing any and all information requested by the Corporation, in order to facilitate the payment of benefits hereunder.

7.6 Governing Law. The provisions of this Plan will be construed and interpreted according to the laws of the State of Illinois, to the extent not preempted by ERISA.

7.7 Severability. In the event any provision of the Plan is held invalid or illegal for any reason, any illegality or invalidity will not affect the remaining parts of the Plan, but the Plan will be construed and enforced as if the illegal or invalid provision had never been inserted, and the Corporation will have the privilege and opportunity to correct and remedy such questions of illegality or invalidity by amendment as provided in the Plan, including, but not by way of limitation, the opportunity to construe and enforce the Plan as if such illegal and invalid provision had never been inserted herein.

7.8 Notice. Any notice or filing required or permitted to be given to the Corporation or the Administrative Committee under the Plan will be sufficient if in writing and hand delivered, or sent by registered or certified mail to any member of the Administrative Committee, or to the Corporation's Chief Financial Officer and, if mailed, will be addressed to the principal executive offices of the Corporation. Notice to a Participant or beneficiary may be hand delivered or mailed to the Participant or beneficiary at his or her most recent address as listed in the employment records of the Corporation. Notices will be deemed given as of the date of delivery or mailing or, if delivery is made by certified or registered mail, as of the date shown on the receipt for registration or certification. Any person entitled to notice hereunder may waive such notice.

7.9 Successors. The obligations of the Corporation and the Participating Employers under the Plan shall be binding upon any assignee or successor in interest thereto. The provisions of this Plan will bind and inure to the benefit of the Corporation and the Participating Employers, the Participants and Beneficiaries, and their respective successors, heirs and assigns. The term successors as used herein will include any corporate or other business entity, which, whether by merger, consolidation, purchase or otherwise acquires all or substantially all of the business and assets of the Corporation, and successors of any such corporation or other business entity.

7.10 Action by Corporation. Except as otherwise provided herein, any action required of or permitted by the Corporation under the Plan will be by resolution of the Compensation Committee or any person or persons authorized by resolution of the Compensation Committee.

7.11 Effect on Benefit Plans. Amounts paid under this Plan, will not by operation of this Plan be considered to be compensation for the purposes of any benefit plan maintained by any Participating Employer. The treatment of such amounts under other employee benefit plans will be determined pursuant to the provisions of such plans.

7.12 Participant Litigation. In any action or proceeding regarding the Plan, employees or former employees of the Corporation or a Participating Employer, Participants, Beneficiaries or any other persons having or claiming to have an interest in this Plan will not be necessary parties and will not be entitled to any notice or process. Any final judgment which is not appealed or appealable and may be entered in any such action or proceeding will be binding and conclusive on the parties hereto and all persons having or claiming to have any interest in this Plan. To the extent permitted by law, if a legal action is begun against the Corporation, a

Participating Employer, the Administrative Committee, or any member of the Administrative Committee by or on behalf of any person and such action results adversely to such person or if a legal action arises because of conflicting claims to a Participant's or other person's benefits, the costs to such person of defending the action will be charged to the amounts, if any, which were involved in the action or were payable to the Participant or other person concerned. To the extent permitted by applicable law, acceptance of participation in this Plan will constitute a release of the Corporation, each Participating Employer, the Administrative Committee and each member thereof, and their respective agents from any and all liability and obligation not involving willful misconduct or gross neglect.

* **

IN WITNESS WHEREOF, the undersigned has caused this Amended and Restated Plan to be executed this 18th day of December, 2014.

BAXTER INTERNATIONAL INC.
ADMINISTRATIVE COMMITTEE

By: s/ Salvatore Dadouche
Salvatore Dadouche
Administrative Committee Member

BAXTER INTERNATIONAL INC. AND SUBSIDIARIES

DEFERRED COMPENSATION PLAN

(Amended and restated effective January 1, 2015)

TABLE OF CONTENTS

ARTICLE I — PURPOSE, EFFECTIVE DATE, EMPLOYER1

- 1.1 Purpose1
- 1.2 Effective Date1
- 1.3 Employer1
- 1.4 Spin-Off of Baxalta Incorporated1

ARTICLE II — DEFINITIONS3

- 2.1 Accounts3
- 2.2 Administrative Committee3
- 2.3 Beneficiary3
- 2.4 Bonus3
- 2.5 Bonus Deferral3
- 2.6 Code3
- 2.7 Compensation3
- 2.8 Compensation Committee3
- 2.9 Deferral Election Form4
- 2.10 Distribution Election Form4
- 2.11 Eligible Employee4
- 2.12 Employer4
- 2.13 Employer Non-Matching Contribution5
- 2.14 Excess Matching Contribution5
- 2.15 Matching Contribution5
- 2.16 Participant5
- 2.17 Pay Deferral Contribution5
- 2.18 Plan Year5
- 2.19 Section 409A5
- 2.20 Termination of Employment5
- 2.21 Unforeseeable Emergency6
- 2.22 Vesting7

ARTICLE III — ELIGIBILITY FOR CONTRIBUTIONS AND DEFERRALS8

- 3.1 Excess Matching Contributions8
- 3.2 Bonus Deferral Elections8
- 3.3 Pay Deferral Elections9
- 3.4 Somatogen Acquisition Deferral Election9
- 3.5 Discretionary Contributions10
- 3.6 Employer Non-Matching Contribution10
- 3.7 Contributions Following Military Service10
- 3.8 Mid-Year Deferral Elections10
- 3.9 Gambro Plans10

ARTICLE IV — CREDITING OF ACCOUNTS12

- 4.1 Crediting of Accounts12
- 4.2 Earnings12
- 4.3 Account Statements13

4.4	Vesting	13
ARTICLE V — DISTRIBUTION OF BENEFITS		
5.1	Distribution of Benefits	14
5.2	Distribution	14
5.3	Effect of Payment	17
5.4	Taxation of Plan Benefits	17
5.5	Withholding and Payroll Taxes	17
5.6	Distribution Due to Unforeseeable Emergency	17
5.7	Distribution Due to Inclusion in Taxable Income	18
5.8	Distribution of De Minimis Amounts	18
5.9	Correction of Errors	18
ARTICLE VI — BENEFICIARY DESIGNATION		
6.1	Beneficiary Designation	19
6.2	Amendments to Beneficiary Designation	19
6.3	No Beneficiary Designation	19
6.4	Form of Payment to Beneficiary	19
ARTICLE VII — ADMINISTRATION		
7.1	Administrative Committee	20
7.2	Administrative Committee Powers	20
7.3	Effect of Administrative Committee Decisions	21
7.4	Claims Procedure	21
7.5	Action by Administrative Committee	22
7.6	Indemnity	22
ARTICLE VIII — AMENDMENT AND TERMINATION OF PLAN		
8.1	Amendment	23
8.2	Right to Terminate	24
8.3	Payment at Termination	24
ARTICLE IX — MISCELLANEOUS		
9.1	Unfunded Plan	25
9.2	Unsecured General Creditor	25
9.3	Nonassignability	25
9.4	Not a Contract of Employment	26
9.5	Protective Provisions	26
9.6	Governing Law	26
9.7	Severability	26
9.8	Notice	26
9.9	Successors	26
9.10	Action by Baxter	27
9.11	Effect on Benefit Plans	27
9.12	Participant Litigation	27
APPENDIX A — PARTICIPATING EMPLOYERS		
		28

APPENDIX B — SUPPLEMENTAL PAY DEFERRALS UNDER SECTION 3.329

APPENDIX C — DISCRETIONARY EMPLOYER CONTRIBUTIONS UNDER SECTION 3.530

APPENDIX D — SPECIAL DISTRIBUTION PROVISIONS APPLICABLE TO AMOUNTS TRANSFERRED FROM GAMBRO PLANS³¹

**BAXTER INTERNATIONAL INC. AND SUBSIDIARIES
DEFERRED COMPENSATION PLAN**

(Amended and Restated Effective January 1, 2015)

ARTICLE I — PURPOSE, EFFECTIVE DATE, EMPLOYER

1.1 Purpose.

The Baxter International Inc. and Subsidiaries Deferred Compensation Plan (the “Plan”) has been adopted by Baxter International Inc. (“Baxter”). The Plan is intended to be an unfunded arrangement to provide deferred compensation for the benefit of a select group of management and highly compensated employees. The Plan is designed to enable eligible participants to defer compensation and receive matching contributions under the provisions of the Baxter International Inc. and Subsidiaries Incentive Investment Plan (“IIP”), a tax-qualified defined contribution plan, in excess of the limitations imposed by the Internal Revenue Code (“Code”). Baxter amended and restated the Plan effective January 1, 1998, in part to combine the Plan and the Baxter International Inc. and Subsidiaries Incentive Investment Excess Plan, and amended and restated the Plan again effective January 1, 2002, January 1, 2005, January 1, 2007, and January 1, 2009. The Plan is hereby further amended and restated effective January 1, 2015. Capitalized terms not defined in this Plan are deemed to have the meaning given them in the IIP.

1.2 Effective Date.

The effective date of this restatement is January 1, 2015, except as otherwise provided herein; provided that any provision of the Plan that is required to be effective as of an earlier in order to comply with Section 409A of the Code shall be effective as of such date.

1.3 Employer.

The Plan is adopted for the benefit of a select group of management or highly compensated employees of Baxter or of any subsidiaries or affiliates of Baxter, as set forth below. The Plan may be adopted by any subsidiaries or affiliates of Baxter with the consent of the Administrative Committee. Participating Employers are listed on Appendix A as attached and updated from time to time.

1.4 Baxalta Incorporated Spin-Off.

In connection with the Company’s spin-off of its biopharmaceutical business, the Company underwent an internal reorganization and incorporated Baxalta Incorporated (“Baxalta”) as a subsidiary of the Company. The Company anticipates that Baxalta shall be spun-off on or around July 1, 2015 (the “Spin-Off”) pursuant to a Separation and Distribution Agreement (the “Agreement”). Effective as of the Spin-Off (the “Spin-Off Date”), Baxalta shall be an independent, publicly traded corporation which owns and operates the biopharmaceutical business previously owned and operated by the Company. As described in the Agreement and the Employee Matters Agreement, Baxalta shall establish the Baxalta Incorporated Deferred Compensation Plan (the “Baxalta Plan”), an unfunded nonqualified deferred compensation plan that generally mirrors the Plan, to provide for the benefits of the following Employees who were

Participants immediately prior to the date such Employee transfers to employment with Baxalta from the Company:

- (a) An Employee (including an Employee who is on an approved leave of absence from the Company) who transfers to employment with Baxalta, or one of its subsidiaries, from the Company on or before the Spin-Off Date;
- (b) An Employee who transfers to employment with Baxalta, or one of its subsidiaries, from the Company in accordance with the Transition Services Agreement.

As described in the Agreement and the Employee Matters Agreement, Baxalta shall assume the obligation to pay all benefits accrued under the Plan for the benefit of each Employee who transfers to employment with Baxalta as described in this Section (a “Baxalta Participant”). As a result of the Spin-Off, a Baxalta Participant shall cease to have any benefit under the Plan following his transfer of employment to Baxalta, and shall instead participate under the Baxalta Plan. To the maximum extent permitted by Treas. Reg. §1.409A-1(h)(4), a Baxalta Participant shall not be considered to have incurred a Termination of Employment for purposes of the Plan or a separation from service as defined in Section 409A solely as a result of the transfer describe above.

ARTICLE II — DEFINITIONS

2.1 *Accounts.*

Accounts mean the sum of the Participant's Excess Matching Contribution Account balance, Bonus Deferral Account balance, Pay Deferral Account balance, and Deferred Compensation Account balance.

2.2 *Administrative Committee.*

For purposes of the Plan, Administrative Committee has the same meaning as the Administrative Committee in the IIP.

2.3 *Beneficiary.*

A Participant's Beneficiary, as defined in Article VI, is the Beneficiary designated to receive the Participant's Accounts, if any, from the Plan, upon the death of the Participant.

2.4 *Bonus.*

The term Bonus means those bonuses that are included in the definition of Compensation in the IIP and also includes any other bonus which is approved by the Administrative Committee and listed on Attachment A to this Plan. Attachment A may be updated from time to time to accurately reflect the approved bonuses for purpose of this definition.

2.5 *Bonus Deferral.*

The Bonus Deferral is the amount of the Participant's Bonus which the Participant elected to defer and contribute to the Plan which, but for such election, would have otherwise been paid to him/her.

2.6 *Code.*

The Code shall mean the Internal Revenue Code of 1986, as amended.

2.7 *Compensation.*

For purposes of the Plan, Compensation has the same meaning as Compensation in the IIP without regard to Section 401(a)(17) of the Code, except that the Bonuses deferred under the Plan are included in Compensation in the Plan Year in which such amounts would be paid if they were not deferred and not in the Plan Year in which such amounts are actually paid. In no event shall Compensation include any amount payable after a Participant has terminated employment.

2.8 *Compensation Committee.*

The Compensation Committee of the Board of Directors of Baxter.

2.9 Deferral Election Form.

The form which a Participant must complete and return to the Administrative Committee or its designee, in accordance with the rules and procedures as may be established by the Administrative Committee, in order to elect to defer a portion of his or her Bonus into the Plan and to designate his or her Pay Deferral Election.

2.10 Distribution Election Form.

The form which a Participant must complete and return to the Administrative Committee or its designee, in accordance with the rules and procedures as may be established by the Administrative Committee. This form is to be used by both (a) Participants who are not eligible to defer a portion of their Bonus or make a Pay

Deferral Contribution to the Plan; and (b) Participants who are electing distributions with respect to a Deferred Compensation Account.

2.11 Eligible Employee.

For any Plan Year, an Eligible Employee is anyone who:

- (a) is a Corporate Officer of Baxter, a member of Baxter's Global Leadership Team and/or is participant in the Baxter International Inc. Long Term Incentive Plan for the Plan Year to which deferrals relate;
- (b) is a former participant in the Baxter International Inc. Long Term Incentive Plan;
- (c) for Plan Years prior to 2005, was a participant in the IIP whose Matching Contributions to the IIP for the Plan Year were limited because of the application of the Code, provided he or she met the eligibility rules under Section 3.1 as in effect for such Plan Year;
- (d) solely for purposes of Section 3.5, is designated by the Administrative Committee to be a Participant in the Plan and eligible to receive discretionary benefits under Section 3.5 of the Plan for the Plan Year, subject to the terms and conditions imposed by the Administrative Committee in accordance with Section 3.5; or
- (e) for Plan Years subsequent to 2006, and solely for purposes of Section 3.6, is eligible to receive an Employer Non-Matching Contribution into the IIP for the Plan Year and has Compensation for the Plan Year in excess of the limitations of Section 401(a)(17) of the Code. An Employee who has never previously been an Eligible Employee shall be treated as becoming an Eligible Employee on the last day of the first Plan Year in which he meets the requirements of this paragraph (d).

2.12 Employer.

The term Employer means Baxter and any entity that is a member of a controlled group or affiliated service group that includes Baxter, or is otherwise required to be considered as a single employer with Baxter under Section 414 of the Code. A "Participating Employer" is an

Employer that has adopted the Plan for the benefit of its Eligible Employees as provided in Section 1.3, and a Non-Participating Employer is an Employer that is not a Participating Employer.

2.13 *Employer Non-Matching Contribution.*

The term Employer Non-Matching Contribution has the same meaning in the Plan as it does in the IIP.

2.14 *Excess Matching Contribution.*

The Excess Matching Contribution is the difference between the Matching Contributions allocated to a Participant's IIP Account during the Plan Year and the amount that would have been allocated if the limitations of Sections 415, 401(k), 402(g), 401(m) or 401(a)(17) of the Code, were disregarded.

2.15 *Matching Contribution.*

The term Matching Contribution has the same meaning in the Plan as it does in the IIP.

2.16 *Participant.*

A Participant is any Eligible Employee who has an Account balance in the Plan.

2.17 *Pay Deferral Contribution.*

The term Pay Deferral Contribution has the same meaning as Pay Deferral Contribution in the IIP. The Pay Deferral Contribution is the amount of the Participant's Compensation, which the Participant elected to defer into the Plan which, but for such election, would have otherwise been paid to him/her.

2.18 *Plan Year.*

The Plan Year is the calendar year.

2.19 *Section 409A.*

Section 409A means Section 409A of the Code, as enacted by the American Jobs Creation Act of 2004 and as interpreted by Treasury Regulations or other authority issued thereunder.

2.20 *Termination of Employment.*

For purposes of the Plan, Termination of Employment has the same meaning as Termination of Employment in the IIP; provided that for purposes of determining when a Participant's benefit becomes payable, Termination of Employment shall not be considered to have occurred until the Participant incurs a separation from service as defined in Treasury Regulations issued pursuant to Section 409A. The following rules are intended to implement the requirements of Section 409A, and may be adjusted by the Administrative Committee as required to comply with any guidance issued under Section 409A:

- (a) The Participant shall not be considered to have separated from service so long as the Participant is on military leave, sick leave, or other bona fide leave of absence if the period of such leave does not exceed six months, or if longer, so long as the Participant retains a right to reemployment with a Participating Employer under an applicable statute or by contract.
- (b) Regardless of whether his employment has been formally terminated, the Participant will be considered to have separated from service as of the date it is reasonably anticipated that no further services will be performed by the Participant for any Participating Employer, or that the level of bona fide services the Participant will perform after such date will permanently decrease to no more than 20 percent of the average level of bona fide services performed over the immediately preceding 36-month period (or the full period of employment if the Participant has been employed for less than 36 months). For purposes of the preceding test, during any paid leave of absence the Participant shall be considered to have been performing services at the level commensurate with the amount of compensation received, and unpaid leaves of absence shall be disregarded.
- (c) For purposes of determining whether the Participant has separated from service, all services provided for any Employer, or for any entity that is a member of the Controlled Group, shall be taken into account, whether provided as an employee or as a consultant or other independent contractor; provided that the Participant shall not be considered to have not separated from service solely by reason of service as a non-employee director of the Corporation or any other such entity. Solely for purposes of this Section 2.19, the term “Controlled Group” shall be modified by substituting “50 percent” for “80 percent” for all purposes of section 414(b) and (c) of the Code (and Section 1563 to the extent incorporated therein).
- (d) A Participant who is employed by a Participating Employer, and continues to be employed by the Participating Employer following a stock sale, spin-off, or other transaction that causes the Participant’s employer to cease to be a member of the Controlled Group, shall not be considered to have incurred a Termination of Employment as a result of such transaction. A Participant who ceases to be employed by the Corporation or any member of the Controlled Group as a result of a sale of substantially all of the assets constituting a division, facility, or separate line of business, shall be considered to have incurred a Termination of Employment unless the Corporation (or Participating Employer selling such assets) and the purchaser agree in writing, not later than the closing date of such transaction, that all Participants affected by such transaction shall not be considered to have incurred a Termination of Employment, and that the purchaser agrees to assume the obligation for payment of the Benefits of all such Participants in accordance with the Plan.

2.21 *Unforeseeable Emergency.*

A severe financial hardship resulting from a sudden or unexpected illness or accident of the Participant or one of his or her dependents, loss of the Participant’s property due to casualty or similar extraordinary and unforeseeable circumstances arising as a result of one or more recent events beyond the control of the Participant, as determined by the Administrative Committee.

2.22 Vesting.

For purposes of the Plan, Vesting has the same meaning as Vesting in the IIP.

ARTICLE III — ELIGIBILITY FOR CONTRIBUTIONS AND DEFERRALS

3.1 *Excess Matching Contributions.*

The Excess Matching Contributions Account of an Eligible Employee who makes either a Bonus Deferral or Pay Deferral Election for a Plan Year shall be credited with Excess Matching Contributions equal to the lesser of the total amount deferred pursuant to Sections 3.2 and 3.3 (not including any Supplemental Pay Deferral) for the Plan Year or three and one half percent (3.5%) of the excess of the Participant's total Compensation for the Plan Year over the portion of the Participant's Compensation taken into account under the IIP for the Plan Year. Prior to January 1, 2005, an Employee was an Eligible Employee if the Employee's Matching Contributions under the IIP were less than 3% of the Employee's Compensation for the Plan Year, regardless of whether the Employee were eligible to make Bonus Deferral and/or Pay Deferral Elections. A Participant who was an Eligible Employee solely by reason of this Section 3.1 for one or more Plan Years prior to 2005 shall continue to be a Participant with respect to his Excess Matching Contribution Account until it is distributed.

3.2 *Bonus Deferral Elections.*

An Eligible Employee for a Plan Year may elect to defer all or a portion of his or her Bonus for the Plan Year through the Plan until his or her Termination of Employment, or such other time as specified on his or her Deferral Election Form, by completing a Deferral Election Form in accordance with applicable rules and procedures established by the Administrative Committee. A Participant may elect to defer up to 100% of his or her Bonus, in whole percentages. Beginning January 1 of the year to which the Deferral Election Form applies, the Deferral Election Form is irrevocable, except as provided in Section 5.6. The Deferral Election Form must be filed in accordance with the rules established by the Administrative Committee, at the time set forth below:

- (a) Deferral Election Forms must be filed prior before January 1 of the Plan Year in which the Bonus is earned, except as hereinafter provided.
- (b) The Administrative Committee may permit an employee who becomes an Eligible Employee for the first time during a Plan Year to make an election to defer his or her Bonus for such Plan Year not more than 30 days after becoming an Eligible Employee, which Bonus Deferral Election shall apply only to the portion of the Bonus earned after the election is made. An Eligible Employee shall not be eligible to make the election within the first 30 days after becoming an Eligible Employee if the employee has been a participant (other than through accrual of earnings on amounts previously deferred) in any account balance deferred compensation arrangement sponsored by any Employer during the 24 month period prior to the date he or she becomes an Eligible Employee, unless the employee received a distribution of his or her entire balance in such plan during such 24 month period, and immediately prior to such distribution was not eligible to continue to participate in such plan.
- (c) The Administrative Committee may also permit Eligible Employees to make an election to defer their Bonuses not later than six months prior to the end of the Bonus

determination period, provided that the Administrative Committee determines that the Bonus satisfies the requirements for performance based compensation under Section 409A of the Code.

3.3 *Pay Deferral Elections.*

An Eligible Employee may make a Pay Deferral Election under the Plan if he or she elects to defer a portion of his or her Compensation under the IIP for a Plan Year, and the amount of Compensation that he or she has elected to defer exceeds the amount that is permitted to be deferred under the IIP by reason of the annual contribution limit under Section 415 or 402(g) of the Code (as increased, if applicable, by the limit on catch-up contributions pursuant to Section 414(v) of the Code), or the fact that the Eligible Employee's Compensation exceeds the annual limit under Section 401(a)(17) of the Code. A Pay Deferral Election shall be made by the last day of the Plan Year preceding the Plan Year to which it relates, in accordance with applicable rules and procedures established by the Administrative Committee, and shall thereafter be irrevocable (except as provided in Section 5.6), except that the Administrative Committee may permit an employee who first becomes an Eligible Employee during a Plan Year, and who meets the requirements of Section 3.2(b), to make a Pay Deferral Election not more than 30 days after becoming an Eligible Employee, which Pay Deferral Election shall apply prospectively only. If an Eligible Employee makes a Pay Deferral Election for a Plan Year, then all amounts that the Eligible Employee elected to defer under the IIP (based upon the Eligible Employee's IIP deferral election at the beginning of the Plan Year, which cannot be changed during the Plan Year) that exceed one or more of the limits described above shall instead be credited to his or her Account in this Plan, commencing with the first payment of Compensation that would cause the amount deferred to exceed such limits. Notwithstanding the foregoing provisions of this Section 3.3, the Administrative Committee, in its sole discretion, may permit a Participant to defer a percentage of his or her Compensation to the Plan for any Plan Year that exceeds the percentage that the Participant elects to defer under the IIP for such Plan Year (a "Supplemental Pay Deferral"), provided that the Supplemental Pay Deferral election is made when the Participant is otherwise eligible to make a Pay Deferral Election as described above and is thereafter irrevocable (except as provided in Section 5.6). To the extent that the Administrative Committee exercises its discretionary authority under the prior sentence, such exercise shall be reflected in Appendix B to the Plan which shall identify each Participant designated as eligible to make Supplemental Pay Deferrals, specify the Plan Year(s) for which Supplemental Pay Deferrals may be made, and reflect any other conditions and limitations applicable with respect to such Supplemental Pay Deferrals. In no event shall Supplemental Pay Deferrals be eligible for Excess Matching Contributions.

3.4 *Somatogen Acquisition Deferral Election.*

Any former employee of Somatogen, Inc. who became an employee of Baxter International Inc. as of the closing date of the merger agreement between Baxter and Somatogen and who completed a Special Deferral Enrollment Form shall have such form recognized as a valid election under the Plan. Deferrals authorized under this section shall be treated as deferrals authorized under Section 3.2 for purposes of accounting and distribution.

3.5 *Discretionary Contributions.*

The Administrative Committee may, in its sole discretion, specify such additional amounts in the form of employer contributions to be credited to the Account of a Participant or another employee who is a member of a select group of management and highly compensated employees, subject to such terms and conditions as the Administrative Committee may establish. To the extent that the Administrative Committee exercises its discretionary authority under this Section 3.5, such exercise shall be reflected in Appendix C to the Plan, which shall identify each Participant credited with such discretionary employer contributions, specify the Plan Year(s) for which contributions relate, and reflect any other limitations applicable with respect to such discretionary contributions, including any applicable Vesting requirements. Discretionary employer contributions authorized under this section shall be treated as deferrals authorized under Section 3.2 for purposes of accounting and distribution.

3.6 *Employer Non-Matching Contribution.*

For any Plan Year after 2006, an Eligible Employee who (i) is eligible to receive an Employer Non-Matching Contribution into the IIP for the Plan Year and (ii) has Compensation for the Plan Year in excess of the limitations of Section 401(a)(17) of the Code, shall receive a contribution equal to 3% of the Eligible Employee's Compensation in excess of the limitations of Section 401(a)(17) of the Code.

3.7 *Contributions Following Military Service.*

A Participant who incurs a Termination of Employment, or a leave of absence, in order to serve in the armed forces of the United States, who is entitled to re-employment rights under the Uniformed Services Employment and Reemployment Rights Act ("USERRA"), and who is re-employed during the period in which such re-employment rights are protected, shall be entitled to increase the percentage of his or her Compensation subject to a Pay Deferral Election in order to make up the Pay Deferral Contributions missed during the period of military service, in accordance with rules established by the Administrative Committee in accordance with USERRA and Section 409A. Such a Participant shall also be entitled to receive the same amount of Excess Matching Contributions he or she would have received had the additional Pay Deferral Contributions been made during the period of military service. A Participant who is otherwise eligible for Employer Non-Matching Contributions shall be entitled to receive the Employer Non-Matching Contributions he or she would have received had he or she been employed at the same rate of Compensation during the period of military service, which shall be credited to the Deferred Compensation Account not later than 90 days after re-employment.

3.8 *Mid-Year Deferral Elections.*

If a person becomes an Eligible Employee as defined in Section 2.11(a) during a plan, and such person has not been eligible to elect to defer compensation under this Plan or any other nonqualified deferred compensation maintained by any Employer for the period of twenty-four months ending on the date he becomes an Eligible Employee (or the period beginning on the date any balance in this Plan or any such other plan was distributed to him and ending on the date he becomes an Eligible Employee), such Eligible Employee may be eligible to make either a Pay

Deferral Election or Bonus Deferral Election in accordance with this Section. After the Compensation Committee has identified the persons who have become Eligible Employees as defined in Section 2.11(a), the Administrative Committee shall establish a period during which such elections may be made, which election period shall be no more than thirty (30) days in length and end on or prior to the first day of a payroll period specified by the Administrative Committee. During such election period, each such Eligible Employee may make a Pay Deferral Election that will apply to all Compensation earned during such Plan Year commencing with such specified payroll period. During such period, each such Eligible Employee may also make a Bonus Deferral Election for his/her Bonus for such Plan Year, provided that, unless such election is also permissible pursuant to Section 3.5(c), the portion of his/her Bonus deferred shall not exceed a fraction, the numerator of which is the number of days in the Plan Year commencing with the first day of the specified payroll period and the denominator of which is the total number of days in the Plan Year. The Administrative Committee may also permit other deferral elections to be made in the Plan Year during which a person first becomes an Eligible Employee in accordance with Treas. Reg. §1.409A-2(a)(7).

3.9 *Gambro Plans.*

Effective as of January 1, 2015, the Plan shall assume the liability to pay all compensation deferred as of such date pursuant to the Gambro Renal Products, Inc., Executive Retirement Plan and the Gambro Renal Products, Inc. Voluntary Deferral Plan (collectively the “Gambro Plans”). A separate Gambro Plan Account shall be established for each Employee who had an account in either of the Gambro Plans on December 31, 2014, and each such Employee shall be considered a Participant with respect to such Gambro Plan Account, regardless of whether he is otherwise an Eligible Employee, but shall be eligible to be credited with further deferrals and allocations of Employer contributions only if he otherwise satisfies the requirements of the Plan. Anything else contained in the Plan to the contrary notwithstanding, all Gambro Plan Account balances shall be distributed only at the time and in the manner provided in the applicable Gambro Plan, as summarized in Appendix D, and no change to the time or form of distribution shall be made by reason of the assumption by the Plan of the balances under the Gambro Plans, except as otherwise determined by the Administrative Committee and to the extent permitted by Section 409A. Commencing with 2015, the earnings on the Gambro Plan Accounts shall be determined under Section 4.2, subject to such transitional procedures as the Administrative Committee. A Participant’s Beneficiary with respect to his Gambro Plan Account shall be the person designed as beneficiary pursuant to the applicable Gambro Plan until changed by the Participant in accordance with the Plan.

ARTICLE IV — CREDITING OF ACCOUNTS

4.1 *Crediting of Accounts.*

- A. *Excess Matching Contribution Account.* An account equal to the Excess Matching Contributions, if any, of each Participant made for Plan Years prior to 2002, as adjusted for investment return under Section 4.2 and distributions under Article V.
- B. *Bonus Deferral Account.* An account equal to the Bonus Deferrals, if any, of each Participant made for Plan Years prior to 2002, as adjusted for investment return under Section 4.2 and distributions under Article V.
- C. *Pay Deferral Account.* An account equal to the Pay Deferral Contributions and Supplemental Pay Deferrals, if any, of each Participant made for Plan Years prior to 2002, as adjusted for investment return under Section 4.2 and distributions under Article V.
- D. *Deferred Compensation Account.* An account equal to the Excess Matching Contributions, Pay Deferral Contributions, Bonus Deferrals, Supplemental Pay Deferrals and Employer Non-Matching Contributions made for the 2002 Plan Year and thereafter, as adjusted for investment return under Section 4.2 and distributions under Article V.

Notwithstanding the foregoing provisions of this Section 4.1, if elected by the Participant in accordance with rules established by the Administrative Committee, the Participant may elect to have his or her Excess Matching Contributions, Pay Deferral Contributions, Bonus Deferrals and Supplemental Pay Deferrals made for the 2001 Plan Year, if any, credited to his or her Deferred Compensation Account under paragraph D, instead of to the Excess Matching Contribution Account, Bonus Deferral Account and Pay Deferral Account described in paragraphs A, B and C.

Further, effective January 1, 2002, notwithstanding the foregoing provisions of this Section 4.1, if elected by the Participant in accordance with rules established by the Administrative Committee, the Participant may make a one-time election to have amounts credited to his or her Excess Matching Contribution Account, Bonus Deferral Account and Pay Deferral Account (including Supplemental Pay Deferrals) credited to his or her Deferred Compensation Account under paragraph D, provided however, that such election is made prior to 2002 and such amounts are not scheduled to be distributed in 2001.

4.2 *Earnings.*

Each Participant's Accounts will be adjusted for investment return, on a daily basis, in accordance with the following provisions of this Section 4.2:

- A. Amounts in a Participant's Excess Matching Account, Bonus Deferral Account and Pay Deferral Account will be credited with earnings at a rate determined by the Administrative Committee from time to time. Until the Administrative Committee determines otherwise, such earnings will be credited at the same rate as the Stable Income Fund in the IIP.

B. Amounts in a Participant's Deferred Compensation Account shall be adjusted upward or downward to reflect the investment return that would have been realized had such amounts been invested in one or more investments selected by the Participant from among the assumed investment alternatives designated by the Administrative Committee for use under the Plan. Prior to the first day of each month, or at such other times as the Administrative Committee may permit, Participants may change the assumed investment alternatives in which their Deferred Compensation Account will be deemed invested for such Plan Year. Participant elections of assumed investment alternatives shall be made at the time and in the form determined by the Administrative Committee, and shall be subject to such other restrictions and limitations as the Administrative Committee shall determine. In the event that a Participant fails to make an investment election, his or her Deferred Compensation Account shall be credited with earnings in the same manner as provided in paragraph A above.

4.3 Account Statements.

Account Statements will be generated effective at such intervals as the Administrative Committee may determine and transmitted to each Participant as soon as administratively feasible. Account Statements will reflect all Account activity during the reporting period, including Account contributions, distributions and earnings credits.

4.4 Vesting.

Subject to Sections 9.1 and 9.2, and any Vesting requirements specified by the Administrative Committee with respect to Discretionary Contributions, a Participant is always 100% Vested in his or her Accounts in the Plan at all times; provided, however, that if a Participant who incurs a Termination of Employment is not 100% Vested in his or her Employer Non-Matching Contribution Account in the IIP, the portion of his or her Deferred Compensation Account attributable to Employer Non-Matching Contributions and the earnings thereon shall be forfeited, and no Participating Employer shall have any obligation to the Participant with respect to such portion.

ARTICLE V — DISTRIBUTION OF BENEFITS

5.1 *Distribution of Benefits.*

Subject to Section 5.2, distribution of a Participant's Accounts, if any, will commence in accordance with the Participant's Distribution Election Form or Deferral Election Form as soon as administratively feasible after the Participant's Termination of Employment. Any spousal consent requirements under the IIP will not apply to distributions under the Plan.

Anything else in this Plan to the contrary notwithstanding, effective October 22, 2004, (i) in no event shall the distribution of any Account be accelerated to a time earlier than which it would otherwise have been paid, whether by amendment of the Plan, exercise of the Administrative Committee's discretion, or otherwise, except as permitted by Treasury Regulations issued pursuant to Section 409A, and (ii) in the event that the Administrative Committee, in its sole discretion, determines that any time or form of distribution provided for in the Plan, or the existence of a right to elect a different time or form of distribution, would cause the Plan to fail to meet the requirements of Section 409A, or otherwise cause Participants to be subject to any adverse federal income tax consequences, the Administrative Committee shall amend the Plan to modify or remove the form of distribution or election right. The distribution restrictions under Section 409A shall apply to Participant's entire account balances under the Plan, whether deferred before or after January 1, 2005. Notwithstanding the foregoing, the Administrative Committee may give Participants a one-time opportunity to change the time and/or form of payment of their Accounts by a written irrevocable election made not later than December 31, 2008, subject to such terms and conditions as the Administrative Committee may require; provided that no such election shall cause any amount to be paid in 2008 that would otherwise have been paid in a later year, or cause any amount that would otherwise have been paid in 2008 to be paid in a later year, and such elections shall otherwise comply with the requirements for transitional relief under IRS Notice 2007-86.

5.2 *Distribution.*

A. *Deferral Election Form.* A Participant's Excess Matching Contribution Account, Bonus Deferral Account and Pay Deferral Account will be paid in accordance with the form of payment designated in the Participant's Deferral Election Form. The Deferral Election Form shall not be used to elect forms of distribution with respect to deferrals for Plan Years after 2001 (or 2000, with respect to a Participant electing to have his or her deferrals credited to the Deferred Compensation Account for Plan Year 2000 under Section 4.1).

B. *Distribution Election Form — Termination of Employment.* A Participant's Deferred Compensation Account and, if the Participant is not eligible for Pay Deferrals or Bonus Deferrals, his or her Excess Matching Contribution Account, will be paid after the Participant's Termination of Employment, in accordance with the form of payment designated in such Participant's Distribution Election Form. Distribution Election Forms shall be filed in accordance with rules established by the Administrative Committee, subject to the following:

- (a) Prior to January 1, 2007, only one Distribution Election Form could be submitted with respect to distribution of a Participant's Deferred Compensation Account

following Termination of Employment. Any such Distribution Election Form filed prior to January 1, 2007, shall remain in effect shall apply to the Participant's entire Deferred Compensation Account (and Excess Matching Contribution Account if applicable) balance at his or her Termination of Employment.

- (b) Effective January 1, 2007, a Participant who has not previously been described in paragraph (c) may submit a Distribution Election Form at the time he or she first makes a Bonus Deferral or Pay Deferral Election pursuant to Section 3.2 or 3.3. Except as otherwise provided in subparagraph (c) below, only one Distribution Election Form shall be filed, which shall apply to the Participant's entire Deferred Compensation Account balance at his or her Termination of Employment. A Distribution Election Form must be filed by the end of the period for making the Participant's first Bonus Deferral or Pay Deferral Election, and if the Participant fails to file a Distribution Election Form at such time his or her entire Deferred Compensation Account balance shall be distributed in a lump sum at his or her Termination of Employment, or in accordance with a Distribution Election Form previously filed pursuant to subparagraph (c) if applicable.
- (c) An Employee who first becomes an Eligible Employee pursuant to Section 3.1, 3.5, or 3.6 on or after January 1, 2007, and who meets the requirements of Section 3.2(b), may file a Distribution Election Form not later than 30 days after his or her first day of eligibility. Except as provided in the following sentence, only one Distribution Election Form shall be filed, which shall apply to the Participant's entire Deferred Compensation Account balance at his or her Termination of Employment, and if the Participant fails to file a Distribution Election Form at such time his or her entire Deferred Compensation Account balance shall be distributed in a lump sum at his or her Termination of Employment. Notwithstanding the foregoing, if such a Participant subsequently becomes eligible to make a Bonus Deferral or Pay Deferral Election, he or she may file a new Distribution Election Form pursuant to subparagraph (b) above. In such event, the portion of the Participant's Deferred Compensation Account that represents amounts credited to the Deferred Compensation Account under all provisions of Article III beginning with the first Plan Year to which the Bonus Deferral or Pay Deferral Election applies (and all earnings thereon) shall be distributed in accordance with such Distribution Election Form, and the remaining portion of the Deferred Compensation Account shall continue to be governed by this subparagraph (c).

C. *Forms of Distribution.* The forms of distribution are:

- (a) a lump sum payment, or
- (b) annual installments of at least 2 years, but not to exceed 15 years.

If annual installments are elected, the amount of each installment will be equal to the remaining balance in the Participant's Account prior to payment of the installment, divided by the remaining number of installments to be paid (including the installment being calculated).

Except as provided below, effective January 1, 2007, lump sum payments will be paid, and annual installments will commence, in the first quarter of the Plan Year as specified in the Participant's Deferral Election Form or Distribution Election Form (or, if the Distribution Election Form provides for payments following a Termination of Employment, in the first quarter of the Plan Year following the Plan Year in which the Termination of Employment occurs). Subsequent installments will be paid annually in the first quarter of subsequent Plan Years. In the case of installment payments which commenced prior to January 1, 2007, the installment that would otherwise have been paid in the third quarter of 2007 shall be paid in the first quarter, and all installments shall thereafter be paid in the first quarter of subsequent years.

If a Participant does not elect a form of distribution by the time the Deferral Election Form or the Distribution Election Form is required to be completed, the Participant's election will default to a lump sum payment in the first quarter of the Plan Year following the Plan Year in which the Participant incurs a Termination of Employment.

D. *Special Rules.* Notwithstanding the foregoing:

- (a) A Participant whose Accounts under the Plan total less than \$50,000 as of the last day of the Plan Year in which he or she incurs a Termination of Employment will receive lump sum payment of his or her Accounts in the first quarter of the Plan Year following the Plan Year in which the Participant incurs a Termination of Employment.
- (b) If a Participant who has made a Bonus Deferral election for a Plan Year incurs a Termination of Employment during the Plan Year, but is still eligible for a Bonus for the Plan Year, the deferred portion of his or her Bonus shall be distributed during March of the subsequent year, regardless of the form of distribution otherwise elected, and shall not be taken into account in determining whether the Participant's Account Balance is less than \$50,000. Such amount shall not be credited with any earnings unless paragraph (c) applies.
- (c) Anything else contained herein to the contrary notwithstanding, in no event shall any payment of a benefit made in connection with the Termination of Employment of a "specified employee", as hereinafter defined, be made until at least six months following such Termination of Employment, and any amounts that would otherwise have been paid during such six month period shall be accumulated and paid in a lump sum, without interest, on the first business day following the expiration of such period. For purposes of this Plan, the term "specified employee" shall have the meaning set forth in Treas. Reg. §1.409A-1(i), using the safe harbor definition of compensation contained in Treas. Reg. §1.415(c)-2(d)(4) (compensation required to be reported on Form W-2 plus elective deferrals) and excluding compensation paid to a nonresident alien that is not effectively connected with the conduct of a trade or business within the

United States shall be excluded. The status of Participants as specified employees shall be determined as of December 31 of each year, and if a Participant is determined to be a specified employee on any December 31, the restriction of clause (ii) shall apply if and only if he incurs a termination of employment at any time during the twelve month period commencing on the following February 1.

5.3 *Effect of Payment.*

Payment to the person or trust reasonably and in good faith determined by the Administrative Committee to be the Participant's Beneficiary will completely discharge any obligations Baxter or any other Employer may have under the Plan. If a Plan benefit is payable to a minor or a person declared to be incompetent or to a person the Administrative Committee in good faith believes to be incompetent or incapable of handling the disposition of property, the Administrative Committee may direct payment of such Plan benefit to the guardian, legal representative or person having the care and custody of such minor and such decision by the Administrative Committee is binding on all parties. The Administrative Committee may initiate whatever action it deems appropriate to ensure that benefits are properly paid to an appropriate guardian.

The Administrative Committee may require proof of incompetence, minority, incapacity or guardianship as it may deem appropriate prior to distribution of the Plan benefit. Such distribution will completely discharge the Administrative Committee and the Employer from all liability with respect to such benefit.

5.4 *Taxation of Plan Benefits.*

It is intended that each Participant will be taxed on amounts credited to him or her under the Plan at the time such amounts are received, and the provisions of the Plan will be interpreted consistent with that intention.

5.5 *Withholding and Payroll Taxes.*

Baxter will withhold from payments made hereunder any taxes required to be withheld for the payment of taxes to the Federal, or any state or local government.

5.6 *Distribution Due to Unforeseeable Emergency.*

Upon written request of a Participant and the showing of Unforeseeable Emergency, the Administrative Committee may authorize distribution of all or a portion of the Participant's Accounts, and or the acceleration of any installment payments being made from the Plan, but only to the extent reasonably necessary to relieve the Unforeseeable Emergency, taking into account the tax imposed on such distribution. In any event, payment may not be made to the extent such Unforeseeable Emergency is or may be satisfied through reimbursement by insurance or otherwise, including, but not limited to, liquidation of the Participant's assets, to the extent that such liquidation would not in and of itself cause severe financial hardship. If a Participant has an Unforeseeable Emergency, the Participant's Pay Deferral Election and Bonus Deferral Election, if any, shall be revoked for the Plan Year (and no subsequent Pay Deferral or Bonus Deferral may be made for the same Plan Year), and the additional income resulting from

such revocation shall be taken into account in determining the amount of distribution reasonably necessary to relieve the Unforeseeable Emergency. A Participant shall not be required to take any hardship withdrawal or loan to which he is entitled under the IIP or any other tax qualified retirement plan as a condition of receiving a distribution pursuant to this Section 5.6, but if a Participant receives a hardship withdrawal from the IIP or any other tax-qualified §401(k) plan maintained by an Employer and the terms of such plan require a suspension of the Participant's deferrals for six months following the date of the distribution, then the Participant's Deferral Elections shall be permanently revoked with respect to any compensation paid or payable to the Participant during such six month period.

5.7 *Distribution Due to Inclusion in Taxable Income.*

In the event that any portion of a Participant's Account is included in his or her taxable income prior to distribution pursuant to Section 409A, the amount so included shall be distributed to the Participant as soon as administratively possible.

5.8 *Distribution of De Minimis Amounts.*

The Administrative Committee may at any time direct that the entire balance of a Participant's Account be distributed to the Participant in full liquidation of his or her benefit under the Plan; provide that the Participant's entire account balance in all other separate account nonqualified deferred compensation plans maintained by any Employer is also distributed at the same time, and that the total amount so distributed (including all such other plans) does not exceed the limit in effect under Section 402(g) of the Code at the time of the distribution.

5.9 *Correction of Errors.*

The Administrative Committee shall have the authority to correct any error in the calculation of a Participant's Account or the amount distributed to a Participant, regardless of the reason for the error and regardless of whether distribution of the Account has commenced. By his participation in the Plan and acceptance of benefits hereunder, each Participant agrees that he will promptly repay to the Plan any payment that exceeds the amount to which he was entitled under the Plan (an "excess payment"), and will hold any excess payment, and any proceeds of any excess payment, or property acquired with any excess payment, in trust for the benefit of the Plan, which trust shall remain in effect, and shall continue to apply to any excess payment, proceeds or other property even if transferred to a third party, until the total amount of the excess payment has been repaid to the Plan. The Administrative Committee may, on behalf of the Plan, commence an action to enforce such trust, or take any other available action in law or equity, including setting off any other amount owed to the Participant, to recover such excess payment.

ARTICLE VI — BENEFICIARY DESIGNATION

6.1 *Beneficiary Designation.*

Each Participant has the right to designate one or more persons or trusts as the Participant's Beneficiary, primary as well as secondary, to whom benefits under this Plan will be paid in the event of the Participant's death prior to complete distribution to the Participant of the benefits due under the Plan. Each Beneficiary designation will be in a written form prescribed by the Administrative Committee and will be effective only when filed with the Administrative Committee during the Participant's lifetime.

6.2 *Amendments to Beneficiary Designation.*

Any Beneficiary designation may be changed by a Participant without the consent of any Beneficiary by the filing of a new Beneficiary designation with the Administrative Committee. Filing a Beneficiary designation as to any benefits available under the Plan revokes all prior Beneficiary designations effective as of the date such Beneficiary designation is received by the Administrative Committee. If a Participant's Accounts are community property, any Beneficiary designation will be valid or effective only as permitted under applicable law.

6.3 *No Beneficiary Designation.*

In the absence of an effective Beneficiary designation, or if all Beneficiaries predecease the Participant, the Participant's estate will be the Beneficiary. If a Beneficiary dies after the Participant and before payment of benefits under this Plan has been completed, and no secondary Beneficiary has been designated to receive such Beneficiary's share, the remaining benefits will be payable to the Beneficiary's estate.

6.4 *Form of Payment to Beneficiary.*

The Account of a Participant who dies prior to Termination of Employment shall be paid to his or her Beneficiary in a single lump sum as soon as administratively feasible following the date of death, regardless of the form of payment elected by the Participant. The Account of a Participant who dies after Termination of Employment, but before his or her Account has been fully distributed, shall be distributed in the same manner and at the same time as it would have been distributed to the Participant, except that the six month delay in distributions to a specified employee pursuant to the last paragraph of Section 5.2 shall not apply to the Beneficiary of a specified employee who dies during the six month period following his or her Termination of Employment.

ARTICLE VII — ADMINISTRATION

7.1 *Administrative Committee.*

The Plan is administered by the Administrative Committee, which is the Plan Administrator for purposes of Section 3(16)(A) of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”). Baxter has appointed the members of the Administrative Committee to administer the Plan. Members of the Administrative Committee may be Participants in the Plan.

7.2 *Administrative Committee Powers.*

The Administrative Committee has such powers as may be necessary to discharge its duties hereunder, including, but not by way of limitation, the following powers, rights and duties:

- (a) Interpretation of Plan. The Administrative Committee has the power, right and duty to construe, interpret and enforce the Plan provisions and to determine all questions arising under the Plan including, but not by way of limitation, questions of Plan participation, eligibility for Plan benefits and the rights of employees, Participants, Beneficiaries and other persons to benefits under the Plan and to determine the amount, manner and time of payment of any benefits hereunder;
- (b) Plan Procedures. The Administrative Committee has the power, right and duty to adopt procedures, rules, regulations and forms to be followed by employees, Participants, Beneficiaries and other persons or to be otherwise utilized in the efficient administration of the Plan which may alter any procedural provision of the Plan without the necessity of an amendment, and which procedures may provide for any election or consent to be made (including without limitation the filing of a Deferral Election Form or Distribution Election Form), or any other action to be taken (including without limitation filing claims and requesting review of denied claims), by electronic mail, internet website, telephone or voice response system or other electronic method to the extent permitted by applicable law;
- (c) Benefit Determinations. The Administrative Committee has the power, right and duty to make determinations as to the rights of employees, Participants, Beneficiaries and other persons to benefits under the Plan and to afford any Participant or Beneficiary dissatisfied with such determination with rights pursuant to a claims procedure adopted by the Committee; and
- (d) Allocation of Duties. The Administrative Committee is empowered to employ agents (who may also be employees of Baxter) and to delegate to them any of the administrative duties imposed upon the Administrative Committee or Baxter.
- (e) Plan Amendments. The Administrative Committee is empowered to amend the Plan as provided in Section 8.1(b).

7.3 *Effect of Administrative Committee Decisions.*

Any ruling, regulation, procedure or decision of the Administrative Committee will be conclusive and binding upon all persons affected by it. There will be no appeal from any ruling by the Administrative Committee which is within its authority, except as provided in Section 7.4 below. When making a determination or a calculation, the Administrative Committee will be entitled to rely on information supplied by any Employer, accountants and other professionals including, but not by way of limitation, legal counsel for Baxter or any Employer.

7.4 *Claims Procedure.*

Each person entitled to benefits under the Plan (the "Applicant") must submit a written claim for benefits to the Administrative Committee. Such claim shall be filed not more than one year after the Applicant knows, or with the exercise of reasonable diligence would know, if the basis for the claim. A formal claim shall not be required for the distribution of a Participant's Accounts in the ordinary course of business, but in any case a claim that relates to a dispute over the amount of a distribution shall be filed not more than one year after the distribution is paid. The Administrative Committee may, in its sole discretion (and notwithstanding the first sentence of Section 7.3) accept a claim that is filed late if it determines that special circumstances warrant acceptance of the claim.

If a claim for benefits by the Applicant is denied, in whole or in part, the Administrative Committee, or its delegate, shall furnish the Applicant within 90 days after receipt of such claim, a written notice which specifies the reason for the denial, refers to the pertinent provisions of the Plan on which the denial is based, describes any additional material or information necessary for properly completing the claim and explains why such material or information is necessary, and explains the claim review procedures of this Section 7.4. Such notice will further describe that the Applicant has a right to bring a civil action under Section 502 of ERISA if his or her claim is denied after an appeal and review. The 90 day period may be extended by up to an additional 90 days if special circumstances required, in which event the Applicant shall be notified in writing by the end of the initial 90 day period of the reason for the extension and an estimate of when the claim will be processed.

Any Applicant whose claim is denied under the provisions described above, or who has not received from the Administrative Committee a response to his or her claim within the time periods specified in the provisions described above may request a review of the denied claim by written request to the Administrative Committee within 60 days after receiving notice of the denial. If such a request is made, the Administrative Committee shall make a full and fair review of the denial of the claim and shall make a decision not later than 60 days after receipt of the request, unless special circumstances (such as the need to hold a hearing) require an extension of time, in which case a decision shall be made as soon as possible but not later than 120 days after receipt of the request for review, and written notice of the reason for the extension and an estimate of when the review will be complete shall be given to the Applicant before the commencement of the extension. The decision on review shall be in writing and shall include specific reasons for the decision and specific references to the pertinent provisions of the Plan on which the decision is based. Such notice will further describe that the Applicant has a right to bring a civil action under Section 502 of ERISA.

No person entitled to benefits under the Plan shall have any right to seek review of a denial of benefits, or to bring any action to enforce a claim for benefits, in any court or administrative agency prior to his or her filing a claim for benefits and exhausting all of his or her rights under this Section 7.4, or more than 180 days after he receives the Administrative Committee's decision on review of the denial of his or her claim. Although not required to do so, an Applicant, or his or her representative, may choose to state the reason or reasons he believes he is entitled to benefits, and may choose to submit written evidence, during the initial claim process or review of claim denial process. However, failure to state any such reason or submit such evidence during the initial claim process or review of claim denial process, shall permanently bar the Applicant, and his or her successors in interest, from raising such reason or submitting such evidence in any forum at any later date. An Applicant whose claim is denied initially or on review is entitled to receive, on request and free of charge, reasonable access to, and copies of, all documents, records, and other information relevant to such claim for benefits.

7.5 *Action by Administrative Committee.*

Action by the Administrative Committee will be subject to the following special rules:

- (a) Meetings and Documents. The Administrative Committee may act by meeting or by document signed without meeting and documents may be signed through the use of a single document or concurrent documents.
- (b) Action by Majority. The Administrative Committee will act by a majority decision which action will be as effective as if such action had been taken by all Administrative Committee members, provided that by majority action one or more Administrative Committee members or other persons may be authorized to act with respect to particular matters on behalf of all Administrative Committee members.
- (c) Resolving Deadlocks. If there is an equal division among the Administrative Committee members with respect to any question a disinterested party may be selected by a majority vote to decide the matter. Any decision by such disinterested party will be binding.

7.6 *Indemnity.*

To the extent permitted by applicable law and to the extent that they are not indemnified or saved harmless under any liability insurance contracts, any present or former Administrative Committee members, officers, or directors of Baxter, the Employers or their subsidiaries or affiliates, if any, will be indemnified and saved harmless by the Employers from and against any and all liabilities or allegations of liability to which they may be subjected by reason of any act done or omitted to be done in good faith in the administration of the Plan, including all expenses reasonably incurred in their defense in the event that Baxter fails to provide such defense after having been requested in writing to do so.

ARTICLE VIII — AMENDMENT AND TERMINATION OF PLAN

8.1 *Amendment.*

- (a) The Compensation Committee may amend the Plan at any time, except that no amendment will decrease or restrict the Accounts of Participants and Beneficiaries at the time of the amendment. The Company's authority to amend the Plan has been delegated to the Administrative Committee to the extent provided in Section 8.1(b). The authority to amend the Plan in any respect (whether or not such amendment is within the authority delegated to the Administrative Committee) may also be exercised by the Board of Directors, the Compensation Committee or any other person to whom the Board or Compensation Committee delegates such authority.
- (b) The Administrative Committee has been delegated the authority to adopt any amendments to the Plan as the Administrative Committee may determine to be necessary or appropriate, except that no amendment shall be made to any Plan without approval of the Compensation Committee unless the Administrative Committee determines that such amendment will not significantly change the overall level of benefits provided by such Plan; significantly change the requirements for eligibility for participation in the Plan; or add any material new benefit that would significantly increase the cost of the Plan. In illustration but not limitation of the foregoing, the Administrative Committee is authorized to adopt any amendment to a Plan that it determines to be:
- (i) an amendment that provides for the Plan to be adopted by any business entity acquired by the Company, including providing any special rules applicable to the employees of such business entity;
 - (ii) an amendment that the Administrative Committee determines to be of an administrative, ministerial or technical nature only;
 - (iii) an amendment that the Administrative Committee determines to be necessary or appropriate to carry out any amendment approved by, or other resolution adopted by, the Board;
 - (iv) an amendment that the Administrative Committee determines to be necessary or appropriate to comply with any applicable law, or necessary to conform the terms of the Plan to established administrative practices or procedures; or
 - (v) an amendment that the Administrative Committee determines to be necessary or appropriate to clarify or to resolve any inconsistency or ambiguity in the terms of the Plan.

The adoption by the Administrative Committee of any amendment to the Plan shall constitute conclusive evidence that the Administrative Committee has determined such amendment to be authorized under the terms of the foregoing resolution, which determination shall be conclusive and binding on all employees, participants, beneficiaries and other persons claiming any benefit under the Plan.

8.2 *Right to Terminate.*

The Compensation Committee may at any time terminate the Plan. Any Employer may terminate its participation in the Plan by notice to Baxter. The Plan may also be terminated with respect to a group of Eligible Employees only (including, effective January 1, 2005, Participants who are Eligible Employees solely by reason of Section 3.1), and the provisions of Section 8.3 shall apply to such group of Eligible Employees only.

8.3 *Payment at Termination.*

If the Plan is terminated all Accounts shall continue to be held and distributed in accordance with the terms of the Plan; provided that the Administrative Committee may, to the extent permitted under Section 409A, provide for the immediate distribution of Accounts.

ARTICLE IX — MISCELLANEOUS

9.1 *Unfunded Plan.*

This Plan is intended to be an unfunded retirement plan maintained primarily to provide retirement benefits for a select group of management or highly compensated employees. All credited amounts are unfunded, general obligations of the appropriate Employer. This Plan is not intended to create an investment contract, but to provide retirement benefits to eligible employees who participate in the Plan. Eligible employees are members of a select group of management or are highly compensated employees, who, by virtue of their position with an Employer, are uniquely informed as to such Employer's operations and have the ability to affect materially Employer's profitability and operations. The Administrative Committee, but shall not be obligated to, establish one or more trusts of the type commonly referred to as "rabbi trusts" and cause funds representing all or a portion of the amounts deferred under the Plan to be deposited in such trusts, provided that the terms of such trusts provide that, upon the insolvency of the an Employer, the funds held in such trusts are subject to the claims of the Employer's creditors, in accordance with applicable Internal Revenue Service guidance. The Administrative Committee may cause Baxter to assume the obligations of the employer under any such trust previously established with respect to either or both of the Gambro Plans, and such trust shall be treated as a trust established pursuant to this Section 9.1 in accordance with its terms. The Administrative Committee may, on behalf of Baxter, enter into agreements establishing any such trusts, amend or terminate such trusts, and remove or replace the trustees of such trusts, including any trusts established under the Gambro Plans, in accordance with their terms.

9.2 *Unsecured General Creditor.*

In the event of an Employer's insolvency, Participants and their Beneficiaries, heirs, successors and assigns will have no legal or equitable rights, interest or claims in any property or assets of such Employer, nor will they be Beneficiaries of, or have any rights, claims or interests in any life insurance policies, annuity contracts or the proceeds therefrom owned or which may be acquired by such Employer (the "Policies"), or any trust established pursuant to Section 9.1, greater than those of any other unsecured general creditors. In that event, any and all of the Employer's assets and Policies will be, and remain, the general, unpledged, unrestricted assets of Employer. Employer's obligation under the Plan will be merely that of an unfunded and unsecured promise of Employer to pay money in the future.

9.3 *Nonassignability.*

Neither a Participant nor any other person will have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage or otherwise encumber, transfer, hypothecate or convey in advance of actual receipt the amounts, if any, payable hereunder, or any part thereof, which are, and all rights to which are, expressly declared to be nonassignable and nontransferable. No part of the amounts payable will, prior to actual payment, be subject to seizure or sequestration for the payment of any debts, judgments, alimony or separate maintenance owed by a Participant or any other person, nor be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency. Nothing contained herein will preclude an Employer from

offsetting any amount owed to it by a Participant against payments to such Participant or his or her Beneficiary.

9.4 *Not a Contract of Employment.*

The terms and conditions of this Plan will not be deemed to constitute a contract of employment between a Participant and such Participant's Employer, and neither the Participant nor the Participant's Beneficiary will have any rights against such Participant's Employer except as may otherwise be specifically provided herein. Moreover, nothing in this Plan is deemed to give a Participant the right to be retained in the service of his or her Employer or to interfere with the right of such Employer to discipline or discharge him or her at any time.

9.5 *Protective Provisions.*

A Participant will cooperate with Baxter by furnishing any and all information requested by Baxter, in order to facilitate the payment of benefits hereunder.

9.6 *Governing Law.*

The provisions of this Plan will be construed and interpreted according to the laws of the State of Illinois, to the extent not preempted by ERISA.

9.7 *Severability.*

In the event any provision of the Plan is held invalid or illegal for any reason, any illegality or invalidity will not affect the remaining parts of the Plan, but the Plan will be construed and enforced as if the illegal or invalid provision had never been inserted, and Baxter will have the privilege and opportunity to correct and remedy such questions of illegality or invalidity by amendment as provided in the Plan, including, but not by way of limitation, the opportunity to construe and enforce the Plan as if such illegal and invalid provision had never been inserted herein.

9.8 *Notice.*

Any notice or filing required or permitted to be given to Baxter or the Administrative Committee under the Plan will be sufficient if in writing and hand delivered, or sent by registered or certified mail to any member of the Administrative Committee, or to Baxter's Chief Financial Officer and, if mailed, will be addressed to the principal executive offices of Baxter. Notice to a Participant or Beneficiary may be hand delivered or mailed to the Participant or Beneficiary at his or her most recent address as listed in the employment records of Baxter. Notices will be deemed given as of the date of delivery or mailing or, if delivery is made by certified or registered mail, as of the date shown on the receipt for registration or certification. Any person entitled to notice hereunder may waive such notice.

9.9 *Successors.*

The provisions of this Plan will bind and inure to the benefit of Baxter, each Employer, the Participants and Beneficiaries, and their respective successors, heirs and assigns. The term

successors as used herein will include any corporate or other business entity, which, whether by merger, consolidation, purchase or otherwise acquires all or substantially all of the business and assets of Baxter, and successors of any such corporation or other business entity.

9.10 *Action by Baxter.*

Except as otherwise provided herein, any action required of or permitted by Baxter under the Plan will be by resolution of the Compensation Committee or any person or persons authorized by resolution of the Compensation Committee.

9.11 *Effect on Benefit Plans.*

Amounts paid under this Plan, will not by operation of this Plan be considered to be compensation for the purposes of any benefit plan maintained by any Employer. The treatment of such amounts under other employee benefit plans will be determined pursuant to the provisions of such plans.

9.12 *Participant Litigation.*

In any action or proceeding regarding the Plan, employees or former employees of Baxter or an Employer, Participants, Beneficiaries or any other persons having or claiming to have an interest in this Plan will not be necessary parties and will not be entitled to any notice or process. Any final judgment which is not appealed or appealable and may be entered in any such action or proceeding will be binding and conclusive on the parties hereto and all persons having or claiming to have any interest in this Plan. To the extent permitted by law, if a legal action is begun against Baxter, an Employer, the Administrative Committee, or any member of the Administrative Committee by or on behalf of any person and such action results adversely to such person or if a legal action arises because of conflicting claims to a Participant's or other person's benefits, the costs to such person of defending the action will be charged to the amounts, if any, which were involved in the action or were payable to the Participant or other person concerned. To the extent permitted by applicable law, acceptance of participation in this Plan will constitute a release of Baxter, each Employer, the Administrative Committee and each member thereof, and their respective agents from any and all liability and obligation not involving willful misconduct or gross neglect.

* * *

IN WITNESS WHEREOF, the undersigned has caused this Amended and Restated Plan to be executed this 18th day of December, 2014.

BAXTER INTERNATIONAL INC.
ADMINISTRATIVE COMMITTEE

By: /s/ Salvatore Dadouche
Salvatore Dadouche
Administrative Committee Member

APPENDIX A

PARTICIPATING EMPLOYERS

Participating Employers in the Plan include all participating Employers in the Baxter International Inc. and Subsidiaries Incentive Investment Plan.

APPENDIX B

SUPPLEMENTAL PAY DEFERRALS UNDER SECTION 3.3

None.

APPENDIX C

DISCRETIONARY EMPLOYER CONTRIBUTIONS UNDER SECTION 3.5

Contribution on Behalf of Dagmar Bjorkeson

1. Not more than thirty (30) days after the date on which Dagmar Bjorkeson (“Bjorkeson”) commences employment with Baxter, Baxter shall credit a discretionary contribution in the amount of one million dollars (\$1,000,000.00) to a special employer contribution account (the “Account”).
2. In the event Bjorkeson voluntarily resigns from employment with Baxter prior to the first anniversary of Bjorkeson’s first day of employment, the entire balance in the Account, including earnings, shall be forfeited.
3. In the event Bjorkeson voluntarily resigns from employment with Baxter on or after the first anniversary of Bjorkeson’s first day of employment, but prior to the second anniversary of Bjorkeson’s first day of employment, fifty percent (50%) of the balance in the Account on the date of resignation, including earnings, shall be forfeited.
4. Bjorkeson may elect the manner of distribution of the Account by completing a Deferral Election Form in accordance with Section 5.2 of the Plan not later than Bjorkeson’s first day of employment, which Deferral Election Form shall subsequently apply to all other amounts deferred by Bjorkeson in the manner provided by Section 5.2.B(b) of the Plan.
5. Upon the anticipated spin-off by Baxter of Baxalta, it is anticipated that Bjorkeson will be employed by Baxalta. The transfer of Bjorkeson’s employment from Baxter to Baxalta shall not be considered a termination of employment, and the Account shall remain subject to forfeiture as provided above if Bjorkeson’s employment by Baxalta is terminated by resignation prior to the first anniversary or second anniversary, as applicable, of the first day of Bjorkeson’s employment by Baxter.
6. Except as otherwise provided above, the Account shall be treated in the same manner as any other bonus deferral under the Plan, and the establishment of the Account shall not otherwise affect Bjorkeson’s eligibility to participate in the Plan.

APPENDIX D

SPECIAL DISTRIBUTION PROVISIONS APPLICABLE TO AMOUNTS TRANSFERRED FROM GAMBRO PLANS

Forms of Distribution under the Voluntary Deferral Plan

- D.1 The following terms shall govern the manner in which amounts transferred from the Gambro Renal Products, Inc., Voluntary Deferral Plan (“VDP Accounts”) are distributed. In the event of any conflict between the provisions of this Section D.1 and the terms of the Gambro Plan, the terms of the Gambro Plan shall govern and control to the extent required to avoid a violation of Code Section 409A.
- (a) General. VDP Accounts shall be paid out in cash. At the time of the deferral election with respect to a Plan Year, the Participant shall elect a payout alternative for that Plan Year’s Deferral (adjusted for hypothetical investment returns).
- (b) Deferral Elections. The Participant shall make an election to receive or commence receipt of the payout:
- (1) Year One After Retirement: in the year following the Participant’s Retirement (as defined in Section 2(t)),
 - (2) Year Two After Retirement: in the second year following the Participant’s Retirement (as defined below), or
 - (3) Year Certain: for an Initial Deferral Election made by a Participant, in a year certain at least three (3) years after the date the Initial Deferral Election is executed for all Compensation other than a Participant’s Annual Incentive and at least four (4) years after the Initial Deferral Election is executed for a Participant’s Annual Incentive (to the extent that Participant is or was permitted to make an Initial Deferral Election with respect to Participant’s Annual Incentive) and for all other deferral elections, in a year certain at least three (3) years beyond the year for which the deferral election is effective for all Compensation other than a Participant’s Annual Incentive and at least four (4) years beyond the year for which the deferral election is effective for a Participant’s Annual Incentive (to the extent that Participant is or was permitted to make a deferral election with respect to Participant’s Annual Incentive). The election timing provisions of this Section 6.3(b)(3) described above apply for elections made in 2009 and subsequent Plan Years for deferrals of compensation earned in 2010 and subsequent Plan Years; *provided, however,* that deferral elections will not be permitted with respect to 2012 (or any subsequent Plan Year) Annual Incentives.

The Participant shall make a deferral election to receive distributions in the form of one (1) lump-sum cash payment or five (5), ten (10), fifteen (15), or twenty (20) annual installments. Any lump-sum cash payment shall be paid in the January of the year specified by the deferral election. If applicable, the first installment payment shall be payable in the January of the year specified by the deferral election and each subsequent

installment payment shall be paid each subsequent January until the amount subject to the installment election is paid out in full. Effective January 1, 2009, each installment shall be equal to the remaining balance(s) on January 19 or the first business day following January 19, if January 19 is not a business day, of the portion(s) of the VDP Account (less applicable surrender charges) subject to the deferral election(s), divided by the total number of installments yet to be made (i.e., the denominator in the year of the first of ten installments shall be ten (10), in the year of the second installment shall be nine (9), etc.) with the last installment payment equal to the remaining value. Each payment described in this paragraph is intended to be a separate payment for purposes of Code Section 409A and Treas. Reg. Section 1.409A-2(b)(2).

- (c) Time and Manner of Payment. The time and manner of payment shall be based on the earliest of the following to occur, as follows:
- (1) Retirement (as defined below):
 - (i) For amounts deferred in 2010 (excluding Deferral of the Annual Incentive paid in 2010 for the 2009 Plan Year) and subsequent Plan Years, a Participant shall commence receipt of the payout as elected by the Participant in accordance with the payment method(s) designated by the deferral election(s) previously made by the Participant (Year One After Retirement, Year Two After Retirement and/or in a Year Certain).
 - (ii) For amounts deferred after 2004 and prior to 2010 (including Deferral of the Annual Incentive paid in 2010 for the 2009 Plan Year), payment shall be made in accordance with Section D.1(c)(5)
 - (2) Becoming Disabled: For amounts deferred in 2005 and subsequent Plan Years, if a Participant becomes Disabled, payment shall be made in accordance with Section 6.3(c)(5). For amounts deferred prior to 2005, if a Participant becomes Disabled, a lump-sum cash payment of the VDP Account shall be made, or installment payments shall commence and be paid over the period(s) designated by the Participant's deferral election(s) (if the Participant has attained age fifty-nine and one-half (59-1/2) and so elected), within sixty (60) days following the Participant becoming Disabled.
 - (3) Death: In the event of a Participant's death, a lump-sum cash payment of the VDP Account shall be made, within sixty (60) days following such death.
 - (4) Year Certain: In the event a Participant has elected a year certain payout, such Participant shall commence receipt of the payout as elected by the Participant on the deferral election(s) previously made by the Participant in accordance with Section 6.3(b)(3).
 - (5) Other Separation from Service:
 - (i) For amounts deferred in 2010 (excluding Deferral of the Annual Incentive paid in 2010 for the 2009 Plan Year) and subsequent Plan Years, if a

Participant has a Separation from Service prior to an event described in Sections 6.3(c)(1), (2), (3) or (4) above, he or she shall receive a lump-sum cash payment of the VDP Account in January of the year immediately following such Separation from Service; *provided, however*, that any amount deferred in 2010 or a subsequent Plan Year that is subject to a Year Certain election described in Section 6.3(b)(3) (whether or not payment of such amount has commenced) shall continue to be subject to such Year Certain election and shall be paid out in accordance with such Year Certain election.

(ii) For amounts deferred after 2004 and prior to 2010 (including Deferral of the Annual Incentive paid in 2010 for the 2009 Plan Year), if a Participant has a Separation from Service for any reason other than death, he or she shall receive a lump-sum cash payment of the VDP Account in January of the year immediately following such Separation from Service. Furthermore, if a Participant has commenced installment payments under a Year Certain payout, the remaining installment payments shall be made in the January of the year immediately following such Separation from Service.

(6) Failure to Make Deferral Election. In the event that a Participant has a Separation from Service and such Participant has not made the deferral election described in Section D.1(b) with respect to all or a portion of his or her VDP Account, such Participant shall receive a lump-sum cash payment of the VDP Account (to the extent of the portion of such VDP Account for which no deferral election has been made) in January of the year immediately following such Separation from Service. A Participant shall be deemed not to have made a deferral election pursuant to Section 6.3(b) if payment in accordance with an election or purported election made by the Participant would subject a distribution under this Plan to additional tax or interest under Section 409A of the Code.

(d) Death. Notwithstanding Section D.1(b) through (c) above, in the event of a Participant's death prior to the commencement of distributions or during the installment period, only a lump-sum cash payment of the remaining balance of the entire VDP Account shall be made, within sixty (60) days after such death.

(e) Certain 2005 Through 2009 Deferrals. Effective January 1, 2009, notwithstanding D.1(c)(1) and (4), any Deferral Sub-account with respect to Deferrals made for the Plan Years 2005 through 2009 (including the Deferral of the Annual Incentive paid in 2010 for the 2009 Plan Year) shall, in the event that a Participant would have received a distribution of such Deferral Sub-account due to Retirement, be paid in a lump-sum cash payment in January of the year immediately following Participant's Separation from Service (other than a Separation from Service due to death of the Participant). Furthermore, if a Participant has commenced installment payments under a Year Certain payout, the remaining installment payments shall be made in the January of the year immediately following such Separation from Service. This Section 6.3(g) does not apply to distributions due to a Participant's death.

- (f) Amounts Deferred Prior to 2005. For amounts deferred prior to 2005, distributions shall be made in accordance with the Gambro Voluntary Deferral Plan as it existed as of October 3, 2004 which required that a Participant's deferral accounts shall be paid out in cash and in accordance with a Participant's deferral election(s) except as provided in the next sentence. If a Participant's Termination of Service (as defined in the Gambro Voluntary Deferral Plan as it existed as of October 3, 2004) is for any reason other than Retirement (as defined in the Gambro Voluntary Deferral Plan as it existed as of October 3, 2004), he or she shall automatically receive a lump-sum payment in the January of the year immediately following the Participant's Termination of Service (as defined in the Gambro Voluntary Deferral Plan as it existed as of October 3, 2004). Notwithstanding the foregoing, for amounts deferred prior to 2005, if a Participant becomes Disabled, a lump-sum cash payment shall be made, or installment payments shall commence and be paid over the periods designated by the Participant's deferral election(s) (if the Participant has attained age fifty-nine and one-half (59-1/2) and so elected), within sixty (60) days of the Participant becoming Disabled.
- (g) For purposes of this Section D.1, "Retirement" means :
- (1) effective January 1, 2010, for amounts deferred in 2010 (excluding Deferral of the Annual Incentive paid in 2010 for the 2009 Plan Year) and subsequent Plan Years, a Separation from Service on or after a Participant's attainment of age fifty-nine and one-half (59 1/2);
 - (2) for amounts deferred in 2009 (including Deferral of the Annual Incentive paid in 2010 for the 2009 Plan Year), that a Participant has voluntarily had a Separation from Service on or after his attainment of age fifty-nine and one-half (59 1/2);
 - (3) for amounts deferred after 2004 but prior to 2009, that a Participant has voluntarily terminated employment with the Employer on or after his or her attainment of age fifty-nine and one-half (59 1/2), and does not continue to provide services to the Employer (defined terms in this Section 2(t)(3) have the meanings as defined in the Gambro Voluntary Deferral Plan (As Amended and Restated January 1, 2005), as subsequently amended), and,
 - (4) for amounts deferred prior to 2005, the Participant has reached the age of fifty-nine and one-half (59-1/2) and has voluntarily terminated employment with the Employer (defined terms in this Section 2(t)(4) have the meanings as defined in the Gambro Voluntary Deferral Plan as it existed as of October 3, 2004).

Forms of Distribution under the Executive Retirement Plan

D.2 The following terms shall govern the manner in which accounts transferred from the Gambro Renal Products, Inc., Executive Retirement Plan ("GERP Accounts") are distributed. In the event of any conflict between the provisions of this Section D.2 and the terms of the Gambro Plan, the terms of the Gambro Plan shall govern and control to the extent required to avoid a violation of Code Section 409A.

- (a) GERP Accounts shall be paid out in cash. Upon a Separation from Service which includes a Participant becoming Disabled but excludes a Separation from Service due to the death of the Participant, the Participant shall be paid in a lump-sum equal to the balance of his or her GERP Account as of the date of distribution, but only to the extent such GERP Account is vested. Such payment shall be made on or after January 1 and on or before March 15 of the year following the Participant's Separation from Service (or if the Participant has attained an age equal to or greater than sixty (60) upon his or her Separation from Service, such payment shall be made within sixty (60) days after such Separation from Service), with the exact payment date being at the sole discretion of the Employer.
- (b) Notwithstanding the foregoing, if a Participant dies, Participant's GERP Account shall be distributed in a lump-sum payment equal to the balance of his or her GERP Account as of the date of distribution, but only to the extent such GERP Account is vested, within sixty (60) days following the date Participant died, with the exact payment date being at the sole discretion of the Employer. Notwithstanding the foregoing, if a Participant becomes Disabled, the balance of the Participant's pre-2005 sub-accounts shall be distributed in a lump-sum payment equal to the aggregate balances of such subaccounts as of the date of distribution within sixty (60) days following the date the Participant becomes Disabled.

**FIRST AMENDMENT TO THE
BAXTER INTERNATIONAL INC. AND SUBSIDIARIES
DEFERRED COMPENSATION PLAN
(Amended and Restated as of January 1, 2015)**

Pursuant to Section 8.1 of the Baxter International Inc. and Subsidiaries Deferred Compensation Plan, as amended and restated effective as of January 1, 2015 (the "Plan"), the Plan is further amended as follows, effective May 11, 2016:

1. Section 4.2 is amended by the addition of a new paragraph C at the end thereof to read as follows:
 - "C. Participants whose Deferred Compensation Account is deemed invested in the Company Stock Fund shall not be permitted to elect to have their account balance determined as if their shares had been exchanged for shares of Baxalta Incorporated pursuant to the exchange offer set forth in the prospectus, a preliminary copy of which was filed by the Company with the SEC on March 21, 2016, and the balances of Deferred Compensation Accounts deemed to be invested in the Company Stock Fund shall be determined without regard to such exchange offer."

 3. Section 4.2 is further amended by the addition of a new paragraph D at the end thereof to read as follows:
 - "D. On January 11, 2016, Baxalta Incorporated ("Baxalta") announced that it had entered into an Agreement and Plan of Merger with Shire plc ("Shire"), pursuant to which Shire will acquire Baxalta (the "Merger"), subject to the satisfaction or waiver of certain conditions, and the common stock of Baxalta will be converted into a combination of American Depositary Shares with respect to the common stock of Shire (the "Shire ADSs") at the rate of .1482 Shire ADSs and \$18 in cash (the "Cash Consideration") for each share of common stock of Baxalta. Each Participant whose Deferred Compensation Account is deemed to be invested in the Baxalta common stock fund at the closing of the Merger will be deemed to have received a number of Shire ADSs and Cash Consideration based upon the number of shares of Baxalta common stock in which the Account is deemed invested, and thereafter the Baxalta common stock fund will be converted into a fund consisting of Shire ADSs, and each such Participant's deemed share of the Cash Consideration will be transferred into the Stable Income Fund. The fund consisting of Shire ADSs will be closed to new investments, but each such Participant may transfer his or her share of the Cash Consideration from the Stable Income Fund into any other open fund in accordance with Paragraph B."

 3. This amendment shall be immediately effective upon its approval by the Administrative Committee, subject to the following. In the event the exchange offer described in the amendment made by Section 1 above is not consummated due to the termination of the exchange offer, in accordance with the terms described in the prospectus, the amendment made by Section 1 shall be null and void. In the event the Merger described in the
-

amendment made by Section 2 above is not consummated due to the termination of the Merger agreement between Baxalta and Shire, the amendment made by Section 2 shall be null and void. In the event that neither the exchange offer nor the Merger is consummated, as referenced above, this entire amendment shall be null and void. Except as otherwise provided herein, the Plan shall remain in full force and effect.

**BAXTER INTERNATIONAL INC.
ADMINISTRATIVE COMMITTEE**

By: /s/ Salvatore Dadouche
Salvatore Dadouche
Administrative Committee Member

**SECOND AMENDMENT TO THE
BAXTER INTERNATIONAL INC. AND SUBSIDIARIES
DEFERRED COMPENSATION PLAN
(Amended and Restated as of January 1, 2015)**

Pursuant to Section 8.1 of the Baxter International Inc. and Subsidiaries Deferred Compensation Plan, as amended and restated effective as of January 1, 2015 (the "Plan"), the Plan, as previously amended by the First Amendment thereto, is further amended as follows,:

1. Section 2.11(a) is amended to read as follows, effective as of the date on which this Amendment is executed:
 - “(a) Is a Corporate Officer of Baxter, a participant in the Baxter International Inc. Long Term Incentive Plan (the “LTIP”) or an individual designated to participate in the LTIP as of the next annual appointment cycle for the Plan Year for which deferrals relate, provided however that in the event an individual is permitted by the Administrator to make a deferral election for a Plan Year based upon his status as a designated participant in the LTIP for a Plan Year but is not appointed to the LTIP during the annual appointment cycle that occurs during such Plan Year, then such individual’s deferral election shall remain in effect for such Plan Year, but such individual shall not be considered an Eligible Employee for any subsequent Plan Year unless he independently satisfies the requirements of this Section 2.11(a) for such Plan Year;”

5. Except as otherwise provided above, the Plan shall remain in full force and effect.

[Signature on Following Page]

IN WITNESS WHEREOF, this Second Amendment is adopted this 21st day of December, 2016.

**BAXTER INTERNATIONAL INC.
ADMINISTRATIVE COMMITTEE**

By: /s/ Salvatore Dadouche
Salvatore Dadouche
Administrative Committee Member

[Signature Page for Second Amendment to Baxter International Inc. and Subsidiaries Deferred Compensation Plan]

FIRST AMENDMENT
TO
BAXTER INTERNATIONAL INC.
EMPLOYEE STOCK PURCHASE PLAN
(As Amended and Restated Effective July 1, 2011)

WHEREAS, Baxter International Inc. (“Baxter”) maintains the Baxter International Inc. Employee Stock Purchase Plan (the “Plan”);

WHEREAS, Section 3.03(b) of the Plan imposes a limit on the maximum number of shares that can be purchased by an Eligible Employee in a U.S. Offering, as defined in the Plan (“Limit”);

WHEREAS, the administrative practice has been to impose the same Limit on International Offerings, as defined in the Plan;

WHEREAS, the Administrative Committee has consistently exercised its authority over administrative matters of the Plan, including necessary amendments, pursuant to the delegation of such authority by the Compensation Committee of the Board of Directors of Baxter on November 9, 2015;

WHEREAS, it is appropriate for the terms of the Plan to reflect the administrative practice; and

NOW, THEREFORE, the Plan is hereby amended as follows, effective as of July 1, 2011:

1. Section 3.03 of the Plan is amended by the addition of the following paragraph immediately following Section 3.03(c):

“Except as otherwise determined by the Committee, the limitation set forth in Section 3.03(b) shall also apply to International Offerings, and the Committee shall have the authority to impose other limitations on the number of shares that may be purchased pursuant to any U.S. or International Offering as it determines to be necessary to comply with any applicable law or otherwise appropriate.”

IN WITNESS WHEREOF, the undersigned has executed this First Amendment on behalf of Baxter International Inc. this 15th day of July, 2016.

BAXTER INTERNATIONAL INC.

By: /s/ Jeanne K. Mason
Jeanne K. Mason
Corporate Vice President, Human Resources

BAXTER INTERNATIONAL INC.
Non-Employee Director Compensation Plan
(As amended and restated effective January 1, 2017)
Terms and Conditions

1. Purpose

This Non-Employee Director Compensation Plan (the “Plan”) is adopted by the Board of Directors (the “Board”) of Baxter International Inc. (“Baxter”). This Plan is adopted pursuant to the Baxter International Inc. 2015 Incentive Plan (the “2015 Incentive Plan”), for the purposes stated in the 2015 Incentive Plan. Capitalized terms defined in the 2015 Incentive Plan that are used without being defined in the Plan will have the same meaning as in the 2015 Incentive Plan.

2. Participants

Each member of the Board who is not an employee of Baxter or any of its subsidiaries shall participate in the Plan (a “Participant”). A Participant shall acknowledge his or her agreement to the terms and conditions of the Plan by countersigning the Plan.

3. Unrestricted Shares of Stock

3.1 Subject to Section 3.4, on the date of Baxter’s annual meeting of stockholders in each year beginning with the Annual Meeting held on May 2, 2017 (the “Annual Meeting”), and subject to availability of Shares under the 2015 Incentive Plan and except as set forth in Section 4, each Participant upon completion of the Annual Meeting shall, automatically and without necessity of any action by the Board or any committee thereof, receive the number of Full Value Awards in the form of Shares of Baxter Common Stock, par value \$0.01 per Share, (“Unrestricted Shares”) equal to the quotient of (A) \$180,000 divided by (B) the Fair Market Value of a Share on the date of grant rounded up or down to the nearest whole number (the “Annual Unrestricted Share Grant Amount”).

3.2 Each Participant elected or appointed on a date other than the date of an Annual Meeting shall, on the date of such election or appointment and automatically and without necessity of any action by the Board or any committee thereof, receive the number of Unrestricted Shares equal to the product of (A) the Annual Unrestricted Share Grant Amount (as defined in Section 3.1, subject to adjustment in accordance with the 2015 Incentive Plan) for the Unrestricted Shares awarded on the date of the immediately preceding Annual Meeting, *multiplied by* (B) the quotient of (i) the number of full calendar months before the next Annual Meeting divided by (ii) 12, rounded up or down to the nearest whole number. The number of Unrestricted Shares granted under this Section 3.2 shall not exceed the number available under the 2015 Incentive Plan on the date of grant.

3.3 All Unrestricted Shares shall be granted with no vesting restrictions.

3.4 If a Participant ceases service as a member of the Board for any reason, other than death or disability and except in connection with any qualifying retirement (as set forth in Section 4.9), prior to the date that is six months after the grant date of Unrestricted Shares, Participant hereby agrees (i) to return any Unrestricted Shares which the Participant has not otherwise sold or transferred prior to the date of Participant's departure from the Board (the "Termination Date") to Baxter and (ii) with respect to any Unrestricted Shares that the Participant has sold or otherwise transferred prior to the Termination Date, to make a cash payment to Baxter equal to the amount of the net proceeds received from the sale, disposition or transfer of the Unrestricted Shares, less any taxes withheld at time of grant within ten Business Days of the Termination Date. Additionally, Participant hereby agrees to promptly notify Baxter of any sale, transfer or other disposition of any Unrestricted Shares that occurs prior to six months after to the applicable grant date.

4. Options

- 4.1** Prior to the date of the Annual Meeting and subject to availability of Shares under the 2015 Incentive Plan, each Participant shall be permitted to elect to receive 50% of the Unrestricted Share value such Participant would otherwise receive in accordance with Section 3 (or \$90,000) in the form of Stock Options ("Stock Options") at such Annual Meeting; provided, that Participant must comply with any related election procedures established by Baxter (including any applicable election deadline provided by Baxter). The number of Stock Options to be granted to a Participant under this Section 4.1 will be determined based on a Black-Scholes or other option valuation model in the discretion of the Board or the Compensation Committee of the Board (the "Committee"). If a Participant duly elects to receive Stock Options at the applicable Annual Meeting in accordance with the terms and conditions established by Baxter and this Section 4.1, such Participant shall receive the remaining 50% of such Unrestricted Share value (or \$90,000) in the form of Unrestricted Shares in accordance with the terms of Section 3.
- 4.2** The purchase price for each Share subject to a Stock Option shall be the Fair Market Value of a Share on the date of grant. The terms of each Stock Option will be as set forth in this Plan and the 2015 Incentive Plan. To the extent that any provision of the Plan is inconsistent with the 2015 Incentive Plan, the 2015 Incentive Plan shall control. The Stock Options are not intended to qualify as Incentive Stock Options within the meaning of Section 422 of the United States Internal Revenue Code.
- 4.3** Stock Options shall be immediately exercisable on the date of grant.
- 4.4** After a Stock Option becomes exercisable and until it expires, it may be exercised in whole or in part, in the manner specified by Baxter. Under no circumstances may a Stock Option be exercised after it has expired. Shares may be used to pay the purchase price for Shares to be acquired upon exercise of a Stock Option or fulfill any tax withholding obligation, subject to any requirements or restrictions specified by Baxter.
-

- 4.5** Except as provided in Sections 4.7, 4.8, and 4.9, if a Participant ceases service as a member of the Board for any reason, other than death or disability and except in connection with any qualifying retirement (as set forth in Section 4.9), prior to the date that is six months after the grant date of Stock Options, Participant hereby acknowledges and agrees that (i) any unexercised Stock Options shall be automatically cancelled without any further action of the Participant as of the applicable Termination Date and (ii) with respect to any Stock Options that the Participant has exercised on or prior to the Termination Date, Baxter shall be entitled to a cash repayment equal to the amount of net gain recognized from the exercise of the Stock Options, less any taxes withheld at time of exercise and Participant shall make any such payment within ten Business Days of the Termination Date.
- 4.6** If a participant ceases service as a member of the Board more than six months after the applicable grant date of the Stock Options (a “Qualifying Departure”), the Stock Options will not expire but will remain exercisable. Subject to Sections 4.7, 4.8, 4.9 and 4.10, the Stock Options previously granted under the Plan to any Participant who has made a Qualifying Departure will expire three months after the applicable Termination Date, unless the Participant dies or becomes disabled during such three month period in which case the Stock Option will expire on the first anniversary of the date the Participant ceased serving as a member of the Board.
- 4.7** If a Participant dies while serving as a member of the Board, his or her Stock Options will not expire and will remain fully exercisable. Subject to Sections 4.9 and 4.10, the Stock Option will expire on the fifth anniversary of the Participant’s death.
- 4.8** If a Participant becomes disabled and unable to continue service as a member of the Board, his or her Stock Options will not expire and will remain fully exercisable. Subject to Sections 4.9 and 4.10, the Stock Option will expire on the fifth anniversary of the date the Participant ceases service as a member of the Board.
- 4.9** If a Participant who has served as a member of the Board for a continuous period of at least ten years or who is at least 72 years of age ceases to serve as a member of the Board (including without limitation by reason of death or disability), his or her Stock Options will not expire and will remain fully exercisable. Subject to Section 4.10, the Stock Options will expire on the fifth anniversary of the date the Participant ceases service as a member of the Board.
- 4.10** Notwithstanding any other provision in these terms and conditions to the contrary, Stock Options that have not previously expired or been cancelled in accordance with Section 4.5 will expire at the close of business on the tenth anniversary of the date of grant. If a Stock Option would expire on a date that is not a Business Day, it will expire at the close of business on the last Business Day preceding that date. A “Business Day” is any day on which the Shares are traded on the New York Stock Exchange.
-

- 4.11** An exercisable Stock Option may only be exercised by the Participant, his or her legal representative, or a person to whom the Participant's rights in the Stock Option are transferred by will or the laws of descent and distribution or in accordance with rules and procedures established by the Committee.
- 4.12** The Board or the Committee may, in its sole discretion and without receiving permission from any Participant, substitute SARs for any or all outstanding Stock Options granted under this Plan. Upon the grant of substitute SARs, the related Stock Options replaced by the substitute SARs shall be cancelled. The grant price of the substitute SAR shall be equal to the Exercise Price of the related Stock Option, the term of the substitute SAR shall not exceed the term of the related Stock Option, and the terms and conditions applicable to the substitute SAR shall otherwise be substantially the same as those applicable to the related Stock Option replaced by the substitute SAR.
- 4.13** To the extent that a Stock Option has not been exercised on the date the Stock Option would otherwise expire pursuant to Section 4.5, 4.6, 4.7, 4.8, 4.9 or 4.10, and the Fair Market Value of the Common Stock on such date exceeds the exercise price, Baxter may (but shall not be obligated to), on behalf of the Participant, direct that the Stock Option be exercised and the Shares of Common Stock sold, with the proceeds used to pay the exercise price and any applicable tax withholding, and the remaining proceeds credited to the Participant's account, or take such other action as the Committee may determine; provided that in no event shall Baxter, any member of the Committee, or any person acting on their behalf have any liability to a Participant for failing to take any such action.

5. Cash Compensation

- 5.1** Except as provided in the following sentence, Baxter shall pay each Participant a meeting fee of \$2,000 for each meeting of any committee of the Board attended. Except as provided in the following section, participants acting as the chairperson of any committee of the Board shall receive an annual cash retainer of \$15,000 for each committee chaired by him or her. A participant acting as the chairperson of the Audit Committee shall receive an annual cash retainer of \$20,000. Amounts payable within this Section 5.1 shall be paid quarterly in arrears and are payable if the Participant attends in person, by conference telephone, or by any other means permitted by the Delaware General Corporation Law and Baxter's Bylaws, as amended and restated. For the purposes of determining the amount of such quarterly payment(s), a Participant must be a chairperson of a committee of the Board on or prior to the 15th day of a month in order to be entitled to receive such payment(s) with respect to that month.
- 5.2** Baxter shall pay each Participant a total annual cash retainer of \$85,000 per calendar year ("Annual Cash Retainer"). Baxter shall pay an additional annual cash retainer of \$50,000 per calendar year to the Lead Director ("Lead Director Retainer"). Both the Annual Cash Retainer and Lead Director Retainer shall be paid quarterly in arrears. For purposes of determining the amount of such quarterly payment(s), a
-

Participant and/or the Lead Director must be a member of the Board on or prior to the 15th day of a month in order to be entitled to receive such payment(s) with respect to that month.

- 5.3 Participants shall be eligible to defer payment of cash compensation otherwise payable under this Section 5 pursuant to the terms and conditions of the Baxter Non-Employee Director Deferred Compensation Plan.

6. Availability of Shares

If on any grant date, the number of Shares which would otherwise be granted in the form of Unrestricted Shares or subject to Stock Options (as duly elected in accordance with Section 4.1) granted under the Plan shall exceed the number of Shares then remaining available under the 2015 Incentive Plan, the available Shares shall be allocated among the Participants in proportion to the number of Shares subject to Stock Options (as duly elected in accordance with Section 4.1) and Unrestricted Shares that Participants would otherwise be entitled to receive.

7. Change in Control

Notwithstanding any other provision of the 2015 Incentive Plan or this Plan, if a Change in Control occurs then all Awards previously unvested shall become immediately vested and exercisable. For purposes of the Plan, a "Change in Control" means the first to occur of any of the following: (i) any Person is or becomes the beneficial owner (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of Baxter (not including in the securities beneficially owned by such Person any securities acquired directly from Baxter or its Affiliates) representing 30% or more of the combined voting power of Baxter's then outstanding securities, excluding any Person who becomes such a beneficial owner in connection with a merger or consolidation of Baxter or any direct or indirect subsidiary of Baxter with any other corporation immediately following which the individuals who comprise the Board immediately prior thereto constitute at least a majority of the board of directors of (A) any parent of Baxter or the entity surviving such merger or consolidation or (B) if there is no such parent, of Baxter or such surviving entity; (ii) the following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, on the date of grant, constitute the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of Baxter) whose appointment or election by the Board or nomination for election by Baxter's shareholders was approved or recommended by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors on the date of grant or whose appointment, election or nomination for election was previously so approved or recommended; (iii) there is consummated a merger or consolidation of Baxter or any direct or indirect subsidiary of Baxter with any other corporation or other entity, other than a merger or consolidation immediately following which the individuals who comprise the Board immediately prior thereto constitute at least a majority of the board of directors of (A) any parent of Baxter or the entity surviving such

merger or consolidation or (B) if there is no such parent, of Baxter or such surviving entity; or (iv) the shareholders of Baxter approve a plan of complete liquidation or dissolution of Baxter or there is consummated an agreement for the sale or disposition by Baxter of all or substantially all of Baxter's assets, other than a sale or disposition by Baxter of all or substantially all of Baxter's assets immediately following which the individuals who comprise the Board immediately prior thereto constitute at least a majority of the board of directors of (A) any parent of Baxter or of the entity to which such assets are sold or disposed or (B) if there is no such parent, of Baxter or such entity.

8. General Provisions

- 8.1** Subject to the limitations contained in Section 9 of the 2015 Incentive Plan, the Board or the Committee may, at any time and in any manner, amend, suspend, or terminate the Plan or any Award outstanding under the Plan.
 - 8.2** Participation in the Plan does not give any Participant any right to continue as a member of the Board for any period of time or any right or claim to any benefit unless such right or claim has specifically accrued hereunder.
-

Acknowledged and Agreed to:

PARTICIPANT

By: _____

Name: _____

Baxter International Inc. and Subsidiaries

Computation of Ratio of Earnings to Fixed Charges
(unaudited — in millions, except ratios)

years ended December 31	2016	2015	2014	2013	2012
Income from continuing operations before income taxes	\$ 4,954	\$ 428	\$ 490	\$ 375	\$ 703
Fixed charges					
Interest costs(1)	107	197	237	225	165
Estimated interest in rentals(2)	58	70	83	71	67
Fixed charges as defined	165	267	320	296	232
Adjustments to income from continuing operations					
Interest costs capitalized	(18)	(51)	(70)	(70)	(52)
Net (gains) losses of less than majority-owned affiliates, net of dividends	2	(1)	(19)	(1)	1
Income from continuing operations as adjusted	\$ 5,103	\$ 643	\$ 721	\$ 600	\$ 884
Ratio of earnings from continuing operations to fixed charges	30.93	2.41	2.25	2.03	3.81

(1) Excludes interest on uncertain tax positions.

(2) Represents the estimated interest portion of rents.

BAXTER INTERNATIONAL INC.

The following is a list of subsidiaries of Baxter International Inc. as of December 31, 2016, omitting some subsidiaries which, when considered in the aggregate, would not constitute a significant subsidiary. Where ownership of a subsidiary is less than 100% by Baxter International Inc. or a Baxter International Inc. subsidiary, such has been noted by designating the percentage of ownership.

Domestic Subsidiary	Incorporation	
Baxter Colorado Holding Inc.	Colorado	
Baxter Corporation Englewood	Colorado	
Baxter Export Corporation	Nevada	
Baxter Global Holdings II Inc.	Delaware	
Baxter Healthcare Corporation	Delaware	
Baxter Holding Services Company	Delaware	
Baxter Holdings LLC	Delaware	
Baxter Pharmaceutical Solutions LLC	Delaware	
Baxter Sales and Distribution LLC	Delaware	
Baxter World Trade Corporation	Delaware	
Gambro Renal Products, Inc.	Colorado	
GRP US Holding Corp.	Colorado	
Laboratorios Baxter S.A.	Delaware	
Synovis Life Technologies, Inc.	Minnesota	
Foreign Subsidiary	Incorporation	
Baxter Healthcare Pty Ltd	Australia	
Baxter S.A.	Belgium	
Baxter World Trade SPRL	Belgium	
Baxter Hospitalar Ltda.	Brazil	
Baxter Corporation	Canada	
Baxter (China) Investment Co., Ltd	China	
Baxter Healthcare (Guangzhou) Company Ltd	China	87.5%
Baxter Healthcare (Suzhou) Company Ltd	China	
Baxter Deutschland GmbH	Germany	
Baxter Deutschland Holding GmbH	Germany	
Baxter Oncology GmbH	Germany	
Gambro Dialysatoren GmbH	Germany	
Baxter (India) Private Limited	India	
Baxter S.p.A.	Italy	
Baxter World Trade Italy S.R.L.	Italy	
Bieffe Medital S.p.A.	Italy	
Baxter Holdings Limited	Japan	
Baxter Limited	Japan	
Baxter Holding Mexico, S. de R.L. de C.V.	Mexico	
Baxter S.A. de C.V.	Mexico	
Baxter Healthcare Asia PTE Ltd	Singapore	
Baxter Pacific Investments Pte Ltd	Singapore	
Baxter Incorporated	South Korea	
Baxter Holding AB	Sweden	
Gambro AB	Sweden	
Gambro Lundia AB	Sweden	
Indap Holding AB	Sweden	
Baxter AG	Switzerland	
Baxter Healthcare Holding GmbH	Switzerland	
Baxter Healthcare SA	Switzerland	
Baxter Holding B.V.	The Netherlands	
Baxter Netherlands Holding B.V.	The Netherlands	
ApaTech Limited	United Kingdom	
Baxter Healthcare Limited	United Kingdom	

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 33-28428, 33-54069, 333-10520, 333-43563, 333-47019, 333-71553, 333-80403, 333-88257, 333-48906, 333-62820, 333-102140, 333-104420, 333-104421, 333-105032, 333-143063, 333-174400, 333-174401, 333-206700 and 333-206701), and on Form S-3 (No. 333-207810) of Baxter International Inc. of our report dated February 23, 2017 relating to the financial statements, the financial statement schedule and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Chicago, Illinois
February 23, 2017

Certification of Chief Executive Officer
Pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as Amended

I, José E. Almeida, certify that:

1. I have reviewed this Annual Report on Form 10-K of Baxter International Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ José E. Almeida

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

Date: February 23, 2017

Certification of Chief Financial Officer
Pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as Amended

I, James K. Saccaro, certify that:

1. I have reviewed this Annual Report on Form 10-K of Baxter International Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ James K. Saccaro

James K. Saccaro
Corporate Vice President and Chief Financial Officer

Date: February 23, 2017

**Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350,
as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

José E. Almeida, as Chairman of the Board and Chief Executive Officer of Baxter International Inc. (the "Company"), certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ José E. Almeida

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

February 23, 2017

**Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350,
as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

James K. Saccaro, as Corporate Vice President and Chief Financial Officer of Baxter International Inc. (the "Company"), certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ James K. Saccaro

James K. Saccaro
Corporate Vice President and
Chief Financial Officer

February 23, 2017

