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, 2020

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	**36-0781620**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
One Baxter Parkway, Deerfield, Illinois	**60015**
(Address of Principal Executive Offices)	**(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	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common stock, $1.00 par value	BAX (NYSE)	New York Stock Exchange
		Chicago Stock Exchange
0.4% Global Notes due 2024	BAX 24	New York Stock Exchange
1.3% Global Notes due 2025	BAX 25	New York Stock Exchange
1.3% Global Notes due 2029	BAX 29	New York 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 every Interactive Data File required to be submitted and 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 such files) Yes ☑ No ☐

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

Large accelerated filer	☑	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☑

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

The aggregate market value of the voting common equity held by non-affiliates of the registrant as of June 30, 2020 (the last business day of the registrant's most recently completed second fiscal quarter), based on the per share closing sale price of $86.10 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 $44 billion. The number of shares of the registrant's common stock, $1.00 par value, outstanding as of January 29, 2021 was 505,103,894.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive 2021 proxy statement for use in connection with its Annual Meeting of Stockholders expected to be held on May 4, 2021 are incorporated by reference into Part III of this report.

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PART I

Item 1. *Business.*

Company Overview

Baxter International Inc., through its subsidiaries, provides a broad portfolio of essential healthcare products, including acute and chronic dialysis therapies; sterile intravenous (IV) solutions; infusion systems and devices; parenteral nutrition therapies; inhaled anesthetics; generic injectable pharmaceuticals; and surgical hemostat and sealant products. These products are used by hospitals, kidney dialysis centers, nursing homes, rehabilitation centers, doctors' offices and by patients at home under physician supervision. Our global footprint and the critical nature of our products and services play a key role in expanding access to healthcare in emerging and developed countries. As of December 31, 2020, we manufactured products in over 20 countries and sold 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 "we", "our" or "us" means Baxter International and its consolidated subsidiaries (after giving effect to the separation and distribution of Baxalta Incorporated (Baxalta) in 2015, as further described below), unless the context otherwise requires.

COVID-19

Our global operations expose us to risks associated with public health crises and epidemics/pandemics, such as the novel strain of coronavirus (COVID-19). COVID-19 has had, and we expect will continue to have, an adverse impact on our operations, supply chains and distribution systems and has increased and we expect will continue to increase our expenses, including as a result of impacts associated with preventive and precautionary measures that we, other businesses and governments are taking. These measures have led to unprecedented restrictions on, disruptions in, and other related impacts on businesses and personal activities. In addition to travel restrictions put in place in early 2020, governments have closed borders, imposed prolonged quarantines and may continue those measures or implement other restrictions and requirements in light of the continuing spread of the pandemic. We expect that these evolving restrictions and requirements, as well as the corresponding need to adapt to new methods of conducting business remotely, will continue to have an adverse effect on our business. For further discussion, refer to Item 1A of this Annual Report on Form 10-K.

Business Segments and Products

We manage our business based on three geographic segments: Americas (North and South America), EMEA (Europe, Middle East and Africa) and APAC (Asia-Pacific).

Each of our segments provides a broad portfolio of essential healthcare products, including acute and chronic dialysis therapies; sterile IV solutions; infusion systems and devices; parenteral nutrition therapies; inhaled anesthetics; generic injectable pharmaceuticals; and surgical hemostat and sealant products.

For financial information about our segments, see Note 16 in Item 8 of this Annual Report on Form 10-K.

Sales and Distribution

We have our own direct sales force and also make 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 our 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.

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, 2020.

International Operations

The majority of our revenues are generated outside of the United States and geographic expansion remains a component of our strategy. Our presence includes operations in Europe, the Middle East, Africa, Asia-Pacific, Latin America and Canada. We are 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 our foreign and domestic revenues and geographic segment information, see Note 16 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

Our 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 our 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. We have 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, we face competition from other suppliers even where a customer is a member of a GPO under contract with us. 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 our markets globally.

Raw Materials

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

We are not always able to recover cost increases for raw materials through customer pricing due to contractual limits and market forces. Accordingly, we utilize long-term supply contracts with some suppliers to help maintain continuity of supply and manage the risk of price increases.

In connection with the separation and distribution of Baxalta in 2015, as further described below, we entered into a long-term manufacturing and supply agreement with Baxalta. Baxalta manufactures and supplies us with ARTISS, TISSEEL, FLOSEAL and stand-alone thrombin, on a cost-plus basis, under that manufacturing and supply agreement.

Competition and Healthcare Cost Containment

Our businesses benefit from a number of competitive advantages, including the breadth and depth of our product offerings and our strong relationships with customers, including hospitals and clinics, GPOs, physicians, and patients, many of whom self-administer home-based therapies that we supply. We also benefit from efficiencies and cost advantages resulting from shared manufacturing facilities and the technological advantages of our products.

Although no single company competes with us in all of our businesses, we face substantial competition in each of our 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 our customer base and by our 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 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 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 we 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. We face 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 our business. We rely on patents, trademarks, copyrights, trade secrets, know-how and confidentiality agreements to develop, maintain and strengthen our competitive position. We own a number of patents and trademarks throughout the world and have entered into license arrangements relating to various third-party patents and technologies. Products manufactured by us are sold primarily under our own trademarks and trade names. Some products distributed by us are sold under our trade names, while others are sold under trade names owned by our suppliers or partners. Trade secret protection of unpatented confidential and proprietary information is also important to us. We maintain certain details about our processes, products and technology as trade secrets and generally require employees, consultants, and business partners to enter into confidentiality agreements. These agreements may be breached and we may not have adequate remedies for any breach. In addition, our trade secrets may otherwise become known or be independently discovered by competitors. To the extent that our employees, consultants, and 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.

Our policy is to protect our 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 us. We also recognize the need to promote the enforcement of our patents and trademarks and take commercially reasonable steps to enforce our patents and trademarks around the world against potential infringers, including judicial or administrative action where appropriate.

We operate in an industry susceptible to significant patent litigation. At any given time, we are 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 7 in Item 8 of this Annual Report on Form 10-K.

Research and Development

Our investment in research and development (R&D), consistent with our portfolio optimization and capital allocation strategies, helps fuel our future growth and our ability to remain competitive in each of our product categories. Accordingly, we continue to focus our investment on select R&D programs to enhance future growth through clinical differentiation. Expenditures for our R&D activities were $521 million in 2020, $595 million in 2019, and $654 million in 2018. These expenditures include costs associated with R&D activities performed at our R&D centers located

around the world, which include facilities in Belgium, Sweden, India, 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 our 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

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

Each product that we market 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, we endeavor 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 us, refer to the discussion under the caption entitled “Certain Regulatory Matters” in Item 7 of this Annual Report on Form 10-K.

Government Regulation

Our operations and many of the products manufactured or sold by us 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 our products. We must obtain specific approval from FDA and non-U.S. regulatory authorities before we can market and sell most of our products in a particular country. Even after we obtain regulatory approval to market a product, the product and our manufacturing processes and quality systems are subject to continued review by FDA and other regulatory authorities globally, including additional 510(k) and other regulatory submissions, and approvals or the time needed to secure approvals are not certain. State agencies in the United States also regulate our facilities, operations, employees, products and services within their respective states. We, along with our 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 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. As situations require, we take steps to ensure safety and efficacy of our 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 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 also subject to various laws inside and outside the United States concerning our relationships with healthcare professionals and government officials, price reporting and regulation, the promotion, sales and marketing of our products and services, the importation and exportation of products, the operation of our facilities and distribution of products. In the United States, we are 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. We supply products and services to healthcare providers that are reimbursed by federally funded programs such as Medicare. As a result, our activities are subject to regulation by CMS and enforcement by OIG and DOJ. In each jurisdiction outside the United States, our 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.

Our operations involve the use of substances regulated under environmental laws, primarily in manufacturing and sterilization processes. Our environmental policies require compliance with all applicable environmental regulations and contemplate, among other things, appropriate capital expenditures for environmental protection. For example, we made $10 million of capital expenditures in 2020 related to a new ethylene oxide emissions control system at our Mountain Home, Arkansas facility. The new system is expected to be completed in 2022 and we currently expect to incur an additional $40 million of capital expenditures related to this project.

Separation of Baxalta

On July 1, 2015, we completed the distribution of approximately 80.5% of the outstanding common stock of Baxalta to our stockholders (the Distribution). The Distribution was made to our stockholders 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 of our shares held as of the Record Date. As a result of the distribution, Baxalta became an independent public company.

In 2016, we disposed of our remaining 19.5% interest in Baxalta (Retained Shares) through 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). As a result of these transactions, we extinguished approximately $3.65 billion of our indebtedness, repurchased 11,526,638 of our shares and contributed 17,145,570 Baxalta shares to our U.S. pension plan. On June 3, 2016, Baxalta became a wholly-owned subsidiary of Shire plc (Shire). In January 2019, Takeda Pharmaceutical Company Limited (Takeda) acquired 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.

Human Capital Management

As of December 31, 2020, we employed approximately 50,000 people globally, with approximately 13,000 employees in the United States and approximately 37,000 employees outside of the Unites States. Our employees are our most important assets and set the foundation for our ability to achieve our strategic objectives. All of our employees contribute to our success and, in particular, the employees in our manufacturing, sales, R&D and quality assurance departments are instrumental in driving operational execution and strong financial performance, advancing innovation and maintaining a strong quality and compliance program.

The success and growth of our business depends in large part on our ability to attract, retain and develop a diverse population of talented and high-performing employees at all levels of our organization, including the individuals who comprise our global workforce as well as executive officers and other key personnel. To succeed in a competitive labor market, we have developed recruitment and retention strategies, objectives and measures that we focus on as part of the overall management of our business. These strategies, objectives and measures form our human capital management framework and are advanced through the following programs, policies and initiatives:

- Competitive Pay and Benefits. Our compensation programs are designed to align the compensation of our employees with our performance and to provide the proper incentives to attract, retain and motivate employees to achieve superior results. The structure of our compensation programs balances incentive earnings for both short-term and long-term performance.
- Activating Change Today (ACT). Building on our strong diversity and inclusion platform, our senior leadership is working in close collaboration with the Baxter Black Alliance business resource group and colleagues from across the company on a multidimensional program to advance inclusion and racial justice. The ACT initiative is focused on driving results across four key areas – Workforce, Workplace, Community and Marketplace – encompassing employees, external stakeholders, and the markets and communities we serve.
- Health and Safety. Health and safety are firmly rooted across our global footprint. In response to the COVID-19 pandemic and related mitigation measures, we implemented changes in our business in 2020 in an effort to better protect our employees and customers, and to support appropriate health and safety protocols. For example, we installed physical barriers between employees in production facilities, implemented extensive cleaning and sanitation processes for both production and office administration spaces and implemented broad work-from-home initiatives for employees in our administrative functions. While our essential workers (production and field service employees) have continued to work at our facilities and provide vital service to our customers, most employees in our administrative functions have effectively

worked remotely since mid-March. During 2020, we paid incremental non-recurring special compensation bonuses to our essential workers.

- Recruitment, Training and Development. We use recruitment vehicles to attract diverse talent to our organization and we invest in learning opportunities that foster a growth mindset. Our formal offerings include a tuition reimbursement program, an e-learning platform known as BaxU and virtual workshops that support our culture, strategy and the development of crucial skills. To measure the impact of the investments we make in our people, and to help us consistently improve our human resources programs, we regularly conduct anonymous surveys of our global workforce to seek feedback on a variety of topics including confidence in our leadership, competitiveness of our compensation and benefits packages, career growth opportunities and improvements on how we can make our company an employer of choice. Administered and analyzed by an independent third-party, the survey results are reviewed by our senior leaders, which include our executive officers. The results of this engagement survey are also shared with individual managers, who are then tasked with taking action based on their employees' anonymous feedback (both quantitative and qualitative). By paying close attention to the results both at an aggregate enterprise level as well as at a department/business/work group level, we have been able to enhance our culture of respect, help educate employees more effectively about our benefits offerings as well as our learning and development opportunities and further improve our communications content, mechanisms and frequency.

Available Information

We make available free of charge on our website at www.baxter.com our 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 with the Securities and Exchange Commission. These reports are also available free of charge via EDGAR through the Securities and Exchange Commission website (www.sec.gov). In addition, our Corporate Governance Guidelines, Code of Conduct, and the charters for the committees of our Board of Directors are available on our 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 our 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, results of operations, future growth prospects and stock price could suffer.

Risks Related to the COVID-19 Pandemic

The effects of the COVID-19 pandemic have had, and we expect will continue to have, a material adverse effect on our business. The nature and extent of future impacts are uncertain and unpredictable.

Our global operations expose us to risks associated with public health crises, including epidemics and pandemics, such as the COVID-19 pandemic. COVID-19 has had, and we expect will continue to have, an adverse impact on our operations, supply chains and distribution systems and has increased and will continue to increase our expenses, including the impact associated with preventive and precautionary measures that we, other businesses and governments are taking. These measures have led to unprecedented restrictions on, disruptions in, and other related impacts on businesses and personal activities. In addition to travel restrictions put in place in early 2020, governments have closed borders, imposed prolonged quarantines and may continue those measures or implement other restrictions and requirements in light of the continuing spread of the pandemic. We expect that these evolving restrictions and requirements, as well as the corresponding need to adapt to new methods of conducting business remotely, will continue to have an adverse effect on our business. Risks associated with COVID-19 include, but are not limited to, the following:

- We have experienced, and expect to continue to experience, significant and unpredictable reductions or increases in demand for certain of our products as healthcare customers re-prioritize the treatment of

patients. Some of our products are particularly sensitive to reductions in elective medical procedures, and, as hospital systems prioritize treatment of COVID-19 patients and otherwise comply with government guidelines, many of those procedures have been suspended or postponed in our principal markets. In the second, third and fourth quarters of 2020, this resulted in lower levels of general hospital admissions and elective surgery volumes in those markets, which negatively impacted the demand for certain of our products. It is not possible to predict the timing of a broad resumption of elective medical procedures. If patients and hospital systems continue to de-prioritize, delay or cancel these procedures, our business, financial condition and results of operations would continue to be negatively affected.

- A significant number of our suppliers, manufacturers, distributors and vendors have been adversely affected by the COVID-19 pandemic, including with respect to the ability of their employees to get to their places of work and maintain the continuity of their on-site operations. These impacts could impair our ability to move our products through distribution channels to end customers. Any delay or shortage in the supply of components or materials or other operational or logistical challenges may result in our inability to satisfy consumer demand for our products in a timely manner or at all, which could harm our reputation, future sales and profitability. For example, we have experienced and expect to continue to experience supply constraints for amino acid raw materials used in our parenteral nutrition products, as such materials are also being used to produce COVID-19 vaccines.

- We could experience a loss of sales and profitability due to delayed payments, reduced demand or insolvency of healthcare professionals, hospitals and other customers, and suppliers and vendors facing liquidity or other financial issues. These liquidity or other financial issues could be exacerbated if prolonged high levels of unemployment or loss of insurance coverage impact patients' ability to access treatments that use our products and services.

- COVID-19 could adversely impact our ability to retain key employees and the continued service and availability of skilled personnel necessary to run our operations, including members of our management, as well as the ability of our suppliers, manufacturers, distributors and vendors to retain their key employees. To the extent our management or other personnel are impacted in significant numbers by COVID-19 and are not available to perform their professional duties, we could experience delays in, or the suspension of, our manufacturing operations, research and development activities and other functions.

- We face increased operational challenges as we continue to take measures to support and protect employee health and safety, including through office closures and work from home policies. For example, remote working arrangements heighten our risks associated with information technology systems and networks, including cyber-attacks, computer viruses, malicious software, security breaches, and telecommunication failures, both for systems and networks we control directly and for those that employees and third-party developers rely on to work remotely. Any failure to prevent or mitigate security breaches or cyber risks or detect, or respond adequately to, a security breach or cyber risk, or any other disruptions to our information technology systems and networks (as a result of remote working arrangements or otherwise), can have adverse effects on our business and cause reputational and financial harm. These risks are particularly heightened due to COVID-19 as cybercriminals attempt to profit from the disruptions caused by the uncertain environment.

- COVID-19 and related impacts have affected and may further affect the global economy and capital markets worldwide, which, among other consequences, may restrict our access to capital, increase financing costs, adversely affect our liquidity, the perceptions of our creditworthiness, and our ability to complete acquisitions, and increase volatility in foreign currency exchange rates.

The extent of the impact from the pandemic depends on future developments that cannot be predicted at this time, such as the severity and duration of the pandemic (including of related resurgences and future mutations or outbreaks of related strains of the virus); the extent and effectiveness of containment efforts, including the effectiveness and acceptance of any vaccines for COVID-19; and the direct and indirect impact of the pandemic on our employees, customers, counterparties, service providers and regulators, as well as other market participants. Any of these and other impacts of the pandemic could have a material adverse effect on our business, financial condition and results of operations. Finally, to the extent COVID-19 adversely affects our operations and global economic conditions more generally, many of the other risks described in this "Risk Factors" section may be heightened.

Risks Related to Our Ability to Grow Our Business

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 R&D 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 on our business or cause a loss of customer confidence in us or our products, among other negative consequences.

Our success depends upon the availability and quality of our products. The pharmaceutical and medical products industries are 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), seasonality, natural disasters, pandemics, epidemics and other matters. For example, as hospital systems prioritized treatment of COVID-19 patients, elective medical procedures were suspended or postponed in our principal markets, which negatively impacted demand for certain products. 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, loss of market share, negative publicity, reputational damage, loss of customer confidence or other negative consequences (including a decline in stock price). In the event of an oversupply, we may be forced to lower our prices, record asset impairment charges or take other actions, which may adversely affect our business, financial condition and results of operations.

Our success also depends on our ability to maintain and routinely improve product quality and our quality management program. Quality management plays an essential role in meeting customer requirements, preventing defects, improving our products and services and assuring the safety and efficacy of our products. While we have a quality system that covers the lifecycle of our products, quality and safety issues have and may in the future occur with respect to our products. New or unintended uses of our product (for example, in response to COVID-19 or changing clinical practice) may also raise quality or safety issues. A quality or safety issue may result in adverse inspection reports, voluntary or official action indicated, warning letters, import bans, product recalls (either voluntary or required by 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. See "—Risks Related to Legal and Regulatory Matters." 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, we have made and continue 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 us 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.

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 all of our markets 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 business, financial condition and operations will likely be negatively affected. If we are forced to reduce our prices due to increased competition, our business could become less profitable. Our sales could be adversely affected if any of our contracts with GPOs, IDNs or other customers are terminated due to increased competition or otherwise.

In addition, many health care industry companies, including health care systems, distributors, manufacturers, providers, and insurers, are consolidating or have formed strategic alliances. As the health care industry consolidates, competition to provide goods and services to industry participants will become more intense. Further, this consolidation creates larger enterprises with greater negotiating power, which they can use to negotiate price concessions. If we face an increase in costs or must reduce our prices because of industry consolidation, or if we lose customers as a result of consolidation, our business, financial condition and results of operations could be adversely affected.

If our business development activities are unsuccessful, we may not realize the intended benefits.

We expect to continue to engage in business development activities, including evaluating acquisitions, joint development opportunities, technology licensing arrangements and other opportunities. These activities may result in substantial investment of our 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; competition from other companies in the industries in which we operate that are seeking similar opportunities; 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 the other company's 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 R&D 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 not realize the intended benefits of such activities, including that acquisition and integration costs may be greater than expected or the possibility that expected return on investment, synergies and accretion will not be realized or will not be realized within the expected timeframes.

For more information on recent business development activities, see Note 2 in Item 8 of this Annual Report on Form 10-K.

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, information technology and R&D positions. Competition for top talent in the

healthcare industry 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.

Risks Related to Our Business Operations

If we are unable to obtain sufficient components or raw materials on a timely basis or for a cost-effective price or if we experience other manufacturing, sterilization, supply or distribution difficulties, our business and results of operations may be adversely affected.

The manufacture of our products requires, among other things, the timely supply or 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, materials and other requirements for manufacturing from many suppliers and vendors in various countries, including sometimes from ourselves for self-supplied requirements. We endeavor, either alone or working closely with our suppliers, to ensure the continuity of our inputs and supplies but we cannot guarantee these efforts will always be successful. Further, while efforts are made to diversify certain of our sources of components and materials, in certain instances there is only a sole source or supplier with no alternatives yet identified. For most of our components and materials for which a single source or supplier is used, alternative sources or suppliers may exist, but we have made a strategic determination to use the single source or supplier. Although we do carry strategic inventory and maintain insurance to help mitigate the potential risk related to any supply disruption, there can be no assurance that such measures will be sufficient or effective. A reduction or interruption in supply, an issue in the supply chain, including issues due to the revocation of distribution facilities' licenses, and our inability to quickly develop acceptable alternative sources for such supply could adversely affect our ability to manufacture, distribute and sell our products in a timely or cost-effective manner. Moreover, changes in regulation, world trade policies, international taxes and government-to-government relations and issues with export and import activities could negatively impact our ability to distribute products within a country and across countries. See "—Risks Related to Legal and Regulatory Matters." Additionally, volatility in our costs of energy, transportation/freight, components, raw materials and other supply, manufacturing and distribution costs could adversely affect our results of operations. Climate change (including laws or regulations passed in response thereto) could increase our costs, in particular our costs of supply, energy and transportation/freight. Material or sustained increases in the price of oil could have an adverse impact on the cost of many of the plastic materials we use to make and package our products, as well as our transportation/freight costs. These outcomes may in turn result in customers transitioning to available competitive products, loss of market share, negative publicity, reputational damage, loss of customer confidence or other negative consequences (including a decline in stock price).

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, or closure of, a manufacturing facility or storage site due to a natural disaster, such as we experienced as a result of Hurricane Maria, a pandemic, such as COVID-19, or otherwise could adversely affect our ability to manufacture sufficient quantities of key products or deliver products to meet customer demand or contractual requirements, which may result in a loss of revenue and other adverse business consequences (including those identified in the paragraphs above). In addition, several of our manufacturing facilities are leased and we may not be able to renew leases on favorable terms or at all. Because of the time required to approve and license a manufacturing facility, a third-party manufacturer may not be available on a timely basis (if at all) to replace production capacity in the event we lose manufacturing capacity or products are otherwise unavailable. Any of the foregoing could adversely affect our business, financial condition and results of operations.

Some of our products require sterilization prior to sale or distribution, and we utilize both Baxter-owned and third-party facilities for this process. If an event occurs that results in damage to or closure, whether temporarily or permanent, of one or more of these facilities, we may be unable to manufacture or sterilize the relevant products at prior levels or at all, and a third party may not be available on a timely basis (if at all) to replace sterilization capacity.

For example, in February 2020, certain air emission control technology used to reduce ethylene oxide emissions from sterilization equipment at our facility in Mountain Home, Arkansas, was tested and determined not to operate in accordance with applicable emission limitations in our state-issued air permit. Although we received a temporary variance and have recommenced operations, these events or other disruptions of manufacturing or sterilization processes that we or third parties may experience, whether due to lack of capacity, environmental, regulatory or compliance issues or otherwise, could result in product shortage, unanticipated costs, loss of revenues, litigation and damage to our reputation, all of which could have a material adverse effect on our business, financial condition and results of operations.

Breaches and breakdowns affecting our information technology systems or protected data, including from cyber security breaches and data leakage, could have a material adverse effect on our business, results of operations, financial condition, cash flows, reputation and competitive position.

We rely upon information technology systems and infrastructure, including support provided by our partners and third parties, to support our business, our products and our customers. For example, we routinely rely on our technology systems and infrastructure to aid us in the collection, use, storage and transfer, disclosure and other processing of voluminous amounts of data including confidential, business, financial, personal, patient and other sensitive information (collectively, Confidential Information). We also rely on systems for manufacturing, customer orders, shipping, regulatory compliance and various other matters. Certain of our products and systems collect data regarding patients and their therapy and some are internet enabled or connect to our systems for maintenance and other purposes. Some of our products, even though not internet enabled nor connected to our systems, connect to hospital networks, electronic medical records or electronic health records. The continuing evolution of technology we use, including cloud-based computing, and reliance on third parties creates additional opportunities for the unintentional, intentional and/or unauthorized exposure, dissemination and/or destruction of Confidential Information stored in our devices, systems, servers, infrastructure and products (collectively, Technology). Security threats, including cyber and other attacks, are becoming increasingly sophisticated, frequent, and adaptive.

Our Technology is vulnerable to breakdown, interruption, cyber and other security attacks, system malfunction, unauthorized access, inadvertent exposure or disclosure of information, theft and other events. Third-party systems that we rely upon could also become vulnerable to the same risks and may contain defects in design or manufacture or other problems that could result in system disruption or compromise the information security of our own systems. Any such vulnerability could compromise our Technology and could expose Confidential Information to unauthorized third parties and/or cause permanent loss of such data. In addition to loss of Confidential Information, unauthorized access to or interference with our Technology may cause product functionality issues that may result in risk to patient safety, field actions and/or product recalls. We have, like other large multi-national companies, experienced cyber incidents in the past and may experience them in the future, which have exposed and may continue to expose vulnerabilities in our information technology systems. Although the prior incidents have not had a material effect on our business and we have invested and continue to invest in the protection of data and Technology, there can be no assurance that our efforts will prevent breakdowns, attacks, breaches in our Technology, cyber incidents or other incidents or ensure compliance with all applicable security and privacy laws, regulations and standards, including with respect to third-party service providers that host or process Confidential Information on our behalf. Such incidents could result in unauthorized access to patient data and other Confidential Information and could pose a risk to patient safety. Any failure to protect against such incidents can lead to substantial and material regulatory fines and penalties, business disruption, reputational harm, financial loss, litigation as well as other damages. Misappropriation or other loss of our intellectual property from any of the foregoing may have an adverse effect on our competitive position and may cause us to incur substantial litigation costs. See "—Risks Related to Legal and Regulatory Matters." As the FDA, other regulators and our customers become more sensitive to risks related to cybersecurity, our ability to meet certain information technology safety standards could affect our products' marketability and competitiveness. We could also suffer strained relationships with customers, business partners, physicians and other healthcare professionals, increased costs (for security measures, remediation or otherwise), litigation (including class actions and stockholder derivative actions) or other negative consequences (including a decline in stock price) from breaches, cyber and other security attacks, industrial espionage, ransomware, email or phishing scams, 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.

In addition, significant implementation issues may arise as we continue to consolidate and outsource certain computer operations and application support activities. Further, a greater number of our employees are working remotely in response to the COVID-19 pandemic and related government actions, which (among other things) could

expose us to greater risks related to cybersecurity and our information technology systems. We also face all of the same risks listed above and other heightened risks when acquiring a company, in particular if we need to transition or implement certain processes or controls with the acquired company.

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, tariffs, export control restrictions, changes in or violations of U.S. or local laws, dependence on a few government entities as customers, pricing restrictions, economic and political instability, monetary or currency volatility or instability (including as it relates to the U.S. dollar, the Euro, the Yuan and currencies in emerging market countries), disputes between countries, trade relationships and conflicts, diminished or insufficient protection of intellectual property, and disruption or destruction of operations in a significant geographic region regardless of cause, including natural disaster, pandemic, power loss, cyber-attack, data breach, war, terrorism, riot, labor disruption, 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.

On January 31, 2020, the United Kingdom (UK) formally left the European Union (EU) (commonly known as Brexit) when the UK-EU Withdrawal Agreement became effective. Under the Withdrawal Agreement, a transition period began that ran until December 31, 2020. On January 1, 2021, the UK left the EU Single Market and Customs Union, as well as all EU policies and international agreements. As a result, the free movement of persons, goods, services and capital between the UK and the EU ended, and the EU and the UK formed two separate markets and two distinct regulatory and legal spaces. On December 24, 2020, the European Commission reached a trade agreement with the UK on the terms of its future cooperation with the EU (Trade Agreement). The Trade Agreement offers UK and EU companies preferential access to each other's markets, ensuring imported goods will be free of tariffs and quotas; however, economic relations between the UK and the EU will now be on more restricted terms than existed previously. The withdrawal by the UK from the EU could result in the deterioration of economic conditions, volatility in currency exchange rates, and increased regulatory complexities, as well as the potential for product shortages, increased costs or other similar effects. These outcomes could have an adverse effect on our business, financial condition or results of operations.

The escalating global economic competition and trade tensions between the U.S. and China could have an adverse effect on our business, financial condition or results of operations. Although we have been able to mitigate some of the impact from increased duties imposed by both countries (through petitioning both governments for tariff exclusions and other mitigations), the risk remains of additional tariffs and other kinds of restrictions. Tariff exclusions awarded to us by the U.S. Government require annual renewal, and policies for granting exclusions could shift. The U.S. and China could impose other types of restrictions such as limitations on government procurement or technology export restrictions, which could affect our access to the markets.

More generally, several governments including the U.S. have raised the possibility of policies to induce "re-shoring" of supply chains, less reliance on imported supplies, and greater national production. One example would be the stronger "Buy American" requirements in the U.S. (pursuant to a U.S. executive order by the new Administration on January 25, 2021) or U.S. withdrawal from the World Trade Organization Agreement on Government Procurement (GPA). If such steps triggered retaliation in other markets, such as by restricting access to foreign products in purchases by their government-owned healthcare systems, the outcomes could have an adverse effect on our business, financial condition or results of operations.

Risks Related to Legal and Regulatory Matters

We are subject to a number of 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. The same testing and procedures sometimes apply to current products that are up for authorization or renewal or are subject to changes in laws or regulations (for example certain of our medical devices will have to comply with the new European Union Medical Device Regulation when it enters into force in May 2021). Changes to current products may be subject to vigorous review, including additional 510(k) and other regulatory submissions, and approvals or the time needed to secure 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, voluntary or official action indicated, warning letters, import bans, product recalls or seizures, monetary sanctions, reputational damage, 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 us 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 us will not occur, that we 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 our 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 SEC 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, pricing, 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 (as amended, the PPACA), can be complicated, are subject to frequent change and may be violated unknowingly.

We are also subject to environmental laws, which are becoming more stringent throughout the world. For example, the EPA regulates the use of ethylene oxide for sterilization of medical devices, as is increasingly focused on reducing emissions from the ethylene oxide sterilization process, which has increased our costs of operations and necessitated changes to our manufacturing plants and processes. Other environmental laws may have similar consequences to us or our suppliers, or result in liability to us. The enactment of additional laws in the future may increase our compliance costs or otherwise adversely impact our operations.

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, or with governments, entities and individuals subject to U.S. economic sanctions. From time to time,

certain of our subsidiaries have limited business dealings with countries subject to these sanctions, including Iran, Sudan, Syria, Russia and Cuba. These dealings represent an insignificant amount of our consolidated revenues and income but expose us to an increased risk of operating in these countries, including foreign exchange risks or restrictions or limitations on our ability to access funds generated in these jurisdictions, or the risk of violating applicable sanctions or 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 or exclusion 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 our ongoing government investigations, please refer to Note 7 in Item 8 of this Annual Report on Form 10-K. For more information on regulatory matters currently affecting us, including quality-related matters, refer to the discussion under the caption entitled “Certain Regulatory Matters” in Item 7 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 costs associated with compliance or to alter one or more of our sales and marketing practices and may subject us to enforcement actions or litigation which could adversely affect our business, financial condition and results of operations.

Increasing regulatory focus on privacy and security issues and expanding laws could impact our business and expose us to increased liability.

As a global company, we are subject to global data privacy and security laws, regulations and codes of conduct that apply to our businesses. We are required to comply with increasingly complex and changing legal and regulatory requirements that govern the collection, use, storage, security, transfer, disclosure and other processing of personal data in the United States and in other countries, including, but not limited to, The Health Insurance Portability and Accountability Act, as amended (HIPAA), The Health Information Technology for Economic and Clinical Health Act, the California Consumer Privacy Act (CCPA), and the European Union’s General Data Protection Regulation (GDPR). The GDPR imposes stringent European Union data protection requirements and provides for significant penalties for noncompliance. HIPAA also imposes stringent data privacy and security requirements and the regulatory authority has imposed significant fines and penalties on organizations found to be out of compliance. CCPA provides consumers with a private right of action against companies who have a security breach due to lack of appropriate security measures. We or our third-party providers and business partners may also be subjected to audits or investigations by one or more domestic or foreign government agencies relating to compliance with information security and privacy laws and regulations, and noncompliance with the laws and regulations could result in substantial and material fines or class action litigation.

If reimbursement or other payment for our current or future products is reduced or modified in the United States or in foreign countries, including through the implementation or repeal of government-sponsored healthcare reform or other similar actions, cost containment measures, or changes to policies with respect to pricing, taxation or rebates, 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 healthcare insurers in the United States and foreign governments and third-party payers outside the United States. Our work with government payers carries various risks inherent in working with government entities and agencies, including government reporting and auditing, additional regulatory oversight, mandated contractual terms, failure of government appropriations or other complex procedural requirements.

Public and private payers are increasingly challenging the prices charged for medical products and services. We may continue to experience 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, which are 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.

The PPACA 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. Certain portions of the PPACA could negatively impact the demand for our products, and therefore our results of operations and financial position.

There have been multiple attempts to repeal or amend the PPACA through legislative action and legal challenges, and the most recent challenge is currently before the U.S. Supreme Court. Recent changes to the composition of the Supreme Court may increase the likelihood that the PPACA is repealed or impacted in some manner. In the event the PPACA is repealed or significantly altered, it would impact our business in a number of ways, some of which may be material.

Following a 2019 executive order from former President Donald Trump, the U.S. Department of Health and Human Services announced the launch of a new kidney health initiative. The Centers for Medicare & Medicaid Services (CMS) published the final end stage renal disease Treatment Choices mandatory payment model (ETC) on September 18, 2020. The ETC launched in 30% of dialysis clinics across the country on January 1, 2021 and creates payment incentives for the greater use of home dialysis and kidney transplants for those already on dialysis. CMS also announced the implementation of four voluntary payment models with the stated goal of helping healthcare providers reduce the cost and improve the quality of care for patients with late-stage chronic kidney disease and ESRD. CMS has stated these payment models are aimed to prevent or delay the need for dialysis and encourage kidney transplantation. These voluntary payment models have a scheduled commencement date of April 2021, but applicants now have the option to delay implementation until January 2022. These proposed regulatory changes in kidney health policy and reimbursement may substantially change the U.S. end stage renal disease market and could increase demand for our peritoneal dialysis products, necessitating significant multi-year capital expenditures in order to meet that demand. However, the impact of such changes and related expenses are difficult to estimate in advance.

In addition, a substantial portion of our revenues is dependent on federal healthcare program reimbursement, and any disruptions in federal government operations, including a federal government shutdown or failure of the U.S. government to enact annual appropriations, could have a material adverse effect on our business, financial condition and results of operations. Additionally, disruptions in federal government operations may negatively impact regulatory approvals and guidance that are important to our operations, and create uncertainty about the pace of upcoming healthcare regulatory developments or approvals.

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.

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 us from selling certain products or including key features in our 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. An unfavorable litigation outcome 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, confidential information 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.

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

Changes to the tax laws in the United States or other countries in which we operate could have an adverse effect on our operating results. In particular, the Tax Cuts and Jobs Act of 2017 and the regulations issued thereunder (collectively, 2017 Tax Act), including, among other things, certain changes in tax rates, deductibility of interest, deductibility of executive compensation expense, expensing of capital expenditures, the ability to use certain tax credits, taxation on earnings from international business operations, and the treatment of deductible payments made by our U.S. affiliates to our foreign affiliates could adversely affect our financial condition and results of operations. In certain instances, the 2017 Tax Act could have a negative effect on our tax rate and the carrying value of tax balances. Any of these changes could adversely affect our financial performance. There remains some uncertainty regarding aspects of the implementation of the 2017 Tax Act that could potentially have adverse impacts on us. We cannot currently predict the full impact that the 2017 Tax Act may have over time on our business, including revenues, profit margins, profitability, operating cash flows and results of operations. For more information regarding the impact of the 2017 Tax Act, see Note 12 in Item 8 of this Annual Report on Form 10-K. Similarly, the outcome of various initiatives currently being undertaken by the Organization of Economic Cooperation and Development could significantly impact how we allocate profits across multiple jurisdictions, which could adversely impact our global tax obligations.

Taxing authorities audit us from time to time and may disagree with certain positions we have taken in respect of our tax liabilities. Our tax liabilities are affected by many factors, including the amounts we charge in intra-company transactions for inventory, services, licenses, funding and other items, which are subject to the use of assumptions and judgment. 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 intra-company business in accordance with arm's-length principles, tax authorities may disagree with our intra-company charges, cross-jurisdictional transfer pricing or other matters, and may assess additional taxes as a result, including in connection with their review of the restated financial statements we have filed as part of our 2019 Annual Report on Form 10-K.

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 12 in Item 8 of this Annual Report on Form 10-K.

We are party to a number of pending lawsuits and other disputes which may have an adverse impact on our business, operations or financial condition.

We are party to a number of pending lawsuits, settlement discussions, mediations, arbitrations and other disputes. In addition, in the future we may be party to such disputes, including patent, product liability or other lawsuits. These current and future matters may result in a loss of patent protection, reduced revenue, incurrence of significant liabilities and diversion of our management’s time, attention and resources. Given the uncertain nature of litigation and other disputes 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 and other disputes, including any adverse outcomes, may have an adverse impact on our business, operations or financial condition. Even claims without merit could subject us to adverse publicity and require us to incur significant legal fees. See Note 7 in Item 8 of this Annual Report on Form 10-K for more information regarding current lawsuits.

We identified certain misstatements to our previously issued financial statements and have restated the financial statements described below (the “restatement”), which has exposed us to a number of additional risks and uncertainties.

As discussed in the Explanatory Note, in Note 2, Restatement of Previously Issued Consolidated Financial Statements, and in Note 19, Quarterly Financial Data (Unaudited) in our 2019 Annual Report on Form 10-K, we restated certain of our previously issued audited and unaudited consolidated financial statements and selected financial information to correct misstatements of certain foreign exchange gains and losses from foreign currency denominated intra-company loan receivables and payables, cash balances and gains and losses from foreign currency derivative contracts, which we determined were material to these periods.

As a result of the misstatements and the restatement, we have become subject to additional risks and uncertainties and costs, including as a result of a pending class-action lawsuit and a stockholder request for inspection of our books and records. As initially disclosed on October 24, 2019, we also voluntarily advised the staff of the SEC of our previously disclosed internal investigation and we are continuing to cooperate with the staff of the SEC. We may become subject to enforcement proceedings brought by the SEC or other regulatory or governmental authorities, or subject to other legal proceedings, as a result of the events leading to our internal investigation, the misstatements or the related restatement, and actions and proceedings could also be brought against our current and former employees, officers, or directors. These actions, lawsuits or other legal proceedings related to the misstatements or the restatement could result in reputational harm, additional defense and other costs, regardless of the outcome of the lawsuit or proceeding. If we do not prevail in any such lawsuit or proceeding, we could be subject to substantial damages or settlement costs, criminal and civil penalties and other remedial measures, including, but not limited to, injunctive relief, disgorgement, civil and criminal fines and penalties. In addition, we continue to be at risk for loss of investor confidence, loss of key employees, changes in management or our board of directors and other reputational issues, all of which could have a material adverse effect on our business, financial position and results of operations.

Risks Related to the Economy and Our Financial Performance

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

Our ability to generate cash flows from operations could be affected if there is a material decline in the demand for our products, in the solvency of our customers or suppliers, or deterioration in our 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 and Italy, which have experienced deterioration in credit and economic conditions. While global economic conditions have not significantly impacted our 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 U.S. dollar, Euro or Yuan.

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 have been and may in the future 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, including in 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 market conditions are not favorable. 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.

Our operating results and financial condition may fluctuate.

Our operating results and financial condition may fluctuate from quarter to quarter and year to year for a number of reasons. Events, such as a delay in product development, changes to our expectations or strategy or even a relatively small revenue shortfall may cause financial results for a period to be below our expectations or projections. As a result, we believe that period-to-period comparisons of our results of operations are not necessarily meaningful, and these comparisons should not be relied upon as an indication of future performance. Our operating results and financial condition are also subject to fluctuation from all of the risks described throughout this section. These fluctuations may adversely affect our results of operations and financial condition and our stock price.

We may not achieve our financial goals.

We continue to evaluate and refine both our short-term and long-term financial objectives. These include, for example, our stated objective to improve our gross margin. Our strategy to achieve these objectives is focused on strengthening our portfolio and extending our impact through transformative innovation that spans prevention to recovery. As part of this strategy, we intend to invest in portfolio innovation and market development and entering adjacencies while continuing to drive operational excellence through ongoing business transformation efforts and organization optimization. We will also look to unlock additional value through strategic capital deployment. We may fail to achieve our targeted financial results if we are unsuccessful in implementing our strategies, our estimates or assumptions change or for any other reason. Our failure to achieve our financial goals could have a material adverse effect on our business, financial condition and results of operations.

Future material impairments in the value of our long-lived assets, including goodwill, could negatively affect our operating results.

We regularly review our long-lived assets, including identifiable intangible assets, goodwill (which results from our acquisition activity) and property, plant and equipment, for impairment. Goodwill and acquired indefinite life intangible assets are subject to impairment review on an annual basis and whenever potential impairment indicators are present. Other long-lived assets are reviewed when there is an indication that impairment may have occurred. Changes in market conditions or other changes in the future outlook of value may lead to impairment charges in the future. In addition, we may from time to time sell assets that we determine are not critical to our strategy, including in connection with strategic exits. Future events or decisions may lead to asset impairments and/or related charges. Certain non-cash impairments may result from a change in our strategic goals, business direction or other factors relating to the overall business environment. Material impairment charges could negatively affect our results of operations. For more information on the valuation and impairment of long-lived assets, refer to the discussion under the caption entitled “Critical Accounting Policies” in Item 7 of this Annual Report on Form 10-K.

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 separation 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 merger between Baxalta and Shire (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 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 required to bear these costs initially, which could negatively affect our business, results of operations and financial condition.

Item 1B. Unresolved *Staff Comments.*

None.

Item 2. *Properties.*

Our corporate offices are owned and located at One Baxter Parkway, Deerfield, Illinois 60015.

We own or have long-term leases on all of our manufacturing facilities. The location of the principal manufacturing facilities of each of our geographic segments are listed below:

Region	Location	Owned/Leased
Americas		
	Aibonito, Puerto Rico	Leased
	Alliston, Canada	Owned
	Cali, Colombia	Owned
	Cartago, Costa Rica	Owned
	Cuernavaca, Mexico	Owned
	Guayama, Puerto Rico	Owned
	Haina, Dominican Republic	Leased
	Hayward, California	Leased
	Round Lake, Illinois	Owned
	Bloomington, Indiana	Owned/Leased(1)
	Cleveland, Mississippi	Leased
	Medina, New York	Leased
	Jayuya, Puerto Rico	Leased
	Opelika, Alabama	Owned
	Brooklyn Park, Minnesota	Leased
	Pesa, Mexico	Leased
	Sao Paulo, Brazil	Owned
	Tijuana, Mexico	Owned
	Mountain Home, Arkansas	Owned/Leased(1)
	North Cove, North Carolina	Owned
	St. Paul, Minnesota	Leased
	Irvine, California	Owned
	Mountain View, California	Leased
APAC		
	Ahmedabad, India	Owned
	Guangzhou, China	Owned
	Shanghai, China	Owned
	Suzhou, China	Owned
	Toongabbie, Australia	Owned
	Woodlands, Singapore	Owned/Leased(2)
	Canlubang, Philippines	Leased
	Amata, Thailand	Owned
	Tianjin, China	Owned
	Miyazaki, Japan	Owned
EMEA		
	Castlebar, Ireland	Owned
	Grosotto, Italy	Owned
	Halle, Germany	Owned
	Hechingen, Germany	Leased
	Lessines, Belgium	Owned
	Liverpool, United Kingdom	Leased
	Lund, Sweden	Leased
	Marsa, Malta	Owned
	Medolla, Italy	Owned
	Meyzieu, France	Owned
	Rostock, Germany	Leased
	Sabinanigo, Spain	Owned
	San Vittore, Switzerland	Owned
	Sondalo, Italy	Owned
	Swinford, Ireland	Owned
	Thetford, United Kingdom	Owned
	Tel Aviv, Israel	Leased
	Elstree, United Kingdom	Leased
	Tunis, Tunisia	Owned
	Dammam, Saudi Arabia	Owned

(1) Includes both owned and leased facilities.
(2) We own the facility located at Woodlands, Singapore and lease the property upon which it rests.

We also own or operate 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; Cataño, Puerto Rico; North Cove, North Carolina; and Round Lake, Illinois. Internationally, we have more than 100 shared distribution facilities located in Argentina, Australia, Austria, Belgium, Brazil, 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, and the United Kingdom.

We continually evaluate our plants and production lines and believe that our current facilities plus any planned expansions are generally sufficient to meet our 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 7 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 11, 2021, the following serve as Baxter's executive officers:

José E. Almeida, age 58, is Chairman, President and Chief Executive Officer, having served in that capacity since January 2016. He began serving as an executive officer of the company in October 2015. He served as Senior Advisor with The Carlyle Group from May 2015 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 (Medtronic) 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 (Tyco)) between April 2004 and June 2011. Mr. Almeida is a member of the Board of Directors of Walgreens Boots Alliance, Inc.

Giuseppe Accogli, age 50, is Senior Vice President and President, Americas. Prior to his current role, Mr. Accogli served as Senior Vice President and President, Global Businesses, from 2017 to 2019. He also served as Corporate Vice President and President, Renal from 2016 to 2017 and as Head of the U.S. region for Baxter's Renal business from 2015 to 2016. Mr. Accogli joined Baxter 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. Previously he worked as a Business Unit Manager and Sales and Marketing Manager for Medtronic plc in Italy, and in several sales, product and marketing roles for Tyco and then Covidien in Italy and EMEA. Mr. Accogli has served as a director to AdvaMed, an American medical device trade association, since September 25, 2019.

James Borzi, age 58, is Senior Vice President, Chief Supply Chain Officer. He joined Baxter in August 2020 from GE Healthcare, where he served as Vice President, Chief Supply Chain Officer from 2019 to 2020. Prior to joining GE Healthcare, he spent five years with Becton Dickinson (BD) in various manufacturing operations leadership roles; his last role with BD was Executive Vice President of Global Operations and Chief Supply Chain Officer. Earlier in his career, he was Senior Vice President of Operations & Technology at Hydro Aluminum and Executive Vice President of Worldwide Operations at Lennox International. Prior to that, he was the Chief Operating Officer at AEES and Senior Vice President of Americas Operations at Alcoa.

Cristiano Franzi, age 58, is Senior Vice President and President, EMEA. Mr. Franzi joined Baxter in September 2017 from Medtronic, where he served as Vice President and President, Minimally Invasive Therapies Group EMEA from 2015 to August 2017. He served as President EMEA at Covidien prior to Medtronic's acquisition of Covidien. He joined Covidien in 2009 and held roles of increasing responsibility during his tenure. He held a number of commercial and functional roles across Europe, the Middle East and Africa at ev3 Endovascular, Inc., Boston Scientific Corporation and Becton, Dickinson & Co. earlier in his career. He served as a member of the board of Eucomed Medical Technology from 2013 to 2015 and again from 2018 to 2019.

Andrew Frye, age 55, is Senior Vice President and President, APAC. Mr. Frye joined Baxter in 2017 from DKSH Holdings Ltd., where he served as Global Head of Healthcare from 2015 to 2017. In that role, he oversaw a portfolio of pharmaceuticals, over-the-counter and device products across 13 countries. Previously, he served as Vice President of Business Development from 2011 to 2014 for DKSH Healthcare. Earlier in his career, he held a number of commercial roles with increasing responsibility at Abbott Laboratories' Pharmaceutical and Nutrition divisions.

Jacqueline Kunzler, Ph.D., age 55, is Senior Vice President and Chief Quality Officer. Ms. Kunzler joined Baxter in 1993 and has served in roles of increasing responsibility across Baxter's research & development, international marketing, and quality organizations, most recently as Senior Vice President, Chief Quality Officer.

Sean Martin, age 58, is Senior Vice President and General Counsel. Mr. Martin joined Baxter in 2017 from Apollo Education Group, Inc., where he served as Senior Vice President, General Counsel and Secretary from 2010 to 2017. Previously, he served as Assistant Secretary (2010), Vice President of Corporate Law (2009 to 2010) and Vice President of Commercial Law (2005 to 2009) for Amgen Inc. He also served as Vice President and Deputy General Counsel at Fresenius Medical Care North America from 2000 to 2005. Mr. Martin was a Partner at the law firm Foley & Lardner LLP from 1998 to 2000 and served eight years as Assistant U.S. Attorney for the Northern District of Illinois.

Jeanne K. Mason, Ph.D., age 65, is Senior Vice President, Human Resources. Ms. Mason joined Baxter in 2006 from GE Insurance Solutions, a primary insurance and reinsurance business, where she was responsible for global human resource functions. Ms. Mason began her career with General Electric (GE) in 1988 after serving with the U.S. General Accounting Office in Washington, D.C. Her GE experience included leadership roles in Europe for GE Information Services and GE Capital Real Estate. She is a member of the Board of Directors of Family Service of Lake County and is a member of the Executive Advisory Council for the Chicago Chapter of National Association of African Americans in Human Resources.

James K. Saccaro, age 48, is Executive Vice President and Chief Financial Officer. Mr. Saccaro was Senior Vice President and Chief Financial Officer at Hill-Rom Corporation prior to rejoining Baxter in 2014. He originally joined the company in 2002 as Manager of Strategy for the company's BioScience business, and over the years assumed positions of increasing responsibility, including Vice President of Financial Planning, Vice President of Finance for the company's operations in Europe, the Middle East and Africa and Corporate Vice President and Treasurer. He previously held strategy and business development positions at Clear Channel Communications and the Walt Disney Company.

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.*

Issuer Purchases of Equity Securities

The following table includes information about our common stock repurchases during the three-month period ended December 31, 2020.

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs(1)	Approximate Dollar Value of Shares that may yet be Purchased Under the Program(1)
October 1, 2020 through October 31, 2020	—	$ —	—	
November 1, 2020 through November 30, 2020	—	$ —	—	
December 1, 2020 through December 31, 2020	6,343,100	$ 78.85	6,343,100	
Total	6,343,100	$ 78.85	6,343,100	$ 1,897,272,535

(1) On July 25, 2012, we announced that our Board of Directors authorized us to repurchase up to $2.0 billion of our common stock on the open market or in private transactions. The Board of Directors increased this authority by $1.5 billion in each of November 2016 and February 2018, by an additional $2.0 billion in November 2018 and by an additional $1.5 billion in October 2020. During the fourth quarter of 2020, we repurchased approximately 6.3 million shares for $500 million in cash pursuant to this authority through a Rule 10b5-1 purchase plan. The remaining authorization under this program totaled approximately $1.9 billion at December 31, 2020. This program does not have an expiration date.

Market Information and Holders of our Common Stock

Our common stock is listed on the New York, Chicago and SIX Swiss stock exchanges. The New York Stock Exchange is the principal market on which our common stock is traded under the symbol "BAX". As of January 29, 2021, there were 22,017 holders of record of our common stock.

Performance Graph

The following graph compares the change in our cumulative total stockholder return (including reinvested dividends) on our common stock with the Standard & Poor's 500 Composite Index and the Standard & Poor's 500 Health Care Index over the past five years.

Item 6. ***Selected Financial Data.***

The following selected consolidated financial data should be read in conjunction with our consolidated financial statements and the accompanying notes thereto in Item 8 of this Annual Report on Form 10-K, and the information contained in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations of this Annual Report on Form 10-K.

as of or for the years ended December 31			**2020**	2019[1]	2018	2017	Unaudited 2016[2]
Operating Results	Net sales	**$**	**11,673**	11,362	11,099	10,584	10,133
(in millions)	Income from continuing operations	**$**	**1,110**	1,011	1,552	609	4,936
	Loss from discontinued operations, net of tax	**$**	**—**	—	(6)	(7)	(1)
	Net income attributable to Baxter stockholders	**$**	**1,102**	1,001	1,546	602	4,935
	Earnings per share from continuing operations						
	Basic	**$**	**2.17**	1.97	2.91	1.12	9.04
	Diluted	**$**	**2.13**	1.93	2.84	1.10	8.96
	Loss per share from discontinued operations						
	Basic	**$**	**—**	—	(0.01)	(0.01)	—
	Diluted	**$**	**—**	—	(0.01)	(0.02)	—
	Earnings per share						
	Basic	**$**	**2.17**	1.97	2.90	1.11	9.04
	Diluted	**$**	**2.13**	1.93	2.83	1.08	8.96
	Weighted-average number of shares outstanding						
	Basic		**509**	509	534	543	546
	Diluted		**517**	519	546	555	551
Balance Sheet Information	Total assets	**$**	**20,019**	18,193	15,720	17,102	15,459
(in millions)	Total liabilities	**$**	**11,293**	10,281	7,854	7,993	7,238
	Total equity	**$**	**8,726**	7,912	7,866	9,109	8,221
	Long-term debt and finance lease obligations	**$**	**5,786**	4,809	3,481	3,512	2,774
Cash Flow Information	Cash flows from operations - continuing operations	**$**	**1,870**	2,110	2,017	1,730	1,588
(in millions)	Cash flows from investing activities - continuing operations	**$**	**(1,179)**	(1,100)	(916)	(1,292)	(716)
	Cash flows from financing activities	**$**	**(345)**	498	(2,603)	93	(324)
	Capital expenditures - continuing operations	**$**	**(709)**	(696)	(659)	(616)	(705)
Common Stock Information	Cash dividends declared per share	**$**	**0.955**	$ 0.850	$ 0.730	$ 0.610	$ 0.505

1. Income from continuing operations for the year ended December 31, 2019 included a pre-tax charge of $755 million ($568 million, or $1.09 per diluted share, on an after-tax basis) related to the annuitization of a portion of our U.S. pension plan.

2. Income from continuing operations for the year ended December 31, 2016 included pre-tax net realized gains of $4.4 billion ($4.4 billion, or $8.07 per diluted share, on an after-tax basis) related to the disposition of our formerly retained shares in Baxalta (Baxalta Retained Shares).

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

We manage our business based on three geographic segments: Americas (North and South America), EMEA (Europe, Middle East and Africa) and APAC (Asia-Pacific). Each of our segments provides a broad portfolio of essential healthcare products including acute and chronic dialysis therapies; sterile IV solutions; infusion systems and devices; parenteral nutrition therapies; inhaled anesthetics; generic injectable pharmaceuticals; and surgical hemostat and sealant products. These products are used by hospitals, kidney dialysis centers, nursing homes, rehabilitation centers, doctors' offices and patients at home under physician supervision. Our global footprint and the critical nature of our products and services play a key role in expanding access to healthcare in emerging and developed countries.

For financial information about our segments, see Note 16 in Item 8 of this Annual Report on Form 10-K.

Recent Business Combinations and Asset Acquisitions

Seprafilm Adhesion Barrier

In February 2020, we completed the acquisition of the product rights to Seprafilm Adhesion Barrier (Seprafilm) from Sanofi for approximately $342 million in cash. Seprafilm is indicated for use in patients undergoing abdominal or pelvic laparotomy as an adjunct intended to reduce the incidence, extent and severity of postoperative adhesions between the abdominal wall and the underlying viscera such as omentum, small bowel, bladder, and stomach, and between the uterus and surrounding structures such as tubes and ovaries, large bowel, and bladder. Refer to Note 2 in Item 8 of this Annual Report on Form 10-K for additional information regarding the acquisition of Seprafilm.

Cheetah Medical

In October 2019, we acquired 100 percent of Cheetah Medical, Inc. (Cheetah) for total cash consideration of $188 million, net of cash acquired, with the potential for additional cash consideration, up to $40 million, based on clinical and commercial milestones for which the acquisition date fair value was $18 million. Cheetah is a leading provider of hemodynamic monitoring technologies. Refer to Note 2 in Item 8 of this Annual Report on Form 10-K for additional information regarding the acquisition of Cheetah.

Recothrom and Preveleak

In March 2018, we acquired two hemostat and sealant products from Mallinckrodt plc: Recothrom Thrombin topical (Recombinant), the first and only stand-alone recombinant thrombin, and Preveleak Surgical Sealant, which is used in vascular reconstruction. The purchase price included an upfront payment of approximately $163 million and potential contingent payments in the future. Refer to Note 2 in Item 8 of this Annual Report on Form 10-K for additional information regarding the acquisition of the Recothrom and Preveleak products.

Transderm Scop

In February 2021, we agreed to acquire the rights to Transderm Scop from subsidiaries of GlaxoSmithKline for an upfront purchase price of $55 million plus the cost of acquired inventory and the potential for additional cash consideration of $30 million based upon a successful technology transfer by a specified date. We currently sell this product under a distribution license to the U.S. institutional market. Transderm Scop is indicated for post-operative nausea and vomiting in the U.S. and motion sickness in European markets. We expect the transaction to close late in the first quarter or early in the second quarter of 2021, subject to the satisfaction of closing conditions.

Caelyx and Doxil

In December 2020, we agreed to acquire the rights to Caelyx and Doxil, the branded versions of liposomal doxorubicin, from a subsidiary of Johnson & Johnson for specified territories outside of the U.S for $325 million. We previously acquired the U.S. rights to this product in 2019. Liposomal doxorubicin is a chemotherapy medicine used

to treat various types of cancer. We expect the transaction to close late in the first quarter or early in the second quarter of 2021, subject to the satisfaction of regulatory approvals and other closing conditions.

Financial Results

Our global net sales totaled $11.7 billion in 2020, an increase of 3% over 2019 on both a reported and constant currency basis. International sales totaled $6.8 billion in 2020, an increase of 4% compared to 2019 on a reported basis and 5% on a constant currency basis. Sales in the United States totaled $4.9 billion in 2020, an increase of 1% compared to 2019. Refer to the Net Sales discussion in the Results of Operations section below for more information related to changes in net sales on a constant currency basis.

Our income from continuing operations totaled $1.1 billion, or $2.13 per diluted share, in 2020. Income from continuing operations in 2020 included special items which resulted in a net decrease to income from continuing operations of $495 million, or $0.96 per diluted share. Our special items are discussed in the Results of Operations section below.

Our financial results included R&D expenses totaling $521 million in 2020, which reflects our focus on balancing investments to support our new product pipeline with efforts to optimize overall R&D spending.

Our financial position remains strong, with operating cash flows from continuing operations totaling $1.9 billion in 2020. We have continued to execute on our disciplined capital allocation framework, which is designed to optimize stockholder value creation through reinvestment in our businesses, dividends and share repurchases, as well as acquisitions and other business development initiatives as discussed in the Strategic Objectives section below.

Capital expenditures totaled $709 million in 2020 as we continue to invest across our businesses to support future growth, including additional investments in support of new and existing product capacity expansions. Our investments in capital expenditures in 2020 were focused on projects that improve production efficiency and enhance manufacturing capabilities to support our strategy of geographic expansion with select investments in growing markets.

We also continued to return value to our stockholders in the form of dividends. During 2020, we paid cash dividends to our stockholders totaling $473 million. Additionally, in 2020 we repurchased 6.3 million shares through cash repurchases pursuant to a Rule 10b5-1 repurchase plan. For information on our share repurchase plans, see Note 8 in Item 8 of this Annual Report on Form 10-K.

Strategic Objectives

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

Optimizing the Core Portfolio Globally

Our global product portfolio optimization strategy identifies products that we believe to have characteristics of core growth, products that we expect to provide us with a core return on capital, products that we intend to maintain or manage differently and products that we consider to be strategic bets. For products with core growth characteristics, we look to invest for long-term, higher margin growth. For products that we expect to generate a core return on capital, we seek to optimize our return on investment and to maintain or enhance our market position. For products that we intend to maintain or manage differently, we look to sustain or reposition our underlying investment. Finally, we are evaluating our market position and investment strategy for products that we consider to be strategic bets.

As part of our portfolio management strategy, we seek to optimize our position in product areas where we have a stable, profitable business model, identify and alter investments in products that have reached the end of their life

cycles or for which market positions have evolved unfavorably. In the course of doing so, we expect to continue to reallocate capital to more promising opportunities or business groupings, as described above.

As part of this strategy, we are shifting our investments to drive innovation in product areas where we have compelling opportunities to serve patients and healthcare professionals while advancing our business and we are accelerating the pace in which we bring these advances to market. We are in the midst of launching several new products, geographic expansions and line extensions by 2023 including 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, improvements on existing technologies, and the expansion of current products into new geographies.

Operational Excellence

We have undertaken a comprehensive review of all aspects of our operations and are actively implementing changes in line with our business goals. As part of our pursuit of improved margin performance, we are working to optimize our cost structure and we are critically assessing optimal support levels in light of our ongoing portfolio optimization efforts. We intend to continue to actively manage our cost structure to help ensure that we are 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 our stockholders.

Maintaining Disciplined and Balanced Capital Allocation

Our capital allocation strategies include the following:

- reinvest in the business by funding opportunities that are positioned to deliver sustainable growth, support our innovation efforts and improve margin performance;
- return capital to stockholders through dividends, which we expect to meaningfully increase with earnings growth;
- share repurchases; and
- identify and pursue accretive merger and acquisition (M&A) opportunities.

Responsible Corporate Citizen

We strive for continued growth and profitability, while furthering our focus on acting as a responsible corporate citizen. To us, sustainability means creating lasting social, environmental and economic value by addressing the needs of our wide-ranging stakeholder base. Our comprehensive sustainability program is focused on areas in which we are 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. Along with the Baxter International Foundation, we 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 2020, we 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, we are pursuing efforts such as sustainable design and reduced packaging. We are 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, we monitor our progress against long-term goals to drive continued environmental stewardship while creating healthier, more sustainable communities where our employees work and live.

Risk Factors

Our ability to sustain long-term growth and successfully execute the strategies discussed above depends in part on our 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 our special items and the related impact by line item on our results of continuing operations for 2020, 2019 and 2018.

years ended December 31 (in millions)	2020	2019	2018
Gross Margin			
Intangible asset amortization expense	**$ (222)**	$ (183)	$ (169)
Intangible asset impairment[1]	**(17)**	(31)	—
Business optimization items[2]	**(53)**	(69)	(49)
Product-related items[3]	**(29)**	—	6
Acquisition and integration expenses[4]	**(11)**	(30)	(27)
Litigation[5]	**—**	—	(8)
Hurricane Maria insurance recoveries[6]	**—**	—	32
European medical devices regulation[7]	**(33)**	(25)	(6)
Investigation and related costs[8]	**(3)**	—	—
Total Special Items	**$ (368)**	$ (338)	$ (221)
Impact on Gross Margin Ratio	**(3.1 pts)**	(3.0 pts)	(2.0 pts)
Selling, General and Administrative (SG&A) Expenses			
Business optimization items[2]	**$ 78**	$ 70	$ 145
Acquisition and integration expenses[4]	**9**	20	23
Litigation[5]	**—**	—	2
Investigation and related costs[8]	**19**	8	—
Total Special Items	**$ 106**	$ 98	$ 170
Impact on SG&A Expense Ratio	**1.0 pts**	0.9 pts	1.5 pts
R&D Expenses			
Business optimization items[2]	**$ 3**	$ 45	$ 26
Acquisition and integration expenses[4]	**22**	8	7
European medical devices regulation[7]	**—**	—	3
Investigation and related costs[8]	**1**	—	—
Total Special Items	**$ 26**	$ 53	$ 36
Impact on R&D Expense Ratio	**0.3 pts**	0.4 pts	0.3 pts
Other Operating Income, net			
Business optimization items[2]	**$ (17)**	$ —	$ —
Acquisition and integration expenses[4]	**(2)**	(4)	—
Hurricane Maria insurance recoveries[6]	**—**	(100)	(10)
Claris Settlement[9]	**—**	—	(80)
Insurance recoveries from a legacy product-related matter[10]	**—**	(37)	—
Total Special Items	**$ (19)**	$ (141)	$ (90)
Other (Income) Expense, Net			
Acquisition and integration activities[4]	**$ —**	$ —	$ (24)
Pension settlements[11]	**43**	755	—
Loss on debt extinguishment[12]	**110**	—	—
Total Special Items	**$ 153**	$ 755	$ (24)
Income Tax Expense			
Tax effects of special items and impact of U.S. Tax Reform[13]	**$ (139)**	$ (387)	$ (277)
Total Special Items	**$ (139)**	$ (387)	$ (277)
Impact on Effective Tax Rate	**(2.6 pts)**	(20.9) pts	(13.7) pts

Intangible asset amortization expense is identified as a special item to facilitate an evaluation of current and past operating performance and is consistent with how management and our Board of Directors internally assess performance. Additional special items are identified above because they are highly variable, difficult to predict and of a size that may substantially impact our results of operations for a period. Management believes that providing the separate impact of the above items on our results in accordance with U.S. GAAP may provide a more complete understanding of our operations and can facilitate a fuller analysis of our results of operations, particularly in evaluating performance from one period to another.

1 In 2020 and 2019, our results included charges of $17 million and $31 million, respectively, for asset impairments related to developed-technology intangible assets. Refer to Note 4 in Item 8 of this Annual Report on Form 10-K for further information regarding these asset impairments.

2 In 2020, 2019 and 2018, our results were impacted by costs associated with our execution of programs to optimize our organization and cost structure. These actions included streamlining our international operations, rationalizing our manufacturing facilities, reducing our general and administrative infrastructure, re-aligning certain R&D activities and canceling certain R&D programs. Our results in 2020, 2019 and 2018 included business optimization charges of $134 million, $184 million and $220 million, respectively. Additionally, we recognized a gain of $17 million in 2020 for property we sold in conjunction with our business optimization initiatives. Refer to Note 10 in Item 8 of this Annual Report on Form 10-K for further information regarding these charges and related liabilities.

3 Our results in 2020 included a charge of $29 million related to Sigma Spectrum infusion pump inspection and remediation activities. Our results in 2018 included a net benefit of $6 million related to an adjustment to our accrual for Sigma Spectrum infusion pump inspection and remediation activities.

4 Our results in 2020 included $40 million of acquisition and integration expenses related to the acquisitions of Cheetah and Seprafilm and in-process R&D assets, partially offset by a benefit related to the change in the estimated fair value of contingent consideration liabilities. Our results in 2019 included $54 million of acquisition and integration expenses. This included integration expenses relate to our acquisitions of Claris Injectables Limited (Claris) and the Recothrom and Preveleak products in prior periods, as well as the 2019 acquisitions of Cheetah and in-process R&D assets, partially offset by a benefit related to the change in the estimated fair value of contingent consideration liabilities. Our results in 2018 included $33 million of acquisition and integration costs related to our acquisitions of Claris and the Recothrom and Preveleak products, upfront payments related to R&D collaborations and license agreements, and a gain from remeasuring our previously held investment to fair value upon acquisition of a controlling interest in our joint venture in Saudi Arabia. Refer to Note 2 in Item 8 of this Annual Report on Form 10-K for further information regarding business development activities.

5 Our results in 2018 included charges of $10 million related to certain product litigation.

6 Our results in 2019 and 2018 included benefits of $100 million and $42 million, respectively, related to insurance recoveries as a result of losses incurred due to Hurricane Maria. Refer to Note 7 in Item 8 of this Annual Report on Form 10-K for further information.

7 Our results in 2020, 2019 and 2018 included costs of $33 million, $25 million and $9 million, respectively, related to updating our quality systems and product labeling to comply with the new medical device reporting regulation and other requirements of the European Union’s regulations for medical devices that are scheduled to become effective in 2021.

8 Our results in 2020 and 2019 included charges of $23 million and $8 million, respectively, for investigation and related costs. This included $15 million in 2020 and $8 million in 2019 related to our investigation of foreign exchange gains and losses associated with certain intra-company transactions and related legal matters. Additionally, we recorded incremental stock compensation expense of $8 million in 2020 as we extended the term of certain stock options that were scheduled to expire in the first quarter of 2020. Refer to Notes 7 and 8 in Item 8 of this Annual Report on Form 10-K for further information regarding the investigation and stock compensation expense.

9 Our results in 2018 included a benefit of $80 million for the settlement of certain claims related to the acquired operations of Claris. Refer to Note 2 in Item 8 of this Annual Report on Form 10-K for further information.

10 Our results in 2019 included a benefit of $37 million for our allocation of insurance proceeds received pursuant to a settlement and cost-sharing arrangement for a legacy product-related matter. Refer to Note 7 in Item 8 of this Annual Report on Form 10-K for further information.

11 Our results in 2020 included a charge of $43 million related to lump-sum settlement distributions made to certain former U.S. employees with vested pension benefits. Our results in 2019 included a charge of $755 million related to the annuitization of a portion of our U.S. pension plan. Refer to Note 11 in Item 8 of this Annual Report on Form 10-K for further information regarding the lump-sum settlements and the pension annuitization.

12 Our results in 2020 included a loss of $110 million on the November 2020 early extinguishment of $750 million of 3.75% senior notes that were issued in March 2020. Refer to Note 5 in Item 8 of this Annual Report on Form 10-K for further information.

13 Reflected in this item is the income tax impact of the special items identified in this table. The tax effect of each special item is based on the jurisdiction in which the item was incurred and the tax laws in effect for each such jurisdiction. Additionally, our results in 2019 included a net tax benefit of $125 million related to income tax reform in Switzerland and India and an adjustment for U.S. federal tax reform. Our results in 2018 included a net tax benefit of $196 million related to updates to the estimated impact of U.S. federal tax reform previously made in 2017.

Net Sales

				Percent change			
				At actual currency rates		At constant currency rates	
years ended December 31 (in millions)	**2020**	2019	2018	**2020**	2019	**2020**	2019
United States	**$ 4,878**	$ 4,826	$ 4,723	**1 %**	2 %	**1 %**	2 %
International	**6,795**	6,536	6,376	**4 %**	3 %	**5 %**	7 %
Total net sales	**$ 11,673**	$ 11,362	$ 11,099	**3 %**	2 %	**3 %**	5 %

Net sales for the year ended December 31, 2020 increased 3% at actual and constant currency rates. Net sales for the year ended December 31, 2019 increased 2% at actual rates and 5% at constant currency rates.

Foreign currency exchange rates had no net impact on 2020 net sales growth. Foreign currency exchange rates unfavorably impacted 2019 net sales growth by three percentage points principally due to the strengthening of the U.S Dollar relative to the Euro, Australian Dollar, British Pound, Chinese Yuan and Colombian Peso.

The comparisons presented at constant currency rates reflect current year 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. We believe that the non-GAAP measure of change in net sales at constant currency rates, when used in conjunction with the U.S. GAAP measure of change in net sales at actual currency rates, may provide a more complete understanding and facilitate a fuller analysis of our results of operations, particularly in evaluating performance from one period to another.

In 2020, the acquisition of Seprafilm contributed $94 million in revenue. In 2020 and 2019, the acquisition of Cheetah had an insignificant impact on reported revenues. The Recothrom and Preveleak products acquired in 2018 contributed $80 million and $52 million of revenues in 2019 and 2018, respectively.

Our global operations expose us to risks associated with public health crises and epidemics/pandemics, such as the COVID-19 pandemic. COVID-19 has had, and we expect will continue to have, an adverse impact on our operations, supply chains and distribution systems and has increased and we expect will continue to increase our expenses, including as a result of impacts associated with preventive and precautionary measures that we, other businesses and governments are taking. These measures have led to unprecedented restrictions on, disruptions in, and other related impacts on businesses and personal activities. In addition to travel restrictions put in place in early

2020, governments have closed borders, imposed prolonged quarantines and may continue those measures or implement other restrictions and requirements in light of the continuing spread of the pandemic. We expect that these evolving restrictions and requirements, as well as the corresponding need to adapt to new methods of conducting business remotely, will continue to have an adverse effect on our business. For further discussion, refer to the Global Business Unit Net Sales Reporting section below and Item 1A of this Annual Report on Form 10-K.

Global Business Unit Net Sales Reporting

Our global business units (GBUs) include the following:

- **Renal Care** includes sales of our peritoneal dialysis (PD), hemodialysis (HD) and additional dialysis therapies and services.
- **Medication Delivery** includes sales of our intravenous (IV) therapies, infusion pumps, administration sets and drug reconstitution devices.
- **Pharmaceuticals** includes sales of our premixed and oncology drug platforms, inhaled anesthesia and critical care products and pharmacy compounding services.
- **Clinical Nutrition** includes sales of our parenteral nutrition (PN) therapies and related products.
- **Advanced Surgery** includes sales of our biological products and medical devices used in surgical procedures for hemostasis, tissue sealing and adhesion prevention.
- **Acute Therapies** includes sales of our continuous renal replacement therapies (CRRT) and other organ support therapies focused in the intensive care unit (ICU).
- **Other** primarily includes sales of contract manufacturing services from our pharmaceutical partnering business.

The following is a summary of net sales by GBU.

				Percent change			
				At actual currency rates		At constant currency rates	
years ended December 31 (in millions)	**2020**	2019	2018	**2020**	2019	**2020**	2019
Renal Care	**$ 3,757**	$ 3,639	$ 3,651	**3 %**	— %	**4 %**	3 %
Medication Delivery	**2,735**	2,799	2,664	**(2)%**	5 %	**(2)%**	7 %
Pharmaceuticals	**2,123**	2,155	2,087	**(1)%**	3 %	**(1)%**	6 %
Clinical Nutrition	**922**	872	875	**6 %**	— %	**6 %**	3 %
Advanced Surgery	**888**	877	798	**1 %**	10 %	**1 %**	12 %
Acute Therapies	**740**	535	515	**38 %**	4 %	**39 %**	7 %
Other	**508**	485	509	**5 %**	(5)%	**4 %**	(2)%
Total Baxter	**$ 11,673**	$ 11,362	$ 11,099	**3 %**	2 %	**3 %**	5 %

Renal Care net sales increased 3% in 2020 and were flat in 2019. The increase in 2020 was driven by global patient growth in PD, partially offset by a 1% negative impact from foreign exchange rate changes, as compared to the prior-year period. Global patient growth in PD in 2019 was offset by lower U.S. in-center HD sales and a 3% negative impact from foreign exchange rate changes, as compared to the prior-year period.

Medication Delivery net sales decreased 2% in 2020 and increased 5% in 2019. The decrease in 2020 was primarily driven by lower demand for our infusion systems and related IV administration sets and solutions due to lower hospital admission rates and a reduction in elective surgeries resulting from the COVID-19 pandemic, including the impact from shelter in place initiatives as well as patient safety concerns related to potential COVID-19 infection risk. The increase in 2019 was attributable to increased sales of our Spectrum IQ Infusion System in the U.S. and EVO IQ Infusion System internationally and related IV access administration sets. Changes in foreign exchange rates had a negative impact on Medication Delivery net sales of 2% in 2019, compared to the prior-year period.

Pharmaceuticals net sales decreased 1% in 2020 and increased 3% in 2019. The decrease in 2020 was driven by lower demand for inhaled anesthesia products resulting from the COVID-19 pandemic and new competitive entrants for TransDerm Scop. Those impacts were partially offset by increased demand for our international pharmacy compounding services along with certain generic injectables and a nonrecurring purchase from the U.S.

government. The increase in 2019 was due to growth in international pharmacy compounding sales and increased sales of our generic injectables. Partially offsetting those increases were reduced sales of inhaled anesthetics as well as BREVIBLOC and U.S. cylophosphamide due to increased generic competition. Changes in foreign exchange rates had a negative impact on Pharmaceuticals net sales of 3% in 2019, compared to the prior-year period.

Clinical Nutrition net sales increased 6% in 2020 and were flat in 2019. The increase in 2020 was driven by increased demand for our PN therapies and related products, recent product launches and competitor shortages of amino acids. A positive impact on net sales in 2019 from the launch of new products was offset by a 3% negative impact from foreign exchange rate changes, as compared to the prior-year period.

Advanced Surgery net sales increased 1% and 10% in 2020 and 2019, respectively. The increase in 2020 was driven by the acquisition of Seprafilm, which contributed $94 million in net sales during 2020, and a benefit from increased demand for our hemostats and sealants early in the year due, in part, to competitive supply disruptions. Partially offsetting the increase was the impact of the COVID-19 pandemic as many elective surgeries were postponed. The increase in 2019 was primarily driven by higher sales as a result of a temporary supply disruption of a competitor, partially offset by a 2% negative impact from foreign exchange rate changes, as compared to the prior-year period.

Acute Therapies net sales increased 38% and 4% in 2020 and 2019, respectively. The increase in 2020 was driven by increased global demand for our CRRT systems to treat acute kidney injuries during the COVID-19 pandemic, partially offset by a 1% negative impact from foreign exchange rate changes, as compared to the prior-year period. The increase in 2019 was due to higher global demand for our CRRT systems to treat acute kidney injuries, including the launch of PrisMax in several countries across the Americas, Europe and Asia. Partially offsetting the increase in 2019 was a 3% negative impact from foreign exchange rate changes, as compared to the prior-year period.

Other net sales increased 5% in 2020 and decreased 5% in 2019. The increase in 2020 was driven by increased demand for our contract manufacturing services and a 1% positive impact from foreign exchange rate changes, as compared to the prior-year period. The decrease in 2019 was due to strong sales performance in 2018 and a 3% negative impact from foreign exchange rate changes, as compared to the prior-year period.

Gross Margin and Expense Ratios

							2020		2019	
years ended December 31	**2020**	**% of net sales**	2019	% of net sales	2018	% of net sales	**$ change**	**% change**	$ change	% change
Gross margin	**$ 4,587**	**39.3 %**	$ 4,761	41.9 %	$ 4,759	42.9 %	**$ (174)**	**(3.7)%**	$ 2	— %
SG&A	**$ 2,469**	**21.2 %**	$ 2,535	22.3 %	$ 2,620	23.6 %	**$ (66)**	**(2.6)%**	$ (85)	(3.2)%
R&D	**$ 521**	**4.5 %**	$ 595	5.2 %	$ 654	5.9 %	**$ (74)**	**(12.4)%**	$ (59)	(9.0)%

Gross Margin

The gross margin ratio was 39.3%, 41.9% and 42.9% in 2020, 2019 and 2018, respectively. The special items identified above had an unfavorable impact of 3.1, 3.0 and 2.0 percentage points on the gross margin ratio in 2020, 2019 and 2018, respectively. Refer to the Special Items section above for additional detail.

Excluding the impact of the special items, the gross margin ratio decreased 2.5 percentage points in 2020 compared to 2019 due to an unfavorable product mix, additional compensation costs, primarily for our manufacturing employees, reduced manufacturing efficiencies and incremental logistics costs, all resulting from the COVID-19 pandemic.

Excluding the impact of the special items, the gross margin ratio was unchanged in 2019 compared to 2018. The gross margin ratio was impacted by an unfavorable product mix as well as inventory write-downs and incremental costs relating to improvements at a dialyzer facility in the U.S. that experienced manufacturing issues during the second quarter of 2019, offset by manufacturing efficiencies.

SG&A

The SG&A expenses ratio was 21.2%, 22.3% and 23.6% in 2020, 2019 and 2018, respectively. The special items identified above had an unfavorable impact of 1.0, 0.9 and 1.5 percentage points on the SG&A expenses ratio in 2020, 2019 and 2018, respectively. Refer to the Special Items section above for additional detail.

Excluding the impact of the special items, the SG&A expenses ratio decreased 1.2 percentage points in 2020 primarily due to lower bonus accruals under our annual employee incentive compensation plans, actions we took to restructure our cost position and focus on expense management and reduced travel and related expenses due to the COVID-19 pandemic.

Excluding the impact of the special items, the SG&A expenses ratio decreased 0.7 percentage points in 2019 primarily due to actions we took to restructure our cost position and focus on expense management.

R&D

The R&D expenses ratio was 4.5%, 5.2% and 5.9% in 2020, 2019 and 2018, respectively. The special items identified above had an unfavorable impact of 0.3, 0.4 and 0.3 percentage points on the R&D expenses ratio in 2020, 2019 and 2018, respectively. Refer to the Special Items section above for additional detail.

Excluding the impact of the special items, the R&D expenses ratio decreased 0.6 percentage points in 2020 as a result of reduced project-related expenditures compared to the prior year and actions we took to restructure our cost position and focus on expense management.

Excluding the impact of the special items, the R&D expenses ratio decreased 0.8 percentage points in 2019 as a result of reduced project-related expenditures compared to the prior year and actions we took to restructure our cost position and focus on expense management.

Business Optimization Items

In recent years, we have undertaken actions to transform our cost structure and enhance our operational efficiency. These efforts have included restructuring the organization, optimizing our manufacturing footprint, R&D operations and supply chain network, employing disciplined cost management, and centralizing and streamlining certain support functions. From the commencement of our business optimization actions in the second half of 2015 through December 31, 2020, we have incurred cumulative pre-tax costs of $1.1 billion related to these actions. The costs consisted primarily of employee termination costs, implementation costs, contract termination costs, asset impairments, and accelerated depreciation. We currently expect to incur additional pre-tax costs of approximately $14 million through the completion of the initiatives that are currently underway, primarily related to implementation costs. We continue to pursue cost savings initiatives and, to the extent further cost savings opportunities are identified, we may incur additional restructuring charges and costs to implement business optimization programs in future periods. The reductions in our cost base from these actions in the aggregate are expected to provide cumulative annual pretax savings of more than $1.2 billion once the remaining actions are complete. The savings from these actions will impact cost of sales, SG&A expenses, and R&D expenses. Approximately 95 percent of the expected annual pre-tax savings has been realized through December 31, 2020, with the remainder expected to be realized by the end of 2023. Refer to Note 10 in Item 8 of this Annual Report on Form 10-K for additional information regarding our business optimization programs.

Other Operating Income, Net

Other operating income, net was $19 million, $141 million and $99 million in 2020, 2019 and 2018, respectively. In 2020, we recognized a $17 million gain on the sale of property in conjunction with our business optimization initiatives. In 2020 and 2019, we recognized benefits of $2 million and $4 million, respectively, related to the change in the estimated fair value of contingent consideration liabilities. In 2019 and 2018, we recognized $100 million and $10 million, respectively, of insurance recoveries related to losses incurred due to Hurricane Maria within Other operating income, net. In 2019, we also recognized a benefit of $37 million when our share of the proceeds under a cost-sharing agreement became realizable following the resolution of a dispute with an insurer related to a legacy product-related matter. In 2018, we settled certain claims with the seller related to the acquired operations of Claris, which resulted in a benefit of $80 million. Additionally, included in other operating income in 2018 was $9 million of transition service income earned in connection with our separation of Baxalta in 2015. The agreement for these services terminated as of July 1, 2018.

Interest Expense, Net

Interest expense, net was $134 million, $71 million and $45 million in 2020, 2019 and 2018, respectively. The increase in 2020 was primarily driven by higher average debt outstanding as a result of the March 2020 issuance of $750 million of 3.75% senior notes due October 2025 and $500 million of 3.95% senior notes due April 2030, and the May 2019 issuance of €750 million of 0.40% senior notes due May 2024 and €750 million of 1.3% senior notes due May 2029. The 3.75% senior notes due October 2025 were repaid in November 2020 with the proceeds from the issuance of $650 million of 1.73% senior notes due April 2031 and cash on hand. The increase in 2019 was primarily driven by higher average debt outstanding as a result of the issuance of €750 million of 0.40% senior notes due May 2024 and €750 million of 1.3% senior notes due May 2029. Refer to Note 5 in Item 8 of this Annual Report on Form 10-K for a summary of the components of interest expense, net for 2020, 2019 and 2018.

Other (Income) Expense, Net

Other (income) expense, net was an expense of $190 million in 2020, expense of $731 million in 2019 and income of $78 million in 2018. The net expense in 2020 was primarily driven by a $110 million loss on the early extinguishment of debt related to our November 2020 redemption of $750 million of senior notes that were issued in March 2020, foreign exchange net losses of $49 million and $46 million of pension settlement charges, which included a $43 million charge related to lump-sum settlement distributions made to certain former U.S. employees with vested pension benefits. These expenses in 2020 were partially offset by net unrealized gains of $13 million related to marketable equity securities. The net expense in 2019 was primarily driven by a $755 million pension settlement charge related to the transfer of U.S. pension plan liabilities to an insurance company and $37 million of foreign exchange net losses, partially offset by $53 million of pension and OPEB plan net benefits. The income in 2018 was primarily driven by $49 million of pension and OPEB plan net benefits, a $24 million gain from remeasuring our previously held investment to fair value upon acquisition of a controlling interest in our joint venture in Saudi Arabia and foreign exchange net gains of $14 million.

We expect expenses from pension and OPEB plans to increase in 2021 primarily due to lower discount rates and a lower expected return on assets. Refer to Note 11 in Item 8 of this Annual Report on Form 10-K for further information regarding pension and OPEB plan expenses.

Income Taxes

The effective income tax rate for continuing operations was 14.1% in 2020, (4.2)% in 2019, and 4.0% in 2018. The special items identified above had a favorable impact of 2.6, 20.9 and 13.7 percentage points on the effective income tax rate in 2020, 2019 and 2018, respectively. Refer to the Special Items section above for additional detail. Our effective income tax rate can differ from the 21% U.S. federal statutory rate due to a number of factors, including foreign rate differences, tax incentives, increases or decreases in valuation allowances and liabilities for uncertain tax positions and excess tax benefits on stock compensation awards.

For the twelve months ended December 31, 2020, the difference between our effective income tax rate and the U.S. federal statutory rate was primarily attributable to favorable geographic earnings mix and excess tax benefits on stock compensation awards.

For the twelve months ended December 31, 2019, the difference between our effective income tax rate and the U.S. federal statutory rate was primarily due to special items, the most significant of which was the impact of recently enacted tax reform in Switzerland and India. We recognized a deferred tax benefit of $90 million to reflect a tax basis step-up, net of a valuation allowance, partially offset by a $5 million deferred tax revaluation to reflect an increase in the statutory tax rate, under the newly enacted Swiss tax laws. We also recognized a net deferred tax benefit of $24 million associated with deferred tax revaluation in India to reflect a decrease in the statutory tax rate.
In addition to the Swiss and Indian tax reform impacts, our effective rate in 2019 was different from the U.S. federal statutory rate due to the recognition of tax benefits associated with a favorable tax ruling, a benefit related to a notional interest deduction on the share capital of a foreign subsidiary, and excess tax benefits on stock compensation awards.

For the twelve months ended December 31, 2018, the difference between our effective income tax rate and the U.S. federal statutory rate was primarily due to special items, the most significant of which was our finalization of our provisional adjustments resulting from the 2017 Tax Act. SEC Staff Accounting Bulletin 118 (SAB 118) allowed a one-year measurement period from the December 22, 2017 Tax Act enactment date to refine the provisional amounts recognized in the 2017 financial statements.

We recorded several SAB 118 measurement period provisional adjustments in 2018. First, after further studying the 2017 Tax Act and related U.S. Treasury Regulations, we refined our provisional estimate of a full valuation allowance against our U.S. foreign tax credit deferred tax assets and released a $194 million valuation allowance due to our ability to utilize a portion of our U.S. foreign tax credit deferred tax assets. Second, the 2017 Tax Act requires us to pay U.S. income taxes on accumulated foreign subsidiary earnings not previously subject to U.S. income tax at a rate of 15.5% to the extent of foreign cash and certain other net current assets and 8% on the remaining earnings. During 2018, we refined our estimated one-time transition tax expense, recognizing a benefit of $5 million. Third, the 2017 Tax Act lowered the U.S. federal rate from 35% to 21% and generally exempts foreign income from U.S. taxation. We finalized our provisional revaluation of U.S. deferred tax assets, recording an additional $8 million benefit. Refer to Note 12 in Item 8 of this Annual Report on Form 10-K for further information related to the 2017 Tax Act and the finalization of associated SAB 118 provisional adjustments. Additionally, our effective rate in 2018 was different from the U.S. federal statutory rate due to excess tax benefits on stock compensation.

Our tax provisions for 2020, 2019 and 2018 do not include any tax charges related to either the Base Erosion and Anti-Abuse Tax (BEAT) or Global Intangible Low Taxed Income (GILTI) provisions, except for the inability to fully utilize foreign tax credits against such GILTI.

We anticipate that our effective income tax rate from continuing operations, calculated in accordance with U.S. GAAP, will be approximately 18% in 2021. This rate may be further impacted by a number of factors including discrete items, such as tax windfalls or deficiencies attributable to stock compensation awards, additional audit developments, or the tax effects of any future special items.

Income from Continuing Operations and Earnings per Diluted Share

Income from continuing operations was $1.1 billion in 2020, $1.0 billion in 2019 and $1.6 billion in 2018. Diluted earnings per share from continuing operations was $2.13 in 2020, $1.93 in 2019 and $2.84 in 2018. The significant factors and events causing the net changes from 2019 to 2020 and 2018 to 2019 are discussed above. Additionally, earnings per share from continuing operations was positively impacted by the repurchase of 35.8 million shares in 2018 through Rule 10b5-1 purchase plans, an accelerated share repurchase plan and otherwise and the repurchase of 16.5 million shares in 2019 through Rule 10b5-1 purchase plans, an accelerated share repurchase plan and otherwise. Refer to Note 8 in Item 8 of this Annual Report on Form 10-K for further information regarding our stock repurchases.

Loss from Discontinued Operations

Loss from discontinued operations, net of tax was $6 million in 2018 and related to Baxalta.

Segment results

We use operating income on a segment basis to make resource allocation decisions and assess the ongoing performance of our segments. Refer to Note 16 in Item 8 of this Annual Report on Form 10-K for additional details regarding our segments. The following is a summary of significant factors impacting our reportable segments' financial results.

	Net sales			Operating income		
years ended December 31 (in millions)	**2020**	2019	2018	**2020**	2019	2018
Americas	**$ 6,069**	$ 6,094	$ 5,951	**$ 2,235**	$ 2,374	$ 2,411
EMEA	**3,129**	2,968	2,946	**677**	652	666
APAC	**2,475**	2,300	2,202	**591**	549	532
Corporate and other	**—**	—	—	**(1,887)**	(1,803)	(2,025)
Total	**$ 11,673**	$ 11,362	$ 11,099	**$ 1,616**	$ 1,772	$ 1,584

Americas

Segment operating income was $2.2 billion, $2.4 billion and $2.4 billion in 2020, 2019 and 2018, respectively. The decrease in 2020 was primarily driven by decreased sales and gross margin in multiple GBUs, particularly Medication Delivery, Pharmaceuticals and Advanced Surgery, and lower gross profit as a result of an unfavorable product mix and incremental logistics costs due primarily to the impact of the COVID-19 pandemic. The decreases

were partially offset by favorable performance in Acute Therapies and Clinical Nutrition as well as the acquisition of Seprafilm. The decrease in 2019 was primarily driven by lower sales and gross margin in Pharmaceuticals and lower U.S. in-center HD sales, partially offset by favorable performance in Medication Delivery and Advanced Surgery, primarily due to a temporary supply disruption of a competitor. Additionally, results in 2019 were adversely impacted by unfavorable foreign exchange rates.

EMEA

Segment operating income was $677 million, $652 million and $666 million in 2020, 2019 and 2018, respectively. The increase in 2020 was primarily driven by increased sales and gross margin in Acute Therapies, Clinical Nutrition, Pharmaceuticals and Renal Care, partially offset by decreased sales in Advanced Surgery. The decrease in 2019 was primarily driven by unfavorable foreign exchange rates, partially offset by increased local currency sales and gross margin in Renal Care and Pharmaceuticals.

APAC

Segment operating income was $591 million, $549 million and $532 million in 2020, 2019 and 2018, respectively. The increase in 2020 was primarily driven by increased sales and gross margin in multiple GBUs, particularly Renal Care, Acute Therapies and Pharmaceuticals. The acquisition of Seprafilm also positively contributed to results in 2020. Results in 2019 were driven by higher sales and gross margin, primarily from China and Australia, in Renal Care and Pharmaceuticals.

Corporate and other

Certain items are maintained at Corporate and are not allocated to a segment. They primarily include certain foreign currency hedging activities, corporate headquarters costs, certain R&D costs, certain GBU support costs, stock compensation expense, certain employee benefit plan costs, and certain gains, losses, and other charges (such as business optimization, acquisition and integration costs, intangible asset amortization and asset impairments). The operating loss in 2020 was higher than 2019 due to insurance recoveries received in 2019 from a legacy product-related matter and Hurricane Maria, as well as the Sigma Spectrum infusion pump inspection and remediation charge in 2020 and higher investigation and related costs and intangible asset amortization in 2020. Partially offsetting the increase in 2020 was lower business optimization charges, lower intangible asset impairment charges, lower bonus accruals under our annual employee incentive compensation plans and reduced travel and related expenses. The operating loss in 2019 decreased due to higher Hurricane Maria insurance recoveries in 2019, a benefit for our allocation of insurance proceeds received pursuant to a settlement and cost-sharing arrangement for a legacy product-related matter in 2019, lower SG&A and R&D expenses in 2019 and lower business optimization charges in 2019, partially offset by an impairment of a developed-technology intangible asset in 2019 and the benefit from the Claris settlement in 2018.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows from Operations — Continuing Operations

In 2020, 2019 and 2018, cash provided by operating activities was $1.9 billion, $2.1 billion and $2.0 billion, respectively. Operating cash flows decreased in 2020 primarily due to payments of $173 million to settle interest rate derivative contracts in 2020, an increase in inventory levels in 2020 and insurance recoveries received in 2019 from a legacy product-related matter and Hurricane Maria, partially offset by the timing of vendor payments and lower restructuring and employee incentive compensation payments in 2020. Operating cash flows increased in 2019 primarily due to an increase in our operating income, which included the insurance recoveries related to Hurricane Maria and a legacy product-related matter.

Cash Flows from Investing Activities

In 2020, cash used for investing activities included payments for acquisitions of $494 million, primarily related to Seprafilm and multiple product acquisitions, and capital expenditures of $709 million. In 2019, cash used for investing activities included payments for acquisitions of $418 million, primarily related to Cheetah and multiple product acquisitions, and capital expenditures of $696 million. In 2018, cash used in investing activities included

payments for acquisitions of $268 million, primarily related to Recothrom and Preveleak and multiple product acquisitions, and capital expenditures of $659 million.

We expect that our capital expenditures will increase in 2021 as we make investments in our manufacturing capacity in response to proposed regulatory changes of the U.S. Department of Health and Human Services in kidney health policy and reimbursement, which may substantially change the U.S. end stage renal disease market and demand for our peritoneal dialysis products.

In February 2021, we agreed to acquire the rights to Transderm Scop from subsidiaries of GlaxoSmithKline for an upfront purchase price of $55 million plus the cost of acquired inventory and the potential for additional cash consideration of $30 million based upon a successful technology transfer by a specified date. We expect the transaction to close late in the first quarter or early in the second quarter of 2021, subject to the satisfaction of closing conditions.

In December 2020, we agreed to acquire the rights to Caelyx and Doxil, the branded versions of liposomal doxorubicin, from a subsidiary of Johnson & Johnson for specified territories outside of the U.S for $325 million. We expect the transaction to close late in the first quarter or early in the second quarter of 2021, subject to the satisfaction of regulatory approvals and other closing conditions.

Refer to Note 2 in Item 8 of this Annual Report on Form 10-K for further information about our significant acquisitions and other arrangements.

Cash Flows from Financing Activities

In 2020, cash generated from financing activities included $1.2 billion of net proceeds from the March 2020 issuance of $750 million of senior notes due in 2025 and $500 million of senior notes due in 2030. In November 2020, we issued $650 million of senior notes due in 2031 and used the proceeds, along with cash on hand, to redeem the $750 million senior notes due in 2025 that were issued in March 2020 for $854 million, which included a $104 million make-whole premium. We have used the net proceeds from the senior notes issuances and redemptions for general corporate purposes, including to strengthen our balance sheet as a precautionary measure in light of the COVID-19 pandemic. In 2020, we also repaid $322 million of variable rate notes that matured and the borrowings under our Euro-denominated credit facility of €200 million ($225 million). Financing activities in 2020 also included payments for stock repurchases of $500 million, dividend payments of $473 million and receipts from stock issued under employee benefit plans of $202 million.

In 2019, cash generated from financing activities included $1.7 billion in net proceeds from the issuance of €750 million of senior notes due in 2024 and €750 million of senior notes due in 2029, €200 million ($222 million) of borrowings under our Euro-denominated credit facility and stock issued under employee benefit plans of $356 million, partially offset by payments for stock repurchases of $1.3 billion and dividend payments of $423 million. In 2018, cash used for financing activities included payments for stock repurchases of $2.5 billion and dividend payments of $376 million, partially offset by the proceeds from stock issued under employee benefit plans of $258 million.

As authorized by the Board of Directors, we repurchase our stock depending upon our cash flows, net debt levels and market conditions. In July 2012, the Board of Directors authorized the repurchase of up to $2.0 billion of our common stock. The Board of Directors increased this authority by an additional $1.5 billion in each of November 2016 and February 2018, by an additional $2.0 billion in November 2018 and by an additional $1.5 billion in October 2020. We paid $500 million in cash to repurchase approximately 6.3 million shares under this authority pursuant to a Rule 10b5-1 plan in 2020 and had $1.9 billion remaining available under this authorization as of December 31, 2020.

In December 2018, we entered into a $300 million accelerated share repurchase agreement (ASR Agreement) with an investment bank. We funded the ASR Agreement with available cash. Under the ASR Agreement, we received 3.6 million shares upon execution. Based on the volume-weighted average price of our common stock during the term of the ASR Agreement, we received an additional 0.6 million shares from the investment bank at settlement in May 2019.

Credit Facilities and Access to Capital and Credit Ratings

Credit Facilities

As of December 31, 2020, our U.S. dollar-denominated revolving credit facility had capacity of $2.0 billion. As of December 31, 2020, our Euro-denominated revolving credit facility had a capacity of approximately €200 million. Each of the facilities matures in 2024. There were no amounts outstanding under our credit facilities as of December 31, 2020. There was no amount outstanding under our U.S. dollar-denominated credit facility as of December 31, 2019 and €200 million ($224 million) was outstanding at a 0.91% interest rate under our Euro-denominated credit facility as of December 31, 2019. As of December 31, 2020, we were 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 the institution's respective commitment.

We also maintain other credit arrangements, as described in Note 5 in Item 8 of this Annual Report on Form 10-K.

Access to Capital and Credit Ratings

We intend to fund short-term and long-term obligations as they mature through cash on hand and future cash flows from operations or by issuing additional debt. We had $3.7 billion of cash and cash equivalents as of December 31, 2020, with adequate cash available to meet operating requirements in each jurisdiction in which we operate. We invest our excess cash in money market and other funds and diversify the concentration of cash among different financial institutions. As of December 31, 2020, we had approximately $6.2 billion of long-term debt and finance lease obligations, including current maturities. Subject to market conditions, we regularly evaluate opportunities with respect to our capital structure.

Our ability to generate cash flows from operations, issue debt, including commercial paper, or enter into other financing arrangements on acceptable terms could be adversely affected if there is a material decline in the demand for our products or in the solvency of our customers or suppliers, deterioration in our key financial ratios or credit ratings or other significantly unfavorable changes in conditions. However, we believe we have sufficient financial flexibility to issue debt, enter into other financing arrangements and attract long-term capital on acceptable terms to support our growth objectives.

Our credit ratings at December 31, 2020 were as follows:

	Standard & Poor's	Fitch	Moody's
Ratings			
Senior debt	A-	A-	Baa1
Short-term debt	A2	F2	P2
Outlook	Stable	Stable	Stable

LIBOR Reform

In 2017, the United Kingdom's Financial Conduct Authority announced that after 2021 it would no longer compel banks to submit the rates required to calculate the London Interbank Offered Rate (LIBOR) and other interbank offered rates, which have been widely used as reference rates for various securities and financial contracts, including loans, debt and derivatives. This announcement indicated that the continuation of LIBOR on the current basis was not guaranteed after 2021. Regulators in the U.S. and other jurisdictions have been working to replace these rates with alternative reference interest rates that are supported by transactions in liquid and observable markets, such as the Secured Overnight Financing Rate (SOFR). In 2020, it was announced that certain U.S. dollar LIBOR tenors would not cease until 2023. Currently, our credit facilities reference LIBOR-based rates. The discontinuation of LIBOR will require these arrangements to be modified in order to replace LIBOR with an alternative reference interest rate, which could impact our cost of funds. Our credit facilities include a provision specifying that we and the lenders will negotiate in good faith for the determination of a successor LIBOR rate.

Contractual Obligations

As of December 31, 2020, we 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 finance lease obligations, including current maturities	6,233	406	212	1,664	3,951
Interest on short- and long-term debt and finance lease obligations [1]	1,627	142	267	251	967
Operating leases	673	121	186	126	240
Other non-current liabilities[2]	408	—	84	48	276
Purchase obligations[3]	1,209	485	352	198	174
Contractual obligations[2]	$ 10,150	$ 1,154	$ 1,101	$ 2,287	$ 5,608

1. Interest payments on debt and finance lease obligations are calculated for future periods using interest rates in effect at the end of 2020. Certain of these projected interest payments may differ in the future based on foreign currency fluctuations or other factors or events. The projected interest payments only pertain to obligations and agreements outstanding at December 31, 2020. Refer to Note 5 and Note 6, respectively, in Item 8 of this Annual Report on Form 10-K for further discussion regarding our debt instruments outstanding and finance lease obligations at December 31, 2020.

2. The primary components of other non-current liabilities in our consolidated balance sheet as of December 31, 2020 are pension and other postretirement benefits, deferred tax liabilities, long-term tax liabilities, and litigation and environmental reserves. We projected the timing of the related 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 our estimates.

   We contributed $74 million, $69 million, and $51 million to our defined benefit pension plans in 2020, 2019, and 2018, respectively. The timing of funding in future periods is uncertain and is dependent on future movements in interest rates, investment returns, changes in laws and regulations, and other variables. Therefore, the table above excludes cash outflows related to our pension plans. The amount included within other non-current liabilities (and excluded from the table above) related to our pension plan liabilities was $1.0 billion as of December 31, 2020. In 2021, we have no obligation to fund our principal plans in the United States and we expect to make contributions of at least $45 million to our foreign pension plans. Additionally, we have excluded long-term tax liabilities, which include liabilities for unrecognized tax positions, and deferred tax liabilities from the table above because we are unable to estimate the timing of the related cash outflows. The amounts of long-term tax liabilities and deferred tax liabilities included within other non-current liabilities (and excluded from the table above) were $84 million and $143 million, respectively, as of December 31, 2020.

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

Off-Balance Sheet Arrangements

We periodically enter into off-balance sheet arrangements. Certain contingencies arise in the normal course of business and are not recorded in the consolidated balance sheets in accordance with U.S. GAAP (such as contingent joint development and commercialization arrangement payments). Also, upon resolution of uncertainties, we may incur charges in excess of presently established liabilities for certain matters (such as contractual indemnifications). For a discussion of our significant off-balance sheet arrangements, refer to Note 14 in Item 8 of this Annual Report on Form 10-K for information regarding receivable transactions, and Note 2 and Note 7 in Item 8 of this Annual Report on Form 10-K regarding joint development and commercialization arrangements, indemnifications and legal contingencies.

FINANCIAL INSTRUMENT MARKET RISK

We operate on a global basis and are exposed to the risk that our earnings, cash flows and equity could be adversely impacted by fluctuations in foreign exchange and interest rates. Our hedging policy attempts to manage these risks to an acceptable level based on our judgment of the appropriate trade-off between risk, opportunity and costs. Refer to Note 14 and Note 15 in Item 8 of this Annual Report on Form 10-K for further information regarding our financial instruments and hedging strategies.

Currency Risk

We are 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, Mexican Peso, Indian Rupee and Swedish Krona. We manage our foreign currency exposures on a consolidated basis, which allows us to net exposures and take advantage of any natural offsets. In addition, we use 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. However, we don't hedge our entire foreign exchange exposure and are still subject to earnings and stockholders' equity volatility relating to foreign exchange risk. Financial market and currency volatility may limit our ability to cost-effectively hedge these exposures.

We use options and forwards to hedge the foreign exchange risk to earnings relating to forecasted transactions and recognized assets and liabilities denominated in foreign currencies. The maximum term over which we have cash flow hedge contracts in place related to foreign exchange risk on forecasted transactions as of December 31, 2020 is 12 months. We also enter into derivative instruments to hedge foreign exchange risk on certain intra-company and third-party receivables and payables and debt denominated in foreign currencies.

As part of our risk-management program, we perform sensitivity analyses to assess potential changes in the fair value of our 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 contracts outstanding as of December 31, 2020, while not predictive in nature, indicated that if the U.S. Dollar uniformly weakened by 10% against all currencies, the net pre-tax liability balance of $8 million with respect to those contracts would increase by $32 million, resulting in a net asset position. A similar analysis performed with respect to contracts outstanding as of December 31, 2019 indicated that, on a pre-tax basis, the net asset balance of $9 million would decrease by $18 million, resulting in a net liability position.

The sensitivity analysis model recalculates the fair value of the foreign exchange contracts outstanding as of December 31, 2020 by replacing the actual exchange rates as of December 31, 2020 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.

Our operations in Argentina are reported using highly inflationary accounting effective July 1, 2018. Changes in the value of the Argentine peso applied to our peso-denominated net monetary asset positions are recorded in income at the time of the change. As of December 31, 2020, our net monetary assets denominated in Argentine pesos are not significant.

Interest Rate Risk

We are also exposed to the risk that our earnings and cash flows could be adversely impacted by fluctuations in interest rates. Our policy is to manage interest costs using the mix of fixed- and floating-rate debt that we believe is appropriate at that time. To manage this mix in a cost-efficient manner, we periodically enter into interest rate swaps in which we agree to exchange, at specified intervals, the difference between fixed and floating interest amounts calculated by reference to an agreed-upon notional amount. We also periodically use 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 of December 31, 2020, all of our outstanding debt obligations were at fixed interest rates and no interest rate derivative instruments were outstanding.

CHANGES IN ACCOUNTING STANDARDS

Refer to Note 1 in Item 8 of this Annual Report on Form 10-K for information on changes in accounting standards.

RECENT ACCOUNTING PRONOUNCEMENTS

There are no accounting standards issued but not yet effective that we believe will have a material impact on our condensed consolidated financial statements.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. A summary of our significant accounting policies is included in Note 1 in Item 8 of this Annual Report on Form 10-K. Certain of our accounting policies are considered critical, as these policies are the most important to the depiction of our financial statements and require significant, difficult or complex judgments by us, often employing the use of estimates about the effects of matters that are inherently uncertain. Actual results that differ from our estimates could have an unfavorable effect on our results of operations and financial position. The following is a summary of accounting policies that we consider critical to the consolidated financial statements.

Revenue Recognition and Related Provisions and Allowances

Revenues from product sales are recorded at the net sales price (transaction price), which includes estimates of variable consideration primarily related to rebates and wholesaler chargebacks. These reserves are based on estimates of the amounts earned or to be claimed on the related sales. Our estimates take into consideration historical experience, current contractual and statutory requirements, specific known market events and trends, industry data, and forecasted customer buying and payment patterns. Overall, these reserves reflect our best estimates of the amount of consideration to which we are entitled based on the terms of the contract. The amount of variable consideration included in the net sales price is limited to the amount that is probable not to result in a significant reversal in the amount of the cumulative revenue recognized in a future period. Additionally, our contracts with customers often include promises to transfer multiple products and services to a customer. Determining whether products and services are considered distinct performance obligations that should be accounted for separately and determining the allocation of the transaction price may require significant judgment.

Pension and OPEB Plans

We provide pension and other postretirement benefits to certain of our employees. The service component of employee benefit expenses is reported in the same line items in the consolidated income statements as the applicable employee's compensation expense. All other components of these employee benefit expenses are reported in other (income) expense, net in our consolidated statements of income. 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.

Our key assumptions are listed in Note 11 in Item 8 of this Annual Report on Form 10-K. The most critical assumptions relate to the plans covering U.S. and Puerto Rico employees, because these plans are the most significant to our consolidated financial statements.

Discount Rate Assumption

Effective for the December 31, 2020 measurement date, we utilized discount rates of 2.73% and 2.33% to measure our benefit obligations for the U.S. and Puerto Rico pension plans and OPEB plan, respectively. We used a broad population of approximately 200 Aa-rated corporate bonds as of December 31, 2020 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 we would most likely select if we were to actually annuitize our 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 other European countries, we use a method essentially the same as that described for the U.S. and Puerto Rico plans. For our 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, we perform 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 $25 million, and for each 50 basis point decrease in the discount rate, global pre-tax pension and OPEB plan cost would increase by approximately $30 million.

Return on Plan Assets Assumption

In measuring the net periodic cost for 2020, we used a long-term expected rate of return of 6.5% for the pension plans covering U.S. and Puerto Rico employees. This assumption will decrease to 5.5% in 2021. This assumption is not applicable to our OPEB plan because it is not funded.

We establish 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 our 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 our 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, we perform 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 $15 million.

Other Assumptions

For the U.S. and Puerto Rico plans, we used the Pri-2012 combined mortality table with improvements projected using the MP-2019 projection scale adjusted to a long-term improvement of 0.8% as of December 31, 2020. For all other pension plans, we utilized country- and region-specific mortality tables to calculate the plans' benefit obligations. We periodically analyze and update our 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.

Deferred Tax Asset Valuation Allowances, Reserves for Uncertain Tax Positions and Tax Reform

We maintain 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 our tax provision in the period of change. In determining whether a valuation allowance is warranted, we evaluate 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 we take operational or tax planning actions that could impact the future taxable earnings of a subsidiary.

In the normal course of business, we are audited by federal, state and foreign tax authorities, and are 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. We believe our tax positions comply with applicable tax law and we intend to defend our positions. In evaluating the exposure associated with various tax filing positions, we record reserves for uncertain tax positions in accordance with U.S. GAAP based on the technical support for the positions, our past audit experience with similar situations, and potential interest and penalties related to the matters. Our results of operations and effective tax rate in a given period could be impacted if, upon final resolution with taxing authorities, we prevail in positions for which reserves have been established, or we are required to pay amounts in excess of established reserves.

On December 22, 2017, the 2017 Tax Act was enacted into law and the new legislation contains several key tax provisions that affected us, including a one-time mandatory transition tax on accumulated foreign earnings and a reduction of the U.S. corporate income tax rate to 21% effective January 1, 2018, among others. We were required to recognize the effect of the tax law changes in the period of enactment, such as determining the transition tax, remeasuring our U.S. deferred tax assets and liabilities and reassessing the realizability of our deferred tax assets. In December 2017, the SEC staff issued SAB 118 which allowed us to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. We updated our accounting for the initial impact of the 2017 Tax Act in 2018 in accordance with the guidance in SAB 118. Refer to Note 12 within Item 8 of this Annual Report on Form 10-K for further information.

Valuation of Intangible Assets, Including IPR&D

We record acquired intangible assets at fair value in business combinations and at cost in asset acquisitions. Valuations are generally completed for intangible assets acquired in 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. IPR&D acquired 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 intangible asset is charged to expense.

IPR&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 as intangible assets and amortized over the remaining useful life of the related asset.

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.

Due to a change in the timing and amount of projected cash flows associated with $140 million of acquired in-process R&D intangible assets from a historical acquisition, we updated the estimated fair values of these assets in 2020. While no impairment has been recorded because the estimated fair values of those assets exceeded their carrying values, the estimated excess of fair value over carrying value of these assets declined in 2020 and are at risk of future impairment should the estimated timing or amount of projected cash flows further deteriorate.

CERTAIN REGULATORY MATTERS

The U.S. Food and Drug Administration (FDA) commenced an inspection of Claris' facilities in Ahmedabad, India in July 2017, immediately prior to the closing of the Claris acquisition. FDA completed the inspection and subsequently issued a Warning Letter based on observations identified in the 2017 inspection (Claris Warning Letter).[1] FDA has not yet re-inspected the facilities and management cannot speculate on when the Claris Warning Letter will be lifted. However, we are continuing to implement corrective and preventive actions to address FDA's prior observations and other items we identified and management continues to pursue and implement other manufacturing locations, including contract manufacturing organizations, to support the production of new products for distribution in the U.S. As of December 31, 2020, we have secured alternative locations to produce a majority of the planned new products to be manufactured in Ahmedabad for distribution into the U.S.

On May 6, 2019, we received a Show Cause Notice under the Drugs & Cosmetics Act, 1940 and Rules thereunder (Show Cause Notice) from the Commissioner of the Food & Drugs Control Administration in the Gujarat State in Gandhinagar, India (Commissioner). The Show Cause Notice was issued regarding an April 9, 2019 inspection of our Claris facilities in Ahmedabad, India by the Commissioner. The Show Cause Notice contained a number of observations of alleged Good Manufacturing Practice related issues across a variety of areas, some of which overlap with the areas covered in the Claris Warning Letter. We responded to the Show Cause Notice and a follow up inspection occurred in July 2019. This matter resulted in a two-day suspension order for certain manufacturing operations, which occurred on March 19 and 20, 2020. This matter is now closed.

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

[1] Available online at https://www.fda.gov/ICECI/EnforcementActions/WarningLetters/ucm613538.htm

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, impacts of the COVID-19 pandemic, litigation-related matters including outcomes, impacts of the internal investigation related to foreign exchange gains and losses, future regulatory filings and our R&D pipeline, strategic objectives, sales from new product offerings, 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, our exposure to financial market volatility and foreign currency and interest rate risks, potential tax liabilities associated with the separation of our biopharmaceuticals business from our medical products businesses, the impact of competition, future sales growth, business development activities (including the acquisitions of Cheetah and Seprafilm and the proposed acquisitions of Caelyx and Doxil and Transderm Scop), business optimization initiatives, cost saving initiatives, future capital and R&D expenditures, future debt issuances, manufacturing expansion, the sufficiency of our 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 our experience and perception of historical trends, current conditions, and expected future developments as well as other factors that we believe are appropriate in the circumstances. While these statements represent our judgment on what the future may hold, and we believe 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:

- demand for, market acceptance risks for and competitive pressures related to new and existing products (including challenges with our ability to accurately predict these pressures and the resulting impact on customer inventory levels and the impact of reduced hospital admission rates and elective surgery volumes), 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;

- our ability to finance and develop new products or enhancements on commercially acceptable terms or at all;

- our ability to identify business development and growth opportunities and to successfully execute on business development strategies;

- product quality or patient safety issues, leading to product recalls, withdrawals, launch delays, warning letters, import bans, sanctions, seizures, litigation, or declining sales;

- the impact of global economic conditions (including potential trade wars) and pandemics, epidemics or other public health crises, such as COVID-19, on us and our customers and suppliers, including foreign governments in countries in which we operate;

- the continuity, availability and pricing of acceptable raw materials and component supply, and the related continuity of our manufacturing and distribution;

- inability to create additional production capacity in a timely manner or the occurrence of other manufacturing, sterilization or supply difficulties (including as a result of natural disaster, public health crises and epidemics/pandemics, regulatory actions or otherwise);

- breaches or failures of our information technology systems or products, including by cyber-attack, data leakage, unauthorized access or theft (as a result of increased remote working arrangements or otherwise);

- future actions of (or failures to act or delays in acting by) FDA, the European Medicines Agency or any other regulatory body or government authority (including the SEC, DOJ or the Attorney General of any State) that could delay, limit or suspend product development, manufacturing or sale or result in seizures, recalls, injunctions, monetary sanctions or criminal or civil liabilities, including the continued delay in lifting the warning letter at our Ahmedabad facility or proceedings related to the misstatements in previously reported non-operating income related to foreign exchange gains and losses;

- developments that would require the correction of additional misstatements in our previously issued financial statements;

- failures with respect to our quality, compliance or ethics programs;

- future actions of third parties, including third-party payers, the impact of healthcare reform and its implementation, suspension, repeal, replacement, amendment, modification and other similar actions undertaken by the United States or foreign governments, including with respect to pricing, reimbursement, taxation and rebate policies; legislation, regulation and other governmental pressures in the United States or globally, including the cost of compliance and potential penalties for purported noncompliance thereof, all of which may affect pricing, reimbursement, taxation and rebate policies of government agencies and private payers or other elements of our business, including new or amended laws, rules and regulations (such as the California Consumer Privacy Act of 2018, the European Union's General Data Protection Regulation and proposed regulatory changes of the U.S. Department of Health and Human Services in kidney health policy and reimbursement, which may substantially change the U.S. end stage renal disease market and demand for our peritoneal dialysis products, necessitating significant multi-year capital expenditures, which are difficult to estimate in advance, for example);

- the outcome of pending or future litigation or government investigations, including the opioid litigation and litigation related to the internal investigation of foreign exchange gains and losses;

- the impact of competitive products and pricing, including generic competition, drug reimportation and disruptive technologies;

- global regulatory, trade and tax policies;

- the ability to protect or enforce our 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 our manufacture, sale or use of affected products or technology;

- the impact of any goodwill or other intangible asset impairments on our operating results;

- any failure by Baxalta or Shire to satisfy its obligations under the separation agreements, including the tax matters agreement, or that certain letter agreement entered into with Shire and Baxalta;

- fluctuations in foreign exchange and interest rates;

- any changes in law concerning the taxation of income (whether with respect to current or future tax reform), including income earned outside the United States and potential taxes associated with the Base Erosion and Anti-Abuse Tax;

- actions by tax authorities in connection with ongoing tax audits;

- loss of key employees or inability to identify and recruit new employees;

- other factors identified elsewhere in this Annual Report on Form 10-K including those factors described in Item 1A and other filings with the SEC, all of which are available on our website.

Actual results may differ materially from those projected in the forward-looking statements. We do not undertake to update our 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)	2020	2019
Current assets:		
Cash and cash equivalents	**$ 3,730**	$ 3,335
Accounts receivable, net of allowance of $125 in 2020 and $112 in 2019	**2,077**	1,896
Inventories	**1,916**	1,653
Prepaid expenses and other current assets	**688**	619
Total current assets	**8,411**	7,503
Property, plant and equipment, net	**4,722**	4,512
Goodwill	**3,217**	3,030
Other intangible assets, net	**1,671**	1,471
Operating lease right-of-use assets	**603**	608
Other non-current assets	**1,395**	1,069
Total assets	**$ 20,019**	$ 18,193
Current liabilities:		
Short-term debt	**$ —**	$ 226
Current maturities of long-term debt and finance lease obligations	**406**	315
Accounts payable and accrued liabilities	**2,927**	2,689
Total current liabilities	**3,333**	3,230
Long-term debt and finance lease obligations	**5,786**	4,809
Operating lease liabilities	**501**	510
Other non-current liabilities	**1,673**	1,732
Total liabilities	**11,293**	10,281
Commitments and contingencies		
Equity:		
Common stock, $1 par value, authorized 2,000,000,000 shares, issued 683,494,944 shares in 2020 and 2019	**683**	683
Common stock in treasury, at cost, 178,580,208 shares in 2020 and 177,340,358 shares in 2019	**(11,051)**	(10,764)
Additional contributed capital	**6,043**	5,955
Retained earnings	**16,328**	15,718
Accumulated other comprehensive (loss) income	**(3,314)**	(3,710)
Total Baxter stockholders' equity	**8,689**	7,882
Noncontrolling interests	**37**	30
Total equity	**8,726**	7,912
Total liabilities and equity	**$ 20,019**	$ 18,193

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)	2020	2019	2018
Net sales	**$ 11,673**	$ 11,362	$ 11,099
Cost of sales	**7,086**	6,601	6,340
Gross margin	**4,587**	4,761	4,759
Selling, general and administrative expenses	**2,469**	2,535	2,620
Research and development expenses	**521**	595	654
Other operating income, net	**(19)**	(141)	(99)
Operating income	**1,616**	1,772	1,584
Interest expense, net	**134**	71	45
Other (income) expense, net	**190**	731	(78)
Income from continuing operations before income taxes	**1,292**	970	1,617
Income tax expense (benefit)	**182**	(41)	65
Income from continuing operations	**1,110**	1,011	1,552
Loss from discontinued operations, net of tax	**—**	—	(6)
Net income	**1,110**	1,011	1,546
Less: Net income attributable to noncontrolling interests	**8**	10	—
Net income attributable to Baxter stockholders	**$ 1,102**	$ 1,001	$ 1,546
Earnings per share from continuing operations			
Basic	**$ 2.17**	$ 1.97	$ 2.91
Diluted	**$ 2.13**	$ 1.93	$ 2.84
Loss per share from discontinued operations			
Basic	**$ —**	$ —	$ (0.01)
Diluted	**$ —**	$ —	$ (0.01)
Earnings per share			
Basic	**$ 2.17**	$ 1.97	$ 2.90
Diluted	**$ 2.13**	$ 1.93	$ 2.83
Weighted-average number of shares outstanding			
Basic	**509**	509	534
Diluted	**517**	519	546

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

years ended December 31 (in millions)	**2020**	2019	2018
Net income	$ 1,110	$ 1,011	$ 1,546
Other comprehensive (loss) income, net of tax:			
Currency translation adjustments, net of tax expense (benefit) of ($51) in 2020, ($5) in 2019 and $(52) in 2018	367	(95)	(323)
Pension and other postretirement benefit plans, net of tax expense of $40 in 2020 $130 in 2019, and $10 in 2018	141	408	33
Hedging activities, net of tax expense (benefit) of ($34) in 2020, $(11) in 2019, and $3 in 2018	(112)	(39)	9
Total other comprehensive (loss) income, net of tax	396	274	(281)
Comprehensive income	1,506	1,285	1,265
Less: Comprehensive income attributable to noncontrolling interests	8	10	—
Comprehensive income attributable to Baxter stockholders	$ 1,498	$ 1,275	$ 1,265

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Baxter International Inc. stockholders' equity									
(in millions)	Common stock shares	Common stock	Common stock shares in treasury	Common stock in treasury	Additional contributed capital	Retained earnings	Accumulated other comprehensive income (loss)	Total Baxter stockholders' equity	Noncontrolling interests	Total equity
Balance as of January 1, 2018	683	$ 683	142	$ (7,981)	$ 5,940	$ 14,014	$ (3,539)	$ 9,117	$ (8)	$ 9,109
Adoption of new accounting standards	—	—	—	—	—	(22)	(3)	$ (25)	—	$ (25)
Net income	—	—	—	—	—	1,546	—	$ 1,546	—	$ 1,546
Other comprehensive income (loss)	—	—	—	—	—	—	(281)	(281)	—	(281)
Purchases of treasury stock	—	—	36	(2,415)	(60)	—	—	(2,475)	—	(2,475)
Stock issued under employee benefit plans and other	—	—	(8)	407	18	(71)	—	354	—	354
Dividends declared on common stock	—	—	—	—	—	(392)	—	(392)	—	(392)
Changes in noncontrolling interests	—	—	—	—	—	—	—	—	30	30
Balance as of December 31, 2018	683	$ 683	170	$ (9,989)	$ 5,898	$ 15,075	$ (3,823)	$ 7,844	$ 22	$ 7,866
Adoption of new accounting standard	—	—	—	—	—	161	(161)	—	—	—
Net income	—	—	—	—	—	1,001	—	1,001	10	1,011
Other comprehensive income (loss)	—	—	—	—	—	—	274	274	—	274
Purchases of treasury stock	—	—	16	(1,293)	46	—	—	(1,247)	—	(1,247)
Stock issued under employee benefit plans and other	—	—	(9)	518	11	(84)	—	445	—	445
Dividends declared on common stock	—	—	—	—	—	(435)	—	(435)	—	(435)
Changes in noncontrolling interests	—	—	—	—	—	—	—	—	(2)	(2)
Balance as of December 31, 2019	683	$ 683	177	$ (10,764)	$ 5,955	$ 15,718	$ (3,710)	$ 7,882	$ 30	$ 7,912
Adoption of new accounting standard	—	—	—	—	—	(4)	—	(4)	—	(4)
Net income	—	—	—	—	—	1,102	—	1,102	8	1,110
Other comprehensive income (loss)	—	—	—	—	—	—	396	396	—	396
Purchases of treasury stock	—	—	6	(500)	—	—	—	(500)	—	(500)
Stock issued under employee benefit plans and other	—	—	(4)	213	88	—	—	301	—	301
Dividends declared on common stock	—	—	—	—	—	(488)	—	(488)	—	(488)
Changes in noncontrolling interests	—	—	—	—	—	—	—	—	(1)	(1)
Balance as of December 31, 2020	683	$ 683	179	$ (11,051)	$ 6,043	$ 16,328	$ (3,314)	$ 8,689	$ 37	$ 8,726

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

years ended December 31 (in millions)	2020	2019	2018
Cash flows from operations			
Net income	**$ 1,110**	$ 1,011	$ 1,546
Adjustments to reconcile income from continuing operations to net cash from operating activities:			
Loss from discontinued operations, net of tax	**—**	—	6
Depreciation and amortization	**823**	789	771
Pension settlement charges	**46**	755	1
Net periodic pension benefit and other postretirement costs	**81**	22	39
Deferred income taxes	**(88)**	(310)	(263)
Stock compensation	**130**	122	115
Loss on debt extinguishment	**110**	—	—
Intangible asset impairments	**17**	31	—
Settlement of interest rate derivative contracts	**(173)**	—	—
Other	**86**	115	50
Changes in balance sheet items:			
Accounts receivable, net	**(126)**	(65)	(12)
Inventories	**(162)**	4	(197)
Accounts payable and accrued liabilities	**143**	(212)	60
Other	**(127)**	(152)	(99)
Cash flows from operations – continuing operations	**1,870**	2,110	2,017
Cash flows from operations – discontinued operations	**(2)**	(6)	—
Cash flows from operations	**1,868**	2,104	2,017
Cash flows from investing activities			
Capital expenditures	**(709)**	(696)	(659)
Acquisitions and investments, net of cash acquired	**(494)**	(418)	(268)
Other investing activities, net	**24**	14	11
Cash flows from investing activities	**(1,179)**	(1,100)	(916)
Cash flows from financing activities			
Issuances of long-term debt	**1,885**	1,661	—
Payments of long-term debt	**(1,181)**	—	—
(Repayments) borrowings under revolving credit facility	**(226)**	222	—
Cash dividends on common stock	**(473)**	(423)	(376)
Proceeds from stock issued under employee benefit plans	**202**	356	258
Purchases of treasury stock	**(500)**	(1,270)	(2,452)
Other financing activities, net	**(52)**	(48)	(33)
Cash flows from financing activities	**(345)**	498	(2,603)
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash	**57**	(5)	(63)
Increase (decrease) in cash, cash equivalents and restricted cash	**401**	1,497	(1,565)
Cash, cash equivalents and restricted cash at beginning of year	**3,335**	1,838	3,403
Cash, cash equivalents and restricted cash at end of year [1]	**$ 3,736**	$ 3,335	$ 1,838

(1) We did not have restricted cash balances as of December 31, 2019 or 2018. The following table provides a reconciliation of cash, cash equivalents and restricted cash amounts as shown in the consolidated statement of cash flows to the amount reported in the consolidated balance sheet as of December 31, 2020:

As of December 31 (in millions)	2020
Cash and cash equivalents	$ 3,730
Restricted cash included in prepaid expenses and other current assets	6
Cash, cash equivalents and restricted cash	$ 3,736

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 our subsidiaries (collectively, Baxter, we, our or us), provides a broad portfolio of essential healthcare products, including acute and chronic dialysis therapies; sterile intravenous (IV) solutions; infusion systems and devices; parenteral nutrition therapies; inhaled anesthetics; generic injectable pharmaceuticals; and surgical hemostat and sealant products. These products are used by hospitals, kidney dialysis centers, nursing homes, rehabilitation centers, doctors' offices and patients at home under physician supervision. Our global footprint and the critical nature of our products and services play a key role in expanding access to healthcare in emerging and developed countries. We operate in three segments: Americas, EMEA and APAC, which are described in Note 16.

Risks and Uncertainties Related to COVID-19

Our global operations expose us to risks associated with public health crises and epidemics/pandemics, such as the novel strain of coronavirus (COVID-19). COVID-19 has had, and we expect will continue to have, an adverse impact on our operations, supply chains and distribution systems and has increased and we expect will continue to increase our expenses, including as a result of impacts associated with preventive and precautionary measures that we, other businesses and governments are taking. These measures have led to unprecedented restrictions on, disruptions in, and other related impacts on businesses and personal activities. In addition to travel restrictions put in place in early 2020, governments have closed borders, imposed prolonged quarantines and may continue those measures or implement other restrictions and requirements in light of the continuing spread of the pandemic. We expect that these evolving restrictions and requirements, as well as the corresponding need to adapt to new methods of conducting business remotely, will continue to have an adverse effect on our business.

Use of Estimates

The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles (U.S. GAAP) requires us 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 our majority-owned subsidiaries that we control, after elimination of intra-company transactions. Certain reclassifications have been made to conform the prior period consolidated financial statements to the current period presentation.

On February 14, 2020, we completed the acquisition of the product rights to Seprafilm Adhesion Barrier (Seprafilm) from Sanofi for approximately $342 million in cash. Beginning February 14, 2020, our financial statements include the assets, liabilities and operating results of Seprafilm. Refer to Note 2 for additional information.

On October 25, 2019, we acquired 100 percent of Cheetah Medical, Inc. (Cheetah) for total cash consideration of $188 million, net of cash acquired, with the potential for additional cash consideration, up to $40 million, based on clinical and commercial milestones for which the acquisition date fair value was $18 million. Beginning October 25, 2019, our financial statements include the assets, liabilities and operating results of Cheetah. Refer to Note 2 for additional information.

On November 18, 2018, we acquired a controlling financial interest in our joint venture in Saudi Arabia. The acquisition allows us to increase manufacturing output and utilize the facilities for additional capacity for certain products in the region. Beginning November 18, 2018, we consolidated the financial statements of the joint venture with our consolidated financial statements. Refer to Note 2 for additional information.

On March 16, 2018, we acquired two hemostat and sealant products from Mallinckrodt plc: Recothrom Thrombin topical (Recombinant) and Preveleak Surgical Sealant for total consideration of $184 million. Beginning March 16,

2018, our financial statements include the assets, liabilities and operating results of Recothrom and Preveleak. Refer to Note 2 for additional information.

Revenue Recognition

Revenue is measured as the amount of consideration we expect to receive in exchange for transferring goods or providing services. A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and is the unit of account in the contract. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. Some of our contracts have multiple performance obligations. For contracts with multiple performance obligations, we allocate the contract's transaction price to each performance obligation using our best estimate of the standalone selling price of each distinct good or service in the contract. Our global payment terms are typically between 30-90 days.

The majority of our performance obligations are satisfied at a point in time. This includes sales of our broad portfolio of essential healthcare products across our geographic segments, including acute and chronic dialysis therapies; sterile IV solutions; infusion systems and devices; parenteral nutrition therapies; inhaled anesthetics; generic injectable pharmaceuticals; and surgical hemostat and sealant products. For a majority of these sales, our performance obligation is satisfied upon delivery to the customer. Shipping and handling activities are considered to be fulfillment activities and are not considered to be a separate performance obligation.

To a lesser extent, in all of our segments, we enter into other types of contracts, including contract manufacturing arrangements, equipment leases, and certain subscription software and licensing arrangements. We recognize revenue for these arrangements over time or at a point in time depending on our evaluation of when the customer obtains control of the promised goods or services. Revenue is recognized over time when we are creating or enhancing an asset that the customer controls as the asset is created or enhanced or when our performance does not create an asset with an alternative use and we have an enforceable right to payment for performance completed.

As of December 31, 2020, we had $7.6 billion of transaction price allocated to remaining performance obligations related to executed contracts with an original duration of one year or more, which are primarily included in the Americas segment. Some contracts in the United States included in this amount contain index-dependent price increases, which are not known at this time. We expect to recognize approximately 35% of this amount as revenue in 2021, 25% in 2022, 20% in 2023, 10% in each of 2024 and 2025, and the remaining balance thereafter.

Significant Judgments

Revenues from product sales are recorded at the net sales price (transaction price), which includes estimates of variable consideration primarily related to rebates and wholesaler chargebacks. These reserves are based on estimates of the amounts earned or to be claimed on the related sales and are included in accounts receivable, net and accounts payable and accrued liabilities on the consolidated balance sheets. Management's estimates take into consideration historical experience, current contractual and statutory requirements, specific known market events and trends, industry data, and forecasted customer buying and payment patterns. Overall, these reserves reflect our best estimates of the amount of consideration to which we are entitled based on the terms of the contract using the expected value method. The amount of variable consideration included in the net sales price is limited to the amount that is probable not to result in a significant reversal in the amount of the cumulative revenue recognized in a future period. Revenue recognized in the years ended December 31, 2020, 2019 and 2018 related to performance obligations satisfied in prior periods was not material. Additionally, our contracts with customers often include promises to transfer multiple products and services to a customer. Determining whether products and services are considered distinct performance obligations that should be accounted for separately and determining the allocation of the transaction price may require significant judgment.

Contract Balances

The timing of revenue recognition, billings and cash collections results in the recognition of trade accounts receivable, unbilled receivables, contract assets, and customer advances and deposits (contract liabilities) on our consolidated balance sheets. Net trade accounts receivable was $1.7 billion and $1.8 billion as of December 31, 2020 and 2019, respectively.

For contract manufacturing arrangements, revenue is primarily recognized throughout the production cycle, which typically lasts up to 90 days, resulting in the recognition of contract assets until the related services are completed and the customers are billed. Additionally, for arrangements containing a performance obligation to deliver software

that can be used with medical devices, we recognize revenue upon delivery of the software, which results in the recognition of contract assets when customers are billed over time, generally over one to five years. For bundled contracts involving equipment delivered up-front and consumable medical products to be delivered over time, total contract revenue is allocated between the equipment and consumable medical products. In certain of those arrangements, a contract asset is created for the difference between the amount of equipment revenue recognized upon delivery and the amount of consideration initially receivable from the customer. In those arrangements, the contract asset becomes a trade account receivable as consumable medical products are provided and billed, generally over one to seven years.

The following table summarizes our contract assets:

as of December 31 (in millions)		2020		2019
Contract manufacturing services	$	**47**	$	36
Software sales		**40**		43
Bundled equipment and consumable medical products contracts		**47**		52
Contract assets	$	**134**	$	131

The following table summarizes the classification of contract assets and contract liabilities as reported in the consolidated balance sheet:

as of December 31 (in millions)		2020		2019
Accounts receivable, net	$	**70**	$	63
Other non-current assets		**64**		68
Contract assets	$	**134**	$	131
Accounts payable and accrued liabilities	$	**32**	$	—
Other non-current liabilities		**34**		12
Contract liabilities	$	**66**	$	12

In 2020, 2019 and 2018, the amount of revenue recognized that was included in contract liabilities as of December 31, 2019, 2018 and 2017 was not significant.

Practical Expedients

We apply a practical expedient to expense as incurred costs to obtain a contract with a customer when the amortization period would have been one year or less. We do not disclose the value of the transaction price that is allocated to unsatisfied performance obligations for contracts with an original expected length of one year or less. We have elected to use the practical expedient to not adjust the promised amount of consideration for the effects of a significant financing component if it is expected, at contract inception, that the period between when we transfer a promised good or service to a customer and when the customer pays for that good or service will be one year or less. Additionally, all taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction and collected from a customer are excluded from revenue.

Disaggregation of Net Sales

The following tables disaggregate our net sales from contracts with customers by Global Business Unit (GBU) between the U.S. and international:

	2020			2019			2018		
years ended December 31 (in millions)	U.S.	International	Total	U.S.	International	Total	U.S.	International	Total
Renal Care[1]	$ 848	$ 2,909	$ 3,757	$ 791	$ 2,848	$ 3,639	$ 816	$ 2,835	$ 3,651
Medication Delivery[2]	1,782	953	2,735	1,822	977	2,799	1,690	974	2,664
Pharmaceuticals[3]	874	1,249	2,123	940	1,215	2,155	996	1,091	2,087
Clinical Nutrition[4]	342	580	922	320	552	872	321	554	875
Advanced Surgery[5]	518	370	888	535	342	877	466	332	798
Acute Therapies[6]	286	454	740	184	351	535	174	341	515
Other[7]	228	280	508	234	251	485	260	249	509
Total Baxter	$ 4,878	$ 6,795	$ 11,673	$ 4,826	$ 6,536	$ 11,362	$ 4,723	$ 6,376	$ 11,099

1 Renal Care includes sales of our peritoneal dialysis (PD), hemodialysis (HD) and additional dialysis therapies and services.
2 Medication Delivery includes sales of our IV therapies, infusion pumps, administration sets and drug reconstitution devices.
3 Pharmaceuticals includes sales of our premixed and oncology drug platforms, inhaled anesthesia and critical care products and pharmacy compounding services.
4 Clinical Nutrition includes sales of our parenteral nutrition (PN) therapies and related products.
5 Advanced Surgery includes sales of our biological products and medical devices used in surgical procedures for hemostasis, tissue sealing and adhesion prevention.
6 Acute Therapies includes sales of our continuous renal replacement therapies (CRRT) and other organ support therapies focused in the intensive care unit (ICU).
7 Other primarily includes sales of contract manufacturing services from our pharmaceutical partnering business.

Accounts Receivable and Allowance for Doubtful Accounts

In the normal course of business, we provide credit to our customers, perform credit evaluations of these customers and maintain reserves for potential credit losses. In determining the amount of the allowance for doubtful accounts, we consider, among other items, historical credit losses, the past-due status of receivables, payment histories, other customer-specific information, current economic conditions and reasonable and supportable future forecasts. Receivables are written off when we determine they are uncollectible.

The following table summarizes the allowance for doubtful accounts.

years ended December 31 (in millions)	2020	2019
Balance at beginning of period	$ 112	$ 110
Adoption of new accounting standard	4	—
Charged to costs and expenses	11	12
Write-offs	(4)	(8)
Currency translation adjustments	2	(2)
Balance at end of period	$ 125	$ 112

Shipping and Handling Costs

Shipping costs, which are costs incurred to physically move product from our premises to the customer's premises, are classified as selling, general and administrative (SG&A) expenses. Handling costs, which are costs incurred to store, move and prepare products for shipment, are classified as cost of sales. Approximately $325 million in 2020, $324 million in 2019 and $329 million in 2018 of shipping costs were classified in SG&A expenses.

Cash, Cash Equivalents and Restricted Cash

Cash and cash equivalents include cash, certificates of deposit and money market and other short-term funds with original maturities of three months or less. Restricted cash represents cash balances restricted as to withdrawal or use and are included in prepaid expenses and other current assets on the consolidated balance sheets.

Inventories

Inventories are stated at the lower of cost or net realizable value determined by the first-in, first-out method. We review inventories on hand at least quarterly and record 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

Property, plant and equipment are stated at cost. 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 3 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. We capitalize certain computer software and software development costs incurred in connection with developing or obtaining software for internal use. Capitalized software costs are included within machinery and equipment and are amortized on a straight-line basis over the estimated useful lives of the software, which generally range from three to five years.

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.

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

We enter 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 for us to obtain commercialization rights to a product under development, and require us to make upfront payments, contingent milestone payments, profit-sharing, and/or royalty payments. We may be responsible for ongoing costs associated with the arrangements, including R&D cost reimbursements to the counterparty. See the R&D section of this note regarding the accounting treatment of upfront and contingent milestone payments. Any royalty and profit-sharing payments during the commercialization phase are expensed as cost of sales when they become due and payable.

Restructuring Charges

We record 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 the excess of the purchase price over the fair value of acquired assets and liabilities in a business combination. Goodwill is not amortized but is subject to an impairment review annually and whenever indicators of impairment exist. We have the option to assess goodwill for impairment by initially performing a qualitative assessment to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount. If we determine that it is not more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, then the quantitative goodwill impairment test is not required to be performed. If we determine that it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount, or if we do not elect the option to perform an initial qualitative assessment, we perform a quantitative goodwill impairment test. In the quantitative impairment test, we calculate the estimated fair value of the reporting unit. If the carrying amount of the reporting unit exceeds the estimated fair value, an impairment charge is recorded for the amount that its carrying amount, including goodwill, exceeds its fair value, limited to the total amount of goodwill allocated to that reporting unit.

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. We have the option to assess indefinite-lived intangible assets for impairment by first performing qualitative assessments to determine whether it is more-likely-than-not that the fair values of the indefinite-lived intangible assets are less than the carrying amounts. If we determine that it is more-likely-than-not that an indefinite-lived intangible asset is impaired, or if we elect not to perform an initial qualitative assessment, we then perform the quantitative impairment test by comparing the fair value of the indefinite-lived intangible asset with its carrying amount. If the carrying amount exceeds the fair value of the indefinite-lived intangible asset, we write the carrying amount down to the fair value.

We review 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, we group 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. We then compare 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.

Investments in Equity Securities

Our investments in marketable equity securities are classified as other non-current assets and are measured at fair value with gains and losses recognized in other (income) expense, net. We have elected to apply the measurement alternative to equity securities without readily determinable fair values. As such, our non-marketable equity securities are measured at cost, less any impairment, and are adjusted for changes in fair value resulting from observable transactions for identical or similar investments of the same issuer. Gains and losses on non-marketable equity securities are also recognized in other (income) expense, net. Noncontrolling investments in common stock or in-substance common stock are accounted for under the equity method if we have significant influence over the operating and financial policies of the investee.

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. We maintain valuation allowances unless it is more-likely-than-not that the deferred tax asset will be realized. With respect to uncertain tax positions, we determine 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 that we anticipate 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.

Refer to the Recently Adopted Accounting Pronouncements section of this note and Note 12 for additional information related to the Tax Cuts and Jobs Act of 2017 (2017 Tax Act).

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 (income) expense, net, and were not material in 2020, 2019 and 2018.

Derivatives and Hedging Activities

All derivative instruments are recognized as either assets or liabilities at fair value in the consolidated balance sheets and are generally classified as short-term or long-term based on the scheduled maturity of the instrument. We designate certain of our derivatives and foreign-currency denominated debt as hedging instruments in cash flow, fair value or net investment hedges.

For each derivative instrument that is designated and effective as a cash flow hedge, the gain or loss on the derivative is recorded 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 cost of sales and interest expense, net, and are primarily related to forecasted third-party sales denominated in foreign currencies, forecasted intra-company sales denominated in foreign currencies and forecasted interest payments on 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 immediately to earnings, and offsets changes in fair value attributable to a particular risk, such as changes in interest rates, of the hedged item, which are also recognized in earnings. Fair value hedges are classified in interest expense, net, as they hedge the interest rate risk associated with certain of our fixed-rate debt.

We have designated our Euro-denominated senior notes as hedges of our net investment in our European operations and, as a result, mark to spot rate adjustments on the outstanding debt balances are recorded as a component of AOCI.

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

If it is determined that a derivative or nonderivative hedging instrument is no longer highly effective as a hedge, we discontinue hedge accounting prospectively. Gains or losses relating to terminations of effective cash flow hedges generally continue to be deferred and are recognized consistent with the loss or income recognition of the underlying hedged items. However, if it is probable that the hedged forecasted transactions will not occur, any gains or losses would be immediately reclassified from AOCI to earnings. If we terminate a fair value hedge, an amount equal to the cumulative fair value adjustment to the hedged item at the date of termination is amortized to earnings over the remaining term of the hedged item. If we remove a net investment hedge designation, any gains or losses recognized in AOCI are not reclassified to earnings until we sell, liquidate, or deconsolidate the foreign investments that were being hedged.

Cash flows related to the settlement of derivative instruments designated as net investment hedges of foreign operations are classified in the consolidated statements of cash flows within investing activities. Cash flows for all other derivatives, including those that are not designated as a hedge, are classified in the same line item as the cash flows of the related hedged item, which is generally within operating activities.

Refer to Note 14 for further information regarding our derivative and hedging activities.

New Accounting Standards

Recently adopted accounting pronouncements

As of January 1, 2020, we adopted Accounting Standards Update (ASU) No. 2016-13, Financial Instruments - Credit Losses, which requires the measurement of expected lifetime credit losses, rather than incurred losses, for financial instruments held at the reporting date based on historical experience, current conditions and reasonable forecasts. The main objective of this ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held

by a reporting entity at each reporting date. We adopted this ASU using the modified retrospective approach. The impact of the adoption of this ASU was an increase to our allowance for doubtful accounts and a decrease to retained earnings of $4 million.

As of January 1, 2020, we adopted ASU No. 2018-15, Intangibles-Goodwill and Other-Internal-Use Software, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. Our policies for capitalizing implementation costs incurred in a hosting arrangement were not impacted by this ASU. However, we have historically classified those capitalized costs within property, plant and equipment, net on our consolidated balance sheets and as capital expenditures on our consolidated statements of cash flows. Under the new ASU, those capitalized costs are presented as other non-current assets on our consolidated balance sheets and within operating cash flows on our consolidated statements of cash flows. We adopted this ASU on a prospective basis and capitalized $44 million of implementation costs related to hosting arrangements that are service contracts during the year ended December 31, 2020.

As of January 1, 2020, we adopted ASU No. 2017-04, Intangibles – Goodwill and Other, Simplifying the Test for Goodwill Impairment. This standard eliminates Step 2 of the goodwill impairment test and requires a goodwill impairment to be measured as the amount by which a reporting unit's carrying amount exceeds its fair value, not to exceed the carrying amount of its goodwill. The adoption of this standard did not impact our consolidated financial statements.

As of January 1, 2020, we adopted ASU No. 2018-14, Compensation – Retirement Benefits – Defined Benefit Plans – General (Topic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans. This ASU amends ASC 715 to remove certain disclosures, clarify certain existing disclosures and add additional disclosures. The adoption of this standard did not have a material impact on our consolidated financial statements.

As of January 1, 2019, we adopted ASU No. 2016-02, Leases (Topic 842). Under this guidance, lessees are required to recognize a right-of-use asset and a lease liability on the balance sheet for all operating leases, other than those that meet the definition of a short-term lease. We adopted Topic 842 using the modified retrospective method. We elected the following practical expedients when assessing the transition impact: i) not to reassess whether any expired or existing contracts as of the adoption date are or contain leases; ii) not to reassess the lease classification for any expired or existing leases as of the adoption date; and iii) not to reassess initial direct costs for any existing leases as of the adoption date. The adjustment to record operating lease right-of-use assets and operating lease liabilities was $502 million as of January 1, 2019. The impact to the consolidated statements of income was not material and there was no net impact to the consolidated statements of cash flows.

As of January 1, 2019, we adopted ASU No. 2018-02, Reclassification of Certain Tax Effects from AOCI. As a result of the enactment of the 2017 Tax Act, this guidance provides for a reclassification of certain tax effects from AOCI to retained earnings. The impact of the adoption of this standard was a $161 million increase to retained earnings.

As of January 1, 2018, we adopted ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other than Inventory (ASU No. 2016-16) using the modified retrospective method. ASU No. 2016-16 generally accelerates the recognition of income tax consequences for intra-company asset transfers other than inventory. We recorded a $70 million reduction to retained earnings upon adoption of the standard on January 1, 2018 related to the unrecognized income tax effects of asset transfers that occurred prior to adoption. Net income increased $14 million for the year ended December 31, 2018 as a result of the adoption of the standard.

As of January 1, 2018, we adopted 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 to receive when products are transferred to customers. The primary impact of the new standard relates to our contract manufacturing operations and software arrangements. Certain contract manufacturing arrangements require revenue recognition over-time in situations in which we produce products that have no alternative use and we have an enforceable right to payment for performance completed to date, inclusive of a reasonable profit margin. This results in an acceleration of revenue recognition for certain contractual arrangements as compared to recognition under prior accounting literature. The new guidance also impacts our arrangements subject to previous software revenue recognition guidance, as we are required to recognize as revenue a significant portion of the contract consideration upon delivery of the software compared to the previous practice of recognizing the contract consideration ratably over time for certain arrangements. We adopted Topic 606

using the modified retrospective method. The adjustment upon adoption increased our opening balance of retained earnings by approximately $45 million, net of tax, on January 1, 2018. The impact to net sales as a result of the adoption was an increase of $7 million for the year ended December 31, 2018. The impact to cost of sales was not material for the year ended December 31, 2018.

In December 2017, the SEC issued guidance for situations where the accounting for certain elements of the 2017 Tax Act could not be completed prior to the release of a company's financial statements. For specific elements of the 2017 Tax Act, we determined a reasonable estimate for certain effects and recorded that estimate as a provisional amount in 2017. The guidance provided a measurement period to allow a company to account for these specific elements, which began in the reporting period that included the enactment of the 2017 Tax Act and ended when we obtained, prepared and analyzed the information needed in order to complete its accounting assessments or one year, whichever occurred sooner. The resulting tax effects were to be recognized in the period the assessment was complete, and included in income tax expense, accompanied by appropriate disclosures. The measurement period closed in 2018 and we recorded adjustments to reduce income tax expense by $207 million in 2018. Refer to Note 12 for additional information related to the 2017 Tax Act.

NOTE 2

ACQUISITIONS AND OTHER ARRANGEMENTS

Results of operations of acquired companies are included in our 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 related to business combinations is recognized at its estimated fair value on the acquisition date. Subsequent changes to the fair value of those contingent consideration arrangements are recognized in earnings. Contingent consideration related to acquisitions may consist of development, regulatory and commercial milestone payments, and sales or earnings-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 the probability of payment, and increases or decreases as the probability of payment or expectation of timing or amount 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 or amount of payments changes.

Seprafilm Adhesion Barrier

On February 14, 2020, we completed the acquisition of the product rights to Seprafilm Adhesion Barrier (Seprafilm) from Sanofi for approximately $342 million in cash. Seprafilm is indicated for use in patients undergoing abdominal or pelvic laparotomy as an adjunct intended to reduce the incidence, extent and severity of postoperative adhesions between the abdominal wall and the underlying viscera such as omentum, small bowel, bladder, and stomach, and between the uterus and surrounding structures such as tubes and ovaries, large bowel, and bladder. We concluded that the acquired assets met the definition of a business and accounted for the transaction as a business combination using the acquisition method of accounting.

The following table summarizes the fair values of the assets acquired as of the acquisition date:

(in millions)		
Assets acquired		
Inventories	$	18
Goodwill		28
Other intangible assets		296
Total assets acquired	$	342

For the year ended December 31, 2020, the results of operations of the acquired business have been included in our consolidated statement of income since the date the business was acquired. The acquisition contributed $94 million of net sales and $18 million of pretax income for the year ended December 31, 2020. Acquisition and

integration costs, primarily incremental cost of sales relating to inventory fair value step-ups, associated with the acquisition were $15 million for the year ended December 31, 2020.

We allocated $286 million and $10 million of the total consideration to the Seprafilm developed product rights and customer relationships with useful lives of 10 and 7 years, respectively. The fair values of the intangible assets were determined using the income approach. The discount rates used to measure the developed product rights and customer relationship intangible assets were 14.8% and 11.0%, respectively. We consider the fair values of the intangible assets to be Level 3 measurements due to the significant estimates and assumptions we used in establishing the estimated fair values.

The goodwill, which is deductible for tax purposes, includes the value of the overall strategic benefits provided to our product portfolio of hemostats and sealants and is included in the Americas and APAC segments.

Cheetah Medical, Inc.

On October 25, 2019, we acquired 100 percent of Cheetah Medical, Inc. (Cheetah), a leading provider of hemodynamic monitoring technologies, for total upfront cash consideration of $195 million, net of cash acquired, with the potential for additional cash consideration, up to $40 million, based on clinical and commercial milestones for which the acquisition date fair value was $18 million. In 2020, we received $7 million from the sellers as a result of an acquisition price adjustment in accordance with the acquisition agreement. Additionally, we recorded measurement period adjustments in 2020 to decrease the net deferred tax liabilities acquired by $20 million. The measurement period adjustments reduced goodwill and did not impact our results of operations. The fair value of the potential contingent consideration payments was estimated by applying a probability-weighted expected payment model for the clinical milestone and a Monte Carlo simulation model for the commercial milestone, which were then discounted to present value. The fair value measurements were based on Level 3 inputs.

The following table summarizes the fair value of consideration transferred:

(in millions)		
Cash consideration transferred	$	190
Contingent consideration		18
Total consideration	$	208

The following table summarizes the fair values of the assets acquired and liabilities assumed as of the acquisition date:

(in millions)		
Assets acquired and liabilities assumed		
Cash	$	2
Accounts receivable, net		3
Inventories		1
Prepaid expenses and other current assets		1
Property, plant and equipment		1
Goodwill		84
Other intangible assets		131
Operating lease right-of-use assets		1
Accounts payable and accrued liabilities		(4)
Other non-current liabilities		(12)
Total assets acquired and liabilities assumed	$	208

The results of operations of the acquired business have been included in our consolidated statement of income since the date the business was acquired and were not significant. Acquisition and integration costs associated with the acquisition were $5 million and $3 million in 2020 and 2019, respectively.

We allocated $123 million of the total consideration to the developed product rights with a weighted-average useful life of 15 years and $8 million to customer relationships with a useful life of 13 years. The fair values of the intangible assets were determined using the income approach. The discount rates used to measure the intangible assets were 11.0% for developed product rights and 10.0% for customer relationships. We consider the fair value of the intangible assets to be Level 3 measurements due to the significant estimates and assumptions used by management in establishing the estimated fair values.

The goodwill, which is not deductible for tax purposes, includes the value of potential future technologies as well as the overall strategic benefits provided to our product portfolio and is included primarily in the Americas segment.

Recothrom and Preveleak

On March 16, 2018, we acquired two hemostat and sealant products from Mallinckrodt plc: Recothrom Thrombin topical (Recombinant), the first and only stand-alone recombinant thrombin, and Preveleak Surgical Sealant, which is used in vascular reconstruction. We concluded that the acquired assets met the definition of a business and accounted for the transaction as a business combination using the acquisition method of accounting. The purchase price included an upfront payment of approximately $163 million in 2018. In addition, the purchase price included new and assumed contingent payments in the future related to inventory and technology transfer milestones and net revenue royalty payments with an estimated fair value of $21 million as of the acquisition date. The maximum aggregate amounts payable for the inventory and technology transfer and net revenue royalties were $7 million, $15 million and $143 million, respectively. The fair value of the potential contingent consideration payments was estimated by applying a probability-weighted expected payment model for the inventory and technology transfer payments and a Monte Carlo simulation model for contingent royalty payments, which were then discounted to present value.

The following table summarizes the fair value of consideration transferred:

(in millions)		
Cash consideration transferred	**$**	**163**
Contingent consideration		21
Total consideration	$	184

The following table summarizes the fair value of the assets acquired as of the acquisition date:

(in millions)		
Assets acquired		
Accounts receivable, net	$	2
Inventory		80
Goodwill		2
Other intangible assets		100
Total assets acquired	$	184

The results of operations of the acquired business have been included in our consolidated statement of income since the date the business was acquired. The Recothrom and Preveleak acquisitions contributed $80 million and $52 million of net sales for the years ended December 31, 2019 and 2018, respectively. Acquisition and integration costs, including incremental cost of sales relating to inventory fair value step-ups, associated with the acquisition were $20 million and $17 million, respectively, in 2019 and 2018.

We allocated $100 million of the total consideration to the Recothrom and Preveleak developed product rights with a weighted-average useful life of 10 years. The fair value of the intangible assets was determined using the income approach. The discount rates used to measure the Recothrom and Preveleak intangible assets were 12.5% and 13.0%, respectively. We consider the fair value of the intangible assets to be Level 3 measurements due to the significant estimates and assumptions used by management in establishing the estimated fair values.

The goodwill, which is deductible for tax purposes, includes the value of potential future technologies as well as the overall strategic benefits provided to our surgical portfolio of hemostats and sealants, and is included in the Americas segment.

Saudi Arabia Joint Venture

In November 2018, we acquired additional equity to obtain a 51% controlling financial interest of our joint venture in Saudi Arabia that was previously accounted for under the equity method of accounting. The acquisition allows us to increase manufacturing output and utilize the facilities for additional capacity for certain products in the region. Beginning in the fourth quarter of 2018, we consolidated the financial statements of the joint venture with our consolidated financial statements. The results of operations of the joint venture have been included in our consolidated statement of income since the date the business was acquired and were not significant.

The guidance on accounting for business combinations requires that an acquirer remeasure its previously held equity interest in an acquiree at its acquisition date fair value and recognize the resulting gain or loss in earnings. Thus, in connection with the acquisition, the carrying amount of our previously held equity interest in the joint venture was remeasured to fair value at the acquisition date, resulting in a gain in the fourth quarter of 2018 of $24 million, which was included in other (income) expense, net in the consolidated statement of income. The fair value of the equity interest on the acquisition date was $39 million and we consider the fair value to be a Level 3 measurement due to the significant estimates and assumptions used by management in establishing the estimated fair value.

The following table summarizes the fair value of consideration transferred:

(in millions)		
Consideration transferred		
Cash	$	2
Fair value of equity investment		39
Noncontrolling interest		39
Total consideration transferred	$	80

The following table summarizes the fair value of assets acquired and liabilities assumed as of the acquisition date:

(in millions)		
Assets acquired and liabilities assumed		
Cash	$	4
Accounts receivable, net		25
Inventories		8
Property, plant and equipment		12
Goodwill		17
Other intangible assets		40
Other non-current assets		2
Short-term debt		(4)
Accounts payable and accrued liabilities		(16)
Other non-current liabilities		(8)
Total assets acquired and liabilities assumed	$	80

The goodwill, which is not deductible for tax purposes, includes the value to create a more fully integrated supply chain and go-to-market business model and is included in the EMEA segment.

In connection with the acquisition, we reacquired certain license rights which had provided the joint venture with the exclusive and perpetual rights to manufacture and distribute our products for sale in specified territories. Reacquired license rights with fair values totaling $10 million were assigned a useful life of 12 years. Other amortizable intangible assets consist of customer relationships and have a weighted-average estimated useful life of 10 years. The intangible assets were valued using the income approach. The discount rates used to measure the reacquired rights and customer relationship intangible assets were 13.0% and 14.0%, respectively. We consider the fair value of each of the acquired intangible assets to be Level 3 measurements due to the significant estimates and assumptions used by management in establishing the estimated fair values.

The fair value of the 49% noncontrolling interest in the joint venture is estimated to be $39 million. The fair value of the noncontrolling interest was estimated using the income approach applied to the projected cash flows of the joint

venture. As the joint venture is a private company, the fair value measurement is based on significant inputs that are not observable in the market and thus represents a Level 3 measurement.

Claris Injectables Limited

On July 27, 2017, we acquired 100 percent of Claris Injectables Limited (Claris), a wholly owned subsidiary of Claris Lifesciences Limited, for total cash consideration of approximately $629 million, net of cash acquired. Through the acquisition, we added 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.

In the first quarter of 2018, we settled certain claims with Claris Lifesciences Limited related to the acquired operations and terminated a development agreement with Dorizoe Lifesciences Limited. As a result, we received cash of $73 million in February 2018 and were released from an accrued liability to Claris Lifesciences Limited of $7 million. The total of $80 million is reflected as a benefit within other operating income, net in the 2018 consolidated statement of income.

Other Business Combinations

Total consideration transferred for other acquisitions totaled $18 million, $10 million and $36 million in 2020, 2019 and 2018, respectively, and primarily resulted in the recognition of goodwill and other intangible assets. These acquisitions did not materially affect our results of operations.

We have not presented pro forma financial information for any of the 2020, 2019 or 2018 acquisitions because their results are not material to our consolidated financial statements.

Other Business Development Activities

Transderm Scop

In February 2021, we agreed to acquire the rights to Transderm Scop from subsidiaries of GlaxoSmithKline for an upfront purchase price of $55 million plus the cost of acquired inventory and the potential for additional cash consideration of $30 million based upon a successful technology transfer by a specified date. We currently sell this product under a distribution license to the U.S. institutional market. Transderm Scop is indicated for post-operative nausea and vomiting in the U.S. and motion sickness in European markets. We expect the transaction to close late in the first quarter or early in the second quarter of 2021, subject to the satisfaction of closing conditions.

Caelyx and Doxil

In December 2020, we agreed to acquire the rights to Caelyx and Doxil, the branded versions of liposomal doxorubicin, from a subsidiary of Johnson & Johnson for specified territories outside of the U.S. for $325 million. We previously acquired the U.S. rights to this product in 2019. Liposomal doxorubicin is a chemotherapy medicine used to treat various types of cancer. We expect the transaction to close late in the first quarter or early in the second quarter of 2021, subject to the satisfaction of regulatory approvals and other closing conditions.

Celerity Pharmaceuticals, LLC

In September 2013, we entered into an agreement with Celerity Pharmaceutical, LLC (Celerity) to develop certain acute care generic injectable premix and oncolytic products through regulatory approval. We transferred our rights in these products to Celerity and Celerity assumed ownership and responsibility for development of the products. We are obligated to purchase the individual product rights from Celerity if the products obtain regulatory approval. We did not purchase any product rights from Celerity in 2020. In 2019 and 2018, we paid $86 million and $72 million, respectively, to acquire the rights to various products that have received regulatory approval. The payment in 2018 for one of the products was based on tentative approval from the U.S. Food and Drug Administration (FDA). Full approval from FDA was received in the third quarter of 2018. We capitalized the purchase prices of products that were purchased upon regulatory approval as intangible assets and are amortizing the assets over their estimated useful lives of 12 years. As of December 31, 2020, our contingent future payments total up to $77 million upon Celerity's achievement of specified regulatory approvals. In December 2020, we entered into an agreement with a third party to divest one of the products that is currently being developed by Celerity if that product receives regulatory approval in the U.S. and/or European Union. If regulatory approval is obtained, we would incur a loss ranging from $30 million to $60 million for the difference between our purchase price and the divestiture proceeds in connection with that transaction.

Other Asset Acquisitions

During 2020, we acquired the rights to multiple products for $73 million. The purchase prices were capitalized as developed-technology intangible assets and are being amortized over a weighted-average estimated useful life of 11 years.

During 2020, we also entered into distribution license arrangements for multiple products that have not yet obtained regulatory approval for upfront cash payments of $22 million. The cash paid was treated as R&D expenses on our consolidated statement of income. We could make additional payments of up to $44 million upon the achievement of certain development, regulatory or commercial milestones.

During 2019, we acquired the rights to multiple products for an aggregate purchase price of $80 million. The purchase prices were capitalized primarily as developed-technology intangible assets and are being amortized over a weighted-average useful of 10 years.

Other

In addition to the significant arrangements described above, we have entered into several other collaborative arrangements. We could make additional payments of up to $25 million upon the achievement of certain development and regulatory milestones, in addition to future payments related to contingent commercialization milestones, profit-sharing and royalties.

NOTE 3

SUPPLEMENTAL FINANCIAL INFORMATION

Inventories

as of December 31 (in millions)	2020	2019
Raw materials	**$ 460**	$ 377
Work in process	**196**	185
Finished goods	**1,260**	1,091
Inventories	**$ 1,916**	$ 1,653

Prepaid Expenses and Other Current Assets

as of December 31 (in millions)	2020	2019
Prepaid value added taxes	**$ 163**	$ 140
Prepaid income taxes	**183**	164
Other	**342**	315
Prepaid expenses and other current assets	**$ 688**	$ 619

Property, Plant and Equipment, Net

as of December 31 (in millions)	2020	2019
Land and land improvements	**$ 166**	$ 148
Buildings and leasehold improvements	**1,849**	1,761
Machinery and equipment	**6,884**	6,671
Equipment with customers	**1,671**	1,489
Construction in progress	**701**	591
Total property, plant and equipment (PP&E), at cost	**11,271**	10,660
Accumulated depreciation	**(6,549)**	(6,148)
PP&E, net	**$ 4,722**	$ 4,512

Depreciation expense was $601 million in 2020, $606 million in 2019 and $602 million in 2018.

Other Non-Current Assets

as of December 31 (in millions)	2020	2019
Deferred tax assets	**$ 748**	$ 621
Non-current receivables, net	**158**	163
Contract assets	**64**	68
Capitalized implementation costs in hosting arrangements	**68**	—
Pension and other postretirement benefits	**155**	77
Investments	**135**	76
Other	**67**	64
Other non-current assets	**$ 1,395**	$ 1,069

Accounts Payable and Accrued Liabilities

as of December 31 (in millions)	2020	2019
Accounts payable	**$ 1,043**	$ 892
Common stock dividends payable	**125**	111
Employee compensation and withholdings	**415**	456
Property, payroll and certain other taxes	**148**	113
Restructuring liabilities	**92**	83
Accrued rebates	**239**	208
Operating lease liabilities	**111**	101
Income taxes payable	**135**	85
Pension and other postretirement benefits	**48**	45
Other	**571**	595
Accounts payable and accrued liabilities	**$ 2,927**	$ 2,689

Other Non-Current Liabilities

as of December 31 (in millions)	2020	2019
Pension and other postretirement benefits	**$ 1,214**	$ 1,260
Deferred tax liabilities	**143**	192
Long-term tax liabilities	**84**	81
Interest rate contracts	**—**	52
Litigation and environmental reserves	**29**	30
Restructuring liabilities	**21**	9
Other	**182**	108
Other non-current liabilities	**$ 1,673**	$ 1,732

Interest Expense, net

years ended December 31 (in millions)	2020	2019	2018
Interest costs	**$ 162**	$ 120	$ 105
Interest costs capitalized	**(9)**	(9)	(12)
Interest expense	**153**	111	93
Interest income	**(19)**	(40)	(48)
Interest expense, net	**$ 134**	$ 71	$ 45

Other (Income) Expense, net

years ended December 31 (in millions)	2020	2019	2018
Foreign exchange losses (gains), net	**$ 49**	$ 37	$ (14)
Investment gains	**(13)**	(1)	(3)
Saudi Arabia joint venture gain	**—**	—	(24)
Loss on debt extinguishment	**110**	—	—
Pension settlements	**46**	755	1
Pension and other postretirement benefit plans	**(3)**	(53)	(49)
Other, net	**1**	(7)	11
Other (income) expense, net	**$ 190**	$ 731	$ (78)

Supplemental Cash Flow Information

Non-Cash Investing Activities

Purchases of property, plant and equipment included in accounts payable and accrued liabilities as of December 31, 2020, 2019 and 2018 was $102 million, $87 million and $97 million, respectively.

Other Supplemental Information

year ended December 31 (in millions)	2020	2019	2018
Interest paid, net of portion capitalized	**$ 137**	$ 103	$ 94
Income taxes paid	**$ 249**	$ 294	$ 301

NOTE 4

GOODWILL AND OTHER INTANGIBLE ASSETS, NET

Goodwill

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

(in millions)	Americas	EMEA	APAC	Total
December 31, 2018	$ 2,386	$ 393	$ 223	$ 3,002
Additions	101	10	—	111
Acquisition accounting adjustments	(2)	(5)	—	(7)
Currency translation	(57)	(13)	(6)	(76)
December 31, 2019	$ 2,428	$ 385	$ 217	$ 3,030
Additions	26	1	7	34
Acquisition accounting adjustments	(45)	(6)	(2)	(53)
Currency translation	165	26	15	206
December 31, 2020	$ 2,574	$ 406	$ 237	$ 3,217

As of December 31, 2020, there were no reductions in goodwill relating to impairment losses.

Other Intangible Assets, Net

The following table is a summary of our other intangible assets.

(in millions)	Developed technology, including patents	Other amortized intangible assets	Indefinite-lived intangible assets	Total
December 31, 2020				
Gross other intangible assets	$ 2,713	$ 495	$ 169	$ 3,377
Accumulated amortization	(1,374)	(332)	—	$ (1,706)
Other intangible assets, net	$ 1,339	$ 163	$ 169	$ 1,671
December 31, 2019				
Gross other intangible assets	$ 2,309	$ 464	$ 173	$ 2,946
Accumulated amortization	(1,190)	(285)	—	$ (1,475)
Other intangible assets, net	$ 1,119	$ 179	$ 173	$ 1,471

Intangible asset amortization expense was $222 million in 2020, $183 million in 2019, and $169 million in 2018. The anticipated annual amortization expense for definite-lived intangible assets recorded as of December 31, 2020 is $231 million in 2021, $227 million in 2022, $212 million in 2023, $189 million in 2024 and $155 million in 2025.

In the second quarters of 2020 and 2019, we recognized impairment charges of $17 million and $31 million, respectively, related to developed-technology intangible assets due to declines in market expectations for the related products. The fair values of the intangible assets were measured using a discounted cash flow approach and the charges are classified within cost of sales in the accompanying consolidated statements of income for the years ended December 31, 2020 and December 31, 2019. We consider the fair values of the assets to be Level 3 measurements due to the significant estimates and assumptions we used in establishing the estimated fair values.

NOTE 5

DEBT AND CREDIT FACILITIES

Debt Outstanding

At December 31, 2020 and 2019, we had the following debt outstanding:

as of December 31 (in millions)	Effective interest rate in 2020[1]	**2020[1]**	2019[1]
Variable-rate loan due 2020	1.0 %	**$ —**	$ 313
1.7% notes due 2021	1.9 %	**400**	398
2.4% notes due 2022	2.5 %	**203**	203
0.40% notes due 2024	0.6 %	**915**	834
1.3% notes due in 2025	1.4 %	**734**	669
2.6% notes due 2026	2.7 %	**746**	746
7.65% debentures due 2027	7.7 %	**5**	5
6.625% debentures due 2028	5.6 %	**97**	98
1.3% notes due 2029	1.4 %	**912**	830
3.95% notes due 2030	4.0 %	**495**	—
1.73% notes due 2031	3.2 %	**644**	—
6.25% notes due 2037	6.3 %	**265**	265
3.65% notes due 2042	3.7 %	**6**	6
4.5% notes due 2043	4.6 %	**256**	255
3.5% notes due 2046	3.6 %	**440**	440
Finance leases and other	9.2 %	**74**	62
Total debt		**6,192**	5,124
Current portion		**(406)**	(315)
Long-term portion		**$ 5,786**	$ 4,809

[1]Book values include any discounts, premiums and adjustments related to hedging instruments and effective interest rates reflect amortization of those items.

Significant Debt Activity

In May 2019, we issued €750 million of 0.40% senior notes due May 2024 and €750 million of 1.3% senior notes due May 2029. We have designated these debt instruments as net investment hedges of our European operations. Refer to Note 14 for additional information.

In March 2020, we issued $750 million of 3.75% senior notes due in October 2025 and $500 million of 3.95% senior notes due in April 2030 (collectively, the March 2020 senior notes). Pursuant to a registration rights agreement (the March 2020 Registration Rights Agreement) with the initial purchasers of the March 2020 senior notes, we agreed to use our commercially reasonable efforts to file a registration statement with respect to a registered offer to exchange the March 2020 senior notes for new notes with terms substantially identical in all material respects to the March 2020 senior notes and to have such registration statement declared effective under the U.S. Securities Act of 1933. If we fail to have such registration statement declared effective by September 17, 2021 (a registration default), the annual interest rate on the March 2020 senior notes would increase by 0.25% for the 90-day period immediately following such registration default and by an additional 0.25% thereafter. The maximum additional interest rate is 0.50% per annum and if a registration default is corrected, the March 2020 senior notes would revert to the original interest rates. The payment of additional interest is the sole remedy for the holders of the March 2020 senior notes in the event of a registration default.

In October 2020, we repaid $322 million of variable-rate loans that matured in 2020.

In November 2020, we issued $650 million of 1.73% senior notes due in April 2031 (the November 2020 senior notes). Pursuant to a registration rights agreement (the November 2020 Registration Rights Agreement) with the initial purchasers of the November 2020 senior notes, we agreed to use our commercially reasonable efforts to file a registration statement with respect to a registered offer to exchange the November 2020 senior notes for new notes with terms substantially identical in all material respects to the November 2020 senior notes and to have such registration statement declared effective under the U.S. Securities Act of 1933. If we fail to have such registration statement declared effective by April 26, 2022 (a registration default), the annual interest rate on the November 2020 senior notes would increase by 0.25% for the 90-day period immediately following such registration default and by an additional 0.25% thereafter. The maximum additional interest rate is 0.50% per annum and if a registration default is corrected, the November 2020 senior notes would revert to the original interest rates. The payment of additional interest is the sole remedy for the holders of the November 2020 senior notes in the event of a registration default.

We used the proceeds from the November 2020 senior notes, along with cash on hand, to redeem the $750 million of 3.75% senior notes due in October 2025 that were issued in March 2020. In connection with the redemption of the $750 million of 3.75% senior notes due in October 2025, including the payment of a $104 million make-whole premium to the debt holders, we recognized a pre-tax loss of $110 million from the early extinguishment of the debt, which is included in other (income) expense, net in 2020.

Credit Facilities

In December 2019, we entered into new U.S. and Euro-denominated credit facilities. Our U.S. dollar-denominated revolving credit facility has a capacity of $2.0 billion and our Euro-denominated revolving credit facility has a capacity of approximately €200 million. Each of the facilities matures in 2024. As of December 31, 2020, we had no borrowings outstanding under our U.S. dollar-denominated or Euro-denominated credit facilities. As of December 31, 2019, we had €200 million ($224 million) outstanding under our Euro-denominated facility at a 0.91% interest rate and no borrowings outstanding under our U.S. dollar-denominated credit facility. The facilities enable us to borrow funds on an unsecured basis at variable interest rates, and contain various covenants, including a maximum net leverage ratio. Fees under the credit facilities are 0.09% annually as of December 31, 2020 and are based on our credit ratings and the total capacity of the facility.

We also maintain other credit arrangements, which totaled approximately $200 million as of December 31, 2020 and 2019, respectively. There were no amounts outstanding under these arrangements as of December 31, 2020 and there was $2 million outstanding as of December 31, 2019.

As of December 31, 2020, we were 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.

Future Debt Maturities

as of and for the years ended December 31 (in millions)		Debt maturities
2021	$	406
2022		208
2023		4
2024		924
2025		740
Thereafter		3,951
Total obligations and commitments		6,233
Discounts, premiums, and adjustments relating to hedging instruments		(41)
Total debt	$	6,192

NOTE 6

LEASES

Lessee Activity

We have entered into operating and finance leases primarily for office, manufacturing, warehouse and R&D facilities, vehicles and equipment. Our leases have remaining terms from 1 to 42 years and some of those leases include options that provide us with the ability to extend the lease term for periods ranging from 1 to 16 years. Such options are included in the lease term when it is reasonably certain that the option will be exercised.

Certain of our leases include provisions for variable lease payments which are based on, but not limited to, maintenance, insurance, taxes, index escalations and usage-based amounts. For all asset classes, we have elected to apply a practical expedient to account for other services within lease contracts as components of the lease. We also have elected to apply a practical expedient for short-term leases whereby we do not recognize a lease liability and right-of-use asset for leases with a term of less than 12 months.

We classify our leases as operating or finance at the lease commencement date. Finance leases are generally those leases for which we will pay substantially all of the underlying asset's fair value or will use the asset for all or a major part of its economic life, including circumstances in which we will ultimately own the asset. All other leases are operating leases. For finance leases, we recognize interest expense using the effective interest method and we recognize amortization expense on the right-of-use asset over the shorter of the lease term or the useful life of the asset. For operating leases, we recognize lease cost on a straight-line basis over the term of the lease.

Lease liabilities and right-of-use assets are recognized at the lease commencement date based on the present value of minimum lease payments over the lease term. We determine the present value of payments under a lease based on our incremental borrowing rate as of the lease commencement date. The incremental borrowing rate is equal to the rate of interest that we would have to pay to borrow on a collateralized basis over a similar term in an amount equal to the lease payments in a similar economic environment. For operating leases that commenced prior to our adoption of Topic 842, we measured the lease liabilities and right-of-use assets using our incremental borrowing rate as of January 1, 2019.

The components of lease cost for the years ended December 31, 2020 and 2019 were:

(in millions)	2020	2019
Operating lease cost	$ 115	$ 121
Finance lease cost		
Amortization of right-of-use assets	5	5
Interest on lease liabilities	5	5
Variable lease cost	54	89
Lease cost	$ 179	$ 220

For the year ended December 31, 2018, rent expense was $152 million.

The following table contains supplemental cash flow information related to leases for the years ended December 31, 2020 and 2019:

(in millions)	2020	2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 127	$ 119
Operating cash flows from finance leases	4	4
Financing cash flows from finance leases	4	4
Right-of-use operating lease assets obtained in exchange for lease obligations	67	207
Right-of-use finance lease assets obtained in exchange for lease obligations	8	—

We have entered into lease agreements with aggregate future payments of $46 million for leases that have not yet commenced as of December 31, 2020. Supplemental balance sheet information related to leases as of December 31, 2020 and 2019 include:

(in millions)	December 31, 2020	December 31, 2019
Operating leases		
Operating lease right-of-use assets	$ 603	$ 608
Accounts payable and accrued liabilities	$ 111	$ 101
Operating lease liabilities	501	510
Total operating lease liabilities	$ 612	$ 611
Finance leases		
Property, plant and equipment, at cost	$ 76	$ 63
Accumulated depreciation	(28)	(19)
Property, plant and equipment, net	$ 48	$ 44
Current maturities of long-term debt and finance lease obligations	$ 1	$ —
Long-term debt and finance lease obligations	64	54
Total finance lease liabilities	$ 65	$ 54

Lease term and discount rates as of December 31, 2020 and 2019 were:

	December 31, 2020	December 31, 2019
Weighted-average remaining lease term (years)		
Operating leases	9	10
Finance leases	13	15
Weighted-average discount rate		
Operating leases	2.2 %	2.8 %
Finance leases	10.3 %	10.6 %

Maturities of operating and finance lease liabilities as of December 31, 2020 were:

(in millions)	Finance Leases	Operating Leases
2021	$ 9	$ 121
2022	9	102
2023	8	84
2024	8	69
2025	8	57
Thereafter	78	240
Total minimum lease payments	120	673
Less: imputed interest	(55)	(61)
Present value of lease liabilities	$ 65	$ 612

Lessor Activity

We lease medical equipment, such as renal dialysis equipment and infusion pumps, to customers, primarily in conjunction with arrangements to provide consumable medical products such as dialysis therapies, intravenous (IV) fluids and inhaled anesthetics. Certain of our equipment leases are classified as sales-type leases and the remainder are operating leases. The terms of the related contracts, including the proportion of fixed versus variable payments and any options to shorten or extend the lease term, vary by customer. We allocate revenue between equipment leases and medical products based on their standalone selling prices.

The components of lease revenue for the years ended December 31, 2020 and 2019 were:

(in millions)	2020	2019
Sales-type lease revenue	$ 38	$ 35
Operating lease revenue	84	61
Variable lease revenue	80	85
Total lease revenue	$ 202	$ 181

The components of our net investment in sales-type leases as of December 31, 2020 and 2019 were:

(in millions)	2020	2019
Minimum lease payments	$ 122	$ 110
Unguaranteed residual values	12	11
Net investment in leases	$ 134	$ 121

Our net investment in sales-type leases is classified as follows in the accompanying consolidated balance sheets:

(in millions)	December 31, 2020	December 31, 2019
Accounts receivable, net	$ 39	$ 45
Other non-current assets	95	76
Total	$ 134	$ 121

Our net investment in sales-type leases was $134 million as of December 31, 2020, of which $11 million originated in 2016 and prior, $14 million in 2017, $35 million in 2018, $36 million in 2019 and $38 million in 2020.

Maturities of sales-type and operating leases as of December 31, 2020 were:

(in millions)	Sales-type Leases	Operating Leases
2021	$ 51	$ 85
2022	34	76
2023	26	72
2024	17	54
2025	4	28
Thereafter	2	7
Total minimum lease payments	134	$ 322
Less: imputed interest	(12)	
Present value of minimum lease payments	$ 122	

NOTE 7
COMMITMENTS AND CONTINGENCIES

Refer to Note 2 for information regarding our unfunded contingent payments associated with collaborative and other arrangements.

Indemnifications

During the normal course of business, we make indemnities, commitments and guarantees pursuant to which we 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 with Baxalta); and (vi) contractual indemnities for our directors and certain of our executive officers for services provided to or at the request of us. In addition, under our Amended and Restated Certificate of Incorporation, and consistent with Delaware General Corporation Law, we have agreed to indemnify our 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 we could be obligated to make. To help address some of these risks, we maintain various insurance coverages. Based on historical experience and evaluation of the agreements, we do not believe that any payments related to our indemnities will have a material impact on our financial condition or results of operations.

Legal Contingencies

We are involved in product liability, patent, commercial, and other legal matters that arise in the normal course of our business. We record 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, 2020 and 2019, our total recorded reserves with respect to legal and environmental matters were $40 million and $56 million, respectively, and there were no related receivables.

We have established reserves for certain of the matters discussed below. We are 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 our liability in connection with these claims cannot be estimated and the resolution thereof in any reporting period could have a significant impact on our 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 our consolidated financial position. While we believe that we have valid defenses in the matters set forth below, litigation is inherently uncertain, excessive verdicts do occur, and we may incur material judgments or enter into material settlements of claims.

In addition to the matters described below, we remain 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 our operations and monetary sanctions, including significant civil or criminal penalties. With respect to intellectual property, we may be exposed to significant litigation concerning the scope of our 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.

Environmental

We are involved as a potentially responsible party (PRP) for environmental clean-up costs at six Superfund sites. Under the U.S. Superfund statute and many state laws, generators of hazardous waste sent to a disposal or recycling site are liable for site cleanup if contaminants from that property later leak into the environment. The laws generally provide that a PRP may be held jointly and severally liable for the costs of investigating and remediating the site. Separate from the Superfund cases noted above, we are involved in ongoing environmental remediations associated with historic operations at certain of our facilities. As of December 31, 2020 and 2019, our environmental reserves, which are measured on an undiscounted basis, were $20 million and $18 million, respectively. After considering these reserves, the outcome of these matters is not expected to have a material adverse effect on our financial position or results of operations.

General litigation

In November 2016, a putative 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. We filed a motion to dismiss the consolidated complaint in February 2017. The court granted our motion to dismiss the consolidated complaint without prejudice in July 2018. The plaintiffs filed an amended complaint, which we moved to dismiss on November 9, 2018. The court granted our motion to dismiss the amended complaint with prejudice on April 3, 2020. The plaintiffs did not file an appeal.

In April 2017, we became aware of a criminal investigation by the U.S. Department of Justice (DOJ), Antitrust Division and a federal grand jury in the United States District Court for the Eastern District of Pennsylvania. We and an employee received subpoenas seeking production of documents and testimony regarding the manufacturing, selling, pricing and shortages of IV solutions and containers (including saline solutions and certain other injectable medicines sold by us) and communications with competitors regarding the same. On November 30, 2018, the DOJ notified us that it had closed the investigation. The New York Attorney General has also requested that we provide information regarding business practices in the IV saline industry. We have cooperated with the New York Attorney General.

In August 2019, we were named in an amended complaint filed by Fayette County, Georgia in the MDL *In re: National Prescription Opiate Litigation* pending in the U.S. District Court, Northern District of Ohio. The complaint alleges that multiple manufacturers and distributors of opiate products improperly marketed and diverted these products, which caused harm to Fayette County. The complaint is limited in its allegations as to Baxter and does not distinguish between injectable opiate products and orally administered opiates. We manufactured generic injectable opiate products in our facility in Cherry Hill, NJ, which we divested in 2011.

In November 2019, we and certain of our officers were named in a class action complaint captioned *Ethan E. Silverman et al. v. Baxter International Inc. et al.* that was filed in the United States District Court for the Northern District of Illinois. The plaintiff, who allegedly purchased shares of our common stock during the specified class period, filed this putative class action on behalf of himself and shareholders who acquired Baxter common stock between February 21, 2019 and October 23, 2019. The plaintiff alleges that we and certain officers violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder by making allegedly false and misleading statements and failing to disclose material facts relating to certain intra-company transactions undertaken for the purpose of generating foreign exchange gains or avoiding foreign exchange losses, as well as our internal controls over financial reporting. On January 29, 2020, the Court appointed Varma Mutual Pension Insurance Company and Louisiana Municipal Police Employees Retirement System as lead plaintiffs in the case. Plaintiffs filed an amended complaint on June 25, 2020 containing substantially the same allegations. On August 24, 2020, we filed a motion to dismiss the amended complaint. On January 12, 2021, the Court granted our motion to dismiss the amended complaint but gave plaintiffs an opportunity to file a further-amended complaint.

In addition, we have received a stockholder request for inspection of our books and records in connection with the announcement made in our Form 8-K on October 24, 2019 that we had commenced an internal investigation into certain intra-company transactions that impacted our previously reported non-operating foreign exchange gains and losses. As initially disclosed on October 24, 2019, we also voluntarily advised the staff of the SEC of our internal investigation and we are continuing to cooperate with the staff of the SEC.

In March 2020, two lawsuits were filed against us in the Northern District of Illinois by plaintiffs alleging injuries as a result of exposure to ethylene oxide used in our manufacturing facility in Mountain Home, Arkansas to sterilize certain of our products. The plaintiffs seek damages, including compensatory and punitive damages in an unspecified amount, and unspecified injunctive and declaratory relief.

Other

As previously disclosed, in 2008 we recalled our heparin sodium injection products in the United States. Following the recall, more than 1,000 lawsuits alleging that plaintiffs suffered various reactions to a heparin contaminant, in some cases resulting in fatalities, were filed. In January 2019, the last of these cases was settled. In 2019, following the resolution of an insurance dispute, we received cash proceeds of $39 million for our allocation of the insurance proceeds under a settlement and cost-sharing agreement related to the defense of the heparin product liability cases. We recognized a $37 million gain in connection with the resolution of the dispute with the insurer that is classified within other operating income, net on the consolidated statement of income for the year ended December 31, 2019.

In September 2017, Hurricane Maria caused damage to certain of our assets in Puerto Rico and disrupted operations. Insurance, less applicable deductibles and subject to any coverage exclusions, covered the repair or replacement of our assets that suffered loss or damage, and also provided coverage for interruption to our business, including lost profits, and reimbursement for other expenses and costs that have been incurred relating to the damages and losses suffered. In 2017, we recorded $32 million of pre-tax charges related to damages caused by the hurricane, including $11 million related to the impairment of damaged inventory and fixed assets as well as $21 million of idle facility and other costs. These amounts were recorded as a component of cost of sales in the consolidated statement of income for year ended December 31, 2017. In 2019 and 2018, we recognized $100 million and $42 million, respectively, of insurance recoveries related to the previously mentioned asset impairments and idle facility and other costs suffered as a result of the hurricane. These benefits were recorded as a reduction of cost of sales and within other operating income, net on the consolidated statements of income for the years ended December 31, 2019 and 2018. No further insurance recoveries are expected.

NOTE 8
STOCKHOLDERS' EQUITY

Stock-Based Compensation

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

As of December 31, 2020, approximately 17 million authorized shares are available for future awards under our stock-based compensation plans.

Stock Compensation Expense

Stock compensation expense was $130 million, $122 million and $115 million in 2020, 2019 and 2018, respectively. The related tax benefit recognized was $53 million in 2020, $70 million in 2019 and $61 million in 2018. Included in the benefit in 2020, 2019 and 2018 were realized excess tax benefits for stock-based compensation of $27 million, $54 million and $40 million, respectively.

Stock compensation expense is recorded at the corporate level and is not allocated to the segments. Approximately 75% of stock compensation expense is classified in SG&A expenses, with the remainder classified in cost of sales and R&D expenses. Costs capitalized in the consolidated balance sheets at December 31, 2020 and 2019 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 vest immediately on the grant date and are issued with a six-month claw-back provision. 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	**2020**	2019	2018
Expected volatility	**26 %**	19 %	18 %
Expected life (in years)	**5.5**	5.5	5.5
Risk-free interest rate	**0.6 %**	2.5 %	2.6 %
Dividend yield	**1.2 %**	1.0 %	1.0 %
Fair value per stock option	**$ 16**	$ 15	$ 13

The following table summarizes stock option activity for the year ended December 31, 2020 and the outstanding stock options as of December 31, 2020.

(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, 2020	20,344	$ 50.99		
Granted	3,895	$ 76.28		
Exercised	(3,570)	$ 42.79		
Forfeited	(425)	$ 73.21		
Expired	(48)	$ 41.42		
Outstanding as of December 31, 2020	20,196	$ 56.88	6.1	$ 473,216
Vested or expected to vest as of December 31, 2020	19,864	$ 56.57	6.1	$ 471,778
Exercisable as of December 31, 2020	13,215	$ 47.70	4.9	$ 430,350

The aggregate intrinsic value in the table above represents the difference between the exercise price and our closing stock price on the last trading day of the year. The total intrinsic value of options exercised in 2020, 2019 and 2018 was $131 million, $272 million and $222 million, respectively.

As of December 31, 2020, $60 million of unrecognized compensation cost related to stock options is expected to be recognized as expense over a weighted-average period of approximately 1.8 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 vest immediately on the grant date and are issued with a six-month claw-back provision. 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 closing price of our common stock on the date of grant.

The following table summarizes nonvested RSU activity for the year ended December 31, 2020.

(share units in thousands)	Share units	Weighted-average grant-date fair value
Nonvested RSUs as of January 1, 2020	1,274	$ 66.46
Granted	594	$ 77.51
Vested	(637)	$ 63.94
Forfeited	(93)	$ 72.82
Nonvested RSUs as of December 31, 2020	1,138	$ 73.11

As of December 31, 2020, $45 million of unrecognized compensation cost related to RSUs is expected to be recognized as expense over a weighted-average period of approximately 1.8 years. The weighted-average grant-date fair value of RSUs granted in 2020, 2019 and 2018 was $77.51, $75.60 and $67.11, respectively. The fair value of RSUs vested in 2020, 2019 and 2018 was $52 million, $57 million and $69 million, respectively.

PSUs

Our annual equity awards stock compensation program for senior management includes the issuance of PSUs. In 2020, the PSUs awarded were based on our compound annual sales growth rate (CAGR) performance, our adjusted return on invested capital (ROIC) performance and on our stock performance relative to our peer group. PSUs awarded between 2016 and 2019 were based on adjusted operating margin as well as stock performance relative to our peer group. The vesting condition for CAGR and ROIC PSUs is set at the beginning of the 3-year service period while the vesting condition for adjusted operating margin is set at the beginning of each year for each tranche of the award during the 3-year service period. Compensation cost for the CAGR, adjusted ROIC and adjusted operating margin PSUs is measured based on the fair value of the awards on the date that the specific vesting terms for each award are established and the fair value of the awards is determined based on the quoted price of our stock on the grant date of the award. The compensation cost for CAGR, adjusted ROIC and adjusted operating margin PSUs is adjusted at each reporting date to reflect the estimated vesting outcome.

The fair value for PSUs based on our stock performance relative to our peer group 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	**2020**	2019	2018
Baxter volatility	**26 %**	19 %	19 %
Peer group volatility	**23%-95%**	18%-113%	16%-53%
Correlation of returns	**0.19-0.70**	0.13-0.63	0.16-0.61
Risk-free interest rate	**0.4 %**	2.5 %	2.3 %
Fair value per PSU	**$ 108**	$ 106	$ 90

The following table summarizes nonvested PSU activity for the year ended December 31, 2020.

(share units in thousands)	Share units	Weighted-average grant-date fair value
Nonvested PSUs as of January 1, 2020	930	$ 75.50
Granted	420	$ 82.98
Vested	(568)	$ 65.53
Forfeited	(22)	$ 87.73
Nonvested PSUs as of December 31, 2020	760	$ 86.69

Unrecognized compensation cost related to all unvested PSUs of $24 million at December 31, 2020 is expected to be recognized as expense over a weighted-average period of 1.7 years.

Employee Stock Purchase Plan

Nearly all employees are eligible to participate in our 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 two million shares were available for future purchases as of December 31, 2020.

During 2020, 2019, and 2018, we issued approximately 0.7 million, 0.7 million and 0.8 million shares, respectively, under the employee stock purchase plan.

Stock Options Award Modification

In the first quarter of 2020, we modified the terms of stock option awards granted to 123 employees. Specifically, we extended the term for certain stock options that were scheduled to expire in the first quarter of 2020 as applicable employees were not permitted to exercise these awards due to our announcement in February 2020 that our previously issued financial statements should no longer be relied upon. The stock options were extended in order to allow impacted employees to exercise their stock option awards for a brief period once we became current with our SEC reporting obligations, which occurred in March 2020. As a result of the modifications, we recognized an additional $8 million of stock compensation expense during the first quarter of 2020.

Cash Dividends

Total cash dividends declared per share for 2020, 2019, and 2018 were $0.955, $0.850 and $0.730, respectively.

A quarterly dividend of $0.22 per share ($0.88 on an annualized basis) was declared in February 2020 and was paid in April 2020. Quarterly dividends of $0.245 per share ($0.980 on an annualized basis) were declared in May and July of 2020 and were paid in July and October of 2020, respectively. Our Board of Directors declared a quarterly dividend of $0.245 per share in November of 2020, which was paid in January of 2021.

Stock Repurchase Programs

As authorized by the Board of Directors, we repurchase our stock depending on our 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 our common stock. The Board of Directors increased this authority by an additional $1.5 billion in each of November 2016 and February 2018, by an additional $2.0 billion in November 2018 and by an additional $1.5 billion in October 2020. We repurchased 6.3 million shares under this authority pursuant to a Rule 10b5-1 plan for $500 million in cash in 2020, 16.5 million shares under this authority pursuant to Rule 10b5-1 plans and otherwise for $1.3 billion in cash in 2019 and 35.8 million shares under this authority pursuant to Rule 10b5-1 plans and otherwise for $2.5 billion in cash in 2018. We had $1.9 billion of purchase authority available as of December 31, 2020.

Accelerated Share Repurchase Agreement

In December 2018, we entered into a $300 million accelerated share repurchase agreement (ASR Agreement) with an investment bank. We funded the ASR Agreement with available cash. The ASR Agreement was executed pursuant to the 2012 Repurchase Authorization described above. Under the ASR Agreement, we received 3.6 million shares upon execution. Based on the volume-weighted average price of our common stock during the term of the ASR Agreement, we received an additional 0.6 million shares from the investment bank at settlement in May 2019.

NOTE 9

ACCUMULATED OTHER COMPREHENSIVE INCOME

Comprehensive income includes all changes in stockholders' equity that do not arise from transactions with stockholders, and consists of net income, CTA, certain gains and losses from other postretirement benefit (OPEB) plans and gains and losses on cash flow hedges.

The following table is a net-of-tax summary of the changes in AOCI by component for the years ended December 31, 2020 and 2019.

(in millions)	CTA	Pension and OPEB plans	Hedging activities	Total
Gains (losses)				
Balance as of December 31, 2019	$ (2,954)	$ (715)	$ (41)	$ (3,710)
Other comprehensive (loss) income before reclassifications	367	59	(117)	309
Amounts reclassified from AOCI (a)	—	82	5	87
Net other comprehensive (loss) income	367	141	(112)	396
Balance as of December 31, 2020	$ (2,587)	$ (574)	$ (153)	$ (3,314)

(in millions)	CTA	Pension and OPEB plans	Hedging activities	Total
Gains (losses)				
Balance as of December 31, 2018	$ (2,868)	$ (954)	$ (1)	$ (3,823)
Adoption of new accounting standard	9	(169)	(1)	(161)
Other comprehensive income (loss) before reclassifications	(95)	(184)	(36)	(315)
Amounts reclassified from AOCI (a)	—	592	(3)	589
Net other comprehensive (loss) income	(95)	408	(39)	274
Balance as of December 31, 2019	$ (2,954)	$ (715)	$ (41)	$ (3,710)

(a) See table below for details about these reclassifications.

The following table is a summary of the amounts reclassified from AOCI to net income during the years ended December 31, 2020 and 2019.

(in millions)	Amounts reclassified from AOCI (a) 2020	2019	Location of impact in income statement
Pension and OPEB items			
Amortization of net losses and prior service costs or credits	$ (59)	$ (31)	Other (income) expense, net
Settlement charges	(46)	(755)	Other (income) expense, net
	(105)	(786)	Total before tax
Less: Tax effect	23	194	Income tax expense
	$ (82)	$ (592)	Net of tax
Gains (losses) on hedging activities			
Foreign exchange contracts	$ (5)	$ 4	Cost of sales
Interest rate contracts	(1)	—	Interest expense, net
	(6)	4	Total before tax
Less: Tax effect	1	(1)	Income tax expense
	$ (5)	$ 3	Net of tax
Total reclassification for the period	$ (87)	$ (589)	Total net of tax

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

Refer to Note 11 for additional information regarding the amortization of pension and OPEB items and Note 14 for additional information regarding hedging activity.

NOTE 10

BUSINESS OPTIMIZATION CHARGES

In recent years, we have undertaken actions to transform our 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. From the commencement of our business optimization activities through December 31, 2020, we have incurred cumulative pre-tax costs of approximately $1.1 billion related to these actions. These costs consisted primarily of employee termination costs, implementation costs, contract termination costs, asset impairments and accelerated depreciation. We currently expect to incur additional pre-tax cash costs of approximately $14 million through the completion of the initiatives that are currently underway, primarily related to implementation costs. We continue to pursue cost savings initiatives and, to the extent further cost savings opportunities are identified, we may incur additional restructuring charges and costs to implement business optimization programs in future periods.

We recorded the following charges related to business optimization programs in 2020, 2019, and 2018:

years ended December 31 (in millions)	**2020**	2019	2018
Restructuring charges	**$ 111**	$ 134	$ 117
Costs to implement business optimization programs	**23**	45	94
Accelerated depreciation	**—**	5	9
Total business optimization charges	**$ 134**	$ 184	$ 220

For segment reporting, business optimization charges are unallocated expenses.

Costs to implement business optimization programs for the years ended December 31, 2020, 2019 and 2018, respectively, consisted primarily of external consulting and transition costs, including employee compensation and related costs. The costs were generally included within cost of sales, SG&A expense and R&D expense.

For the years ended December 31, 2019 and 2018, respectively, we recognized accelerated depreciation, primarily associated with facilities to be closed. The costs were recorded within cost of sales and SG&A expense.

During the years ended December 31, 2020, 2019 and 2018, we recorded the following restructuring charges:

	2020			
(in millions)	COGS	SG&A	R&D	Total
Employee termination costs	$ 36	$ 54	$ 2	$ 92
Contract termination and other costs	4	4	—	8
Asset impairments	8	3	—	11
Total restructuring charges	$ 48	$ 61	$ 2	$ 111

	2019			
(in millions)	COGS	SG&A	R&D	Total
Employee termination costs	$ 13	$ 37	$ 25	$ 75
Contract termination and other costs	10	1	—	11
Asset impairments	37	2	9	48
Total restructuring charges	$ 60	$ 40	$ 34	$ 134

	2018			
(in millions)	COGS	SG&A	R&D	Total
Employee termination costs	$ 30	$ 51	$ 19	$ 100
Contract termination and other costs	4	6	—	10
Asset impairments	1	6	—	7
Total restructuring charges	$ 35	$ 63	$ 19	$ 117

In conjunction with our business optimization initiatives, we sold property that resulted in a gain of $17 million in 2020. This benefit is reflected within other operating income, net in our consolidated statement of income for the year ended December 31, 2020.

The following table summarizes activity in the liability related to our restructuring initiatives.

(in millions)	
Liability balance as of December 31, 2017	$ 112
Charges	126
Payments	(96)
Reserve adjustments	(16)
Currency translation	(25)
Liability balance as of December 31, 2018	101
Charges	113
Payments	(93)
Reserve adjustments	(27)
Currency translation	(2)
Liability balance as of December 31, 2019	92
Charges	116
Payments	(86)
Reserve adjustments	(16)
Currency translation	7
Liability balance as of December 31, 2020	$ 113

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

Substantially all of our restructuring liabilities as of December 31, 2020 relate to employee termination costs, with the remaining liabilities attributable to contract termination costs. Substantially all of the cash payments for those liabilities are expected to be disbursed by the end of 2022.

NOTE 11

PENSION AND OTHER POSTRETIREMENT BENEFIT PROGRAMS

We sponsor a number of qualified and nonqualified pension plans for eligible employees. We also sponsor 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.

Reconciliation of Pension and Other Postretirement Benefit Plan Obligations, Assets and Funded Status

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

	Pension benefits		OPEB	
as of and for the years ended December 31 (in millions)	**2020**	2019	**2020**	2019
Benefit obligations				
Beginning of period	**$ 3,973**	$ 5,635	**$ 228**	$ 211
Service cost	**83**	74	**1**	1
Interest cost	**95**	172	**6**	8
Participant contributions	**4**	4	**—**	—
Actuarial loss	**401**	924	**13**	26
Benefit payments	**(109)**	(267)	**(20)**	(18)
Settlements	**(271)**	(2,550)	**—**	—
Curtailment	**(4)**	(13)	**—**	—
Foreign exchange and other	**141**	(6)	**—**	—
End of period	**4,313**	3,973	**228**	228
Fair value of plan assets				
Beginning of period	**2,973**	4,774	**—**	—
Actual return on plan assets	**688**	939	**—**	—
Employer contributions	**74**	69	**20**	18
Participant contributions	**4**	4	**—**	—
Benefit payments	**(109)**	(267)	**(20)**	(18)
Settlements	**(271)**	(2,550)	**—**	—
Foreign exchange and other	**75**	4	**—**	—
End of period	**3,434**	2,973	**—**	—
Funded status at December 31	**$ (879)**	$ (1,000)	**$ (228)**	$ (228)
Amounts recognized in the consolidated balance sheets				
Noncurrent asset	**$ 155**	$ 77	**$ —**	$ —
Current liability	**(30)**	(25)	**(18)**	(20)
Noncurrent liability	**(1,004)**	(1,052)	**(210)**	(208)
Net liability recognized at December 31	**$ (879)**	$ (1,000)	**$ (228)**	$ (228)

Actuarial gains and losses result from changes in actuarial assumptions (such as changes in the discount rate and revised mortality rates). Actuarial losses in 2020 and 2019 related to plan benefit obligations were primarily the result of changes in discount rates.

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 our pension plans was $4.1 billion and $3.7 billion at the 2020 and 2019 measurement dates, respectively.

The information in the funded status table above represents the totals for all of our 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)	**2020**	2019
ABO	**$ 2,920**	$ 3,240
Fair value of plan assets	**$ 2,047**	$ 2,339

The following table presents 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)	**2020**	2019
PBO	**$ 3,421**	$ 3,688
Fair value of plan assets	**$ 2,387**	$ 2,611

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

(in millions)	Pension benefits	OPEB
2021	$ 104	$ 18
2022	116	16
2023	130	16
2024	146	16
2025	161	15
2026 through 2030	917	67
Total expected net benefit payments for next 10 years	$ 1,574	$ 148

The expected net benefit payments above reflect the total net benefits expected to be paid from the plans' assets (for funded plans) or from our 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. For active employees, we utilize the average future working lifetime as the amortization period for prior service. For inactive employees, we utilize the average remaining life expectancy as the amortization period for prior service.

The following table is a summary of the pre-tax losses included in AOCI at December 31, 2020 and December 31, 2019.

(in millions)	Pension benefits	OPEB
Actuarial loss (gain)	**$ 811**	**$ (23)**
Prior service credit and transition obligation	**(9)**	**(45)**
Total pre-tax loss (gain) recognized in AOCI at December 31, 2020	**$ 802**	**$ (68)**
Actuarial loss (gain)	$ 1,025	$ (41)
Prior service credit and transition obligation	(9)	(59)
Total pre-tax loss (gain) recognized in AOCI at December 31, 2019	$ 1,016	$ (100)

Refer to Note 9 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.

Year ended December 31 (in millions)	2020	2019	2018
Gain (loss) arising during the year, net of tax of $17 in 2020, $(64) in 2019 and $(4) in 2018	**$ 59**	$ (184)	$ (22)
Amortization of loss to earnings, net of tax of $12 in 2020, $6 in 2019 and $14 in 2018	**47**	25	55
Settlement charges, net of tax of $11 in 2020 and $188 in 2019	**$ 35**	$ 567	$ —
Pension and other employee benefits	**$ 141**	$ 408	$ 33

In 2020, OCI activity for pension and OPEB plans was primarily related to actuarial gains and losses. In 2019, OCI activity for pension and OPEB plans was primarily related to the U.S. pension settlement charge and actuarial gains and losses. In 2018, OCI activity for pension and OPEB plans was primarily related to actuarial gains and losses.

Net Periodic Benefit Cost

Year ended December 31 (in millions)	2020	2019	2018
Pension benefits			
Service cost	**$ 83**	$ 74	$ 87
Interest cost	**95**	172	178
Expected return on plan assets	**(163)**	(264)	(303)
Amortization of net losses and other deferred amounts	**77**	58	94
Settlement charges	**46**	755	1
Net periodic pension benefit cost	**$ 138**	$ 795	$ 57
OPEB			
Service cost	**$ 1**	$ 1	$ 1
Interest cost	**6**	8	7
Amortization of net losses and prior service credit	**(18)**	(27)	(25)
Net periodic OPEB cost	**$ (11)**	$ (18)	$ (17)

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

	Pension benefits		OPEB	
	2020	2019	**2020**	2019
Discount rate				
U.S. and Puerto Rico plans	**2.73 %**	3.44 %	**2.33 %**	3.16 %
International plans	**1.00 %**	1.34 %	**n/a**	n/a
Rate of compensation increase				
U.S. and Puerto Rico plans	**3.68 %**	3.68 %	**n/a**	n/a
International plans	**3.03 %**	3.03 %	**n/a**	n/a
Annual rate of increase in the per-capita cost	**n/a**	n/a	**6.50 %**	6.75 %
Rate decreased to	**n/a**	n/a	**5.00 %**	5.00 %
by the year ended	**n/a**	n/a	**2027**	2027

The assumptions above, which were used in calculating the December 31, 2020 measurement date benefit obligations, will be used in the calculation of net periodic benefit cost in 2021.

Weighted-Average Assumptions Used in Determining Net Periodic Benefit Cost

	Pension benefits			OPEB		
	2020	2019	2018	**2020**	2019	2018
Discount rate						
U.S. and Puerto Rico plans	**3.44 %**	4.18 %	3.60 %	**3.16 %**	4.20 %	3.51 %
International plans	**1.34 %**	2.02 %	2.02 %	**n/a**	n/a	n/a
Expected return on plan assets						
U.S. and Puerto Rico plans	**6.50 %**	6.29 %	6.25 %	**n/a**	n/a	n/a
International plans	**4.23 %**	5.45 %	5.58 %	**n/a**	n/a	n/a
Rate of compensation increase						
U.S. and Puerto Rico plans	**3.68 %**	3.66 %	3.42 %	**n/a**	n/a	n/a
International plans	**3.03 %**	3.08 %	3.05 %	**n/a**	n/a	n/a
Annual rate of increase in the per-capita cost	**n/a**	n/a	n/a	**6.50 %**	6.75 %	7.00 %
Rate decreased to	**n/a**	n/a	n/a	**5.00 %**	5.00 %	5.00 %
by the year ended	**n/a**	n/a	n/a	**2027**	2027	2027

We established 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 our asset allocation), as well as an analysis of current market and economic information and future expectations. We plan to use a 5.50% assumption for our U.S. and Puerto Rico plans for 2021.

Pension Plan Assets

An investment committee of members of senior management is responsible for supervising, monitoring and evaluating the invested assets of our 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 50% in return-seeking investments and 50% 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 depending on the investment type. Return-seeking investments primarily include common stock of U.S. and international companies, common/collective trust funds, mutual funds, hedge 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, 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 our pension plan financial instruments that are measured at fair value on a recurring basis.

(in millions)	Balance at December 31, 2020	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)	Measured at NAV (a)
Assets					
Fixed income securities					
Cash and cash equivalents	$ 265	$ 91	$ 174	$ —	$ —
U.S. government and government agency issues	280	—	280	—	—
Corporate bonds	744	—	744	—	—
Equity securities					
Common stock	453	453	—	—	—
Mutual funds	510	217	293	—	—
Common/collective trust funds	771	—	341	—	430
Partnership investments	296	—	—	—	296
Other holdings	115	22	82	11	—
Collateral held on loaned securities	19	—	19	—	—
Liabilities					
Collateral to be paid on loaned securities	(19)	(19)	—	—	—
Fair value of pension plan assets	$ 3,434	$ 764	$ 1,933	$ 11	$ 726

(a) Certain assets that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy.

(in millions)	Balance at December 31, 2019	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)	Measured at NAV (a)
Assets					
Fixed income securities					
Cash and cash equivalents	$ 224	$ 72	$ 152	$ —	$ —
U.S. government and government agency issues	452	—	452	—	—
Corporate bonds	352	—	352	—	—
Equity securities					
Common stock	426	426	—	—	—
Mutual funds	442	189	253	—	—
Common/collective trust funds	668	19	272	—	377
Partnership investments	333	—	—	—	333
Other holdings	76	8	58	10	—
Collateral held on loaned securities	9	—	9	—	—
Liabilities					
Collateral to be paid on loaned securities	(9)	(9)	—	—	—
Fair value of pension plan assets	$ 2,973	$ 705	$ 1,548	$ 10	$ 710

(a) Certain assets that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy.

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

(in millions)	Other holdings
Balance at December 31, 2018	$ 10
Purchases	—
Balance at December 31, 2019	10
Purchases	1
Balance at December 31, 2020	**$ 11**

The assets and liabilities of our 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 net asset value of the participation by us 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

Our funding policy for our pension plans is to contribute amounts sufficient to meet legal funding requirements, plus any additional amounts that we may determine to be appropriate considering the funded status of the plans, tax deductibility, the cash flows generated by us, and other factors. Volatility in the global financial markets could have an unfavorable impact on future funding requirements. We have no obligation to fund our principal plans in the United States and Puerto Rico in 2021. We continually reassess the amount and timing of any discretionary contributions. In 2021, we expect to make contributions of at least $45 million to our foreign pension plans. We expect to have net cash outflows relating to our OPEB plan of approximately $18 million in 2021.

The following table details the funded status percentage of our pension plans as of December 31, 2020, including certain plans that are unfunded in accordance with the guidelines of our funding policy outlined above.

	United States and Puerto Rico		International		
as of December 31, 2020 (in millions)	Qualified plans	Nonqualified plan	Funded plans	Unfunded plans	Total
Fair value of plan assets	$ 2,362	n/a	$ 1,072	n/a	$ 3,434
PBO	2,366	$ 269	1,155	$ 523	4,313
Funded status percentage	100 %	n/a	93 %	n/a	80 %

Pension Settlement Transactions

In October 2020, we offered certain former U.S. employees with vested pension benefits a limited-time option to take a lump sum distribution in lieu of future monthly payments. This option expired in November 2020 and approximately 40% of the eligible participants accepted the offer. Payments from plan assets to participants who accepted the offer were made in December 2020 and totaled $252 million. As a result of these transactions, we recognized non-cash pretax pension settlement charges of $43 million in the fourth quarter of 2020.

As part of our continued effort to reduce pension plan obligations, we transferred approximately $2.4 billion of U.S. qualified pension plan liabilities to an insurance company through the purchase of a group annuity contract in October 2019. As a result of this transaction, we recognized a non-cash pretax pension settlement charge of $755 million in the fourth quarter of 2019.

Pension Plan Amendments

In January 2018, we announced changes to our U.S. pension plans. We spun off the assets and liabilities of the qualified plan attributable to current employees into a new plan and will freeze the pay and service amounts used to calculate pension benefits for active participants in the U.S. pension plans as of December 31, 2022. The assets and liabilities attributable to retired and former company employees remained with the original qualified plan. Years of additional service earned and eligible compensation received after December 31, 2022 will not be included in the determination of the benefits payable to participants. These changes resulted in a $57 million decline in the PBO upon the effective date of the changes.

U.S. Defined Contribution Plan

Most U.S. employees are eligible to participate in a qualified defined contribution plan. We recognized expense of $61 million in 2020, $53 million in 2019 and $50 million in 2018 related to contributions to this plan.

NOTE 12

INCOME TAXES

Income from Continuing Operations Before Income Tax Expense by Category

years ended December 31 (in millions)	2020	2019	2018
United States	**$ (329)**	$ (586)	$ 7
International	**1,621**	1,556	1,610
Income from continuing operations before income taxes	**$ 1,292**	$ 970	$ 1,617

Income Tax Expense (Benefit) Related to Continuing Operations

years ended December 31 (in millions)	2020	2019	2018
Current			
United States			
Federal	**$ 7**	$ 8	$ 21
State and local	**(7)**	3	(1)
International	**270**	258	308
Current income tax expense	**270**	269	328
Deferred			
United States			
Federal	**(99)**	(140)	(228)
State and local	**5**	(29)	—
International	**6**	(141)	(35)
Deferred income tax expense (benefit)	**(88)**	(310)	(263)
Income tax expense (benefit)	**$ 182**	$ (41)	$ 65

Deferred Tax Assets and Liabilities

as of December 31 (in millions)	2020	2019
Deferred tax assets		
Accrued liabilities and other	**$ 376**	$ 209
Pension and other postretirement benefits	**218**	258
Tax credit and net operating loss carryforwards	**905**	928
Swiss tax reform net asset basis step-up	**174**	159
Operating lease liabilities	**148**	153
Valuation allowances	**(454)**	(420)
Total deferred tax assets	**1,367**	1,287
Deferred tax liabilities		
Subsidiaries' unremitted earnings	**77**	57
Long-lived assets and other	**539**	649
Operating lease right-of-use assets	**146**	152
Total deferred tax liabilities	**762**	858
Net deferred tax asset	**$ 605**	$ 429

At December 31, 2020, we had U.S. state operating loss carryforwards totaling $1.2 billion, U.S. federal operating loss carryforwards totaling $150 million and tax credit carryforwards totaling $430 million, which includes a U.S. foreign tax credit carryforward of $373 million. The U.S. federal and state operating loss and tax credit carryforwards expire between 2021 and 2040, with $38 million of the operating loss carryforwards having no expiration date.

At December 31, 2020, with respect to our operations outside the U.S., we had foreign operating loss carryforwards totaling $1.2 billion and foreign tax credit carryforwards totaling $18 million. The foreign operating loss carryforwards expire between 2021 and 2032 with $886 million having no expiration date. Substantially all of the foreign tax credit carryforwards have no expiration date.

Realization of the U.S. and foreign operating loss and tax credit carryforwards depends on generating sufficient future earnings. A valuation allowance of $454 million and $420 million was recognized as of December 31, 2020 and 2019, respectively, to reduce the deferred tax assets associated with net operating loss and tax credit carryforwards because we do not believe it is more likely than not that these assets will be fully realized prior to expiration. After evaluating the 2017 Tax Act and related U.S. Treasury Regulations, any elections or other opportunities that may be available, and the future expiration of certain U.S. tax provisions that will impact the utilization of our U.S. foreign tax credit carryforwards, management expects to be able to realize some, but not all, of the U.S. foreign tax credit deferred tax assets up to its overall domestic loss (ODL) balance plus other recurring

and non-recurring foreign inclusions. Therefore, a valuation allowance of $157 million and $180 million was recognized with respect to the foreign tax credit carryforwards as of December 31, 2020 and 2019, respectively. We will continue to evaluate the need for additional valuation allowances and, as circumstances change, the valuation allowance may change.

As a result of Swiss tax reform legislation enacted during 2019, we recognized an $863 million net asset basis step-up that is amortizable as a tax deduction ratably over tax years 2025 through 2029. Accordingly, a deferred tax asset of $174 million and $159 million was recognized as of December 31, 2020 and 2019, respectively. We expect to realize some, but not all, of the Swiss deferred tax assets based principally on expected future earnings generated by the Swiss subsidiary during the period in which the tax basis will be amortized. Therefore, a valuation allowance of $72 million and $69 million was recognized on the Swiss deferred tax assets as of December 31, 2020 and 2019, respectively.

Income Tax Expense (Benefit) Reconciliation

years ended December 31 (in millions)	**2020**	2019	2018
Income tax expense at U.S. statutory rate	$ 271	$ 204	$ 340
Tax incentives	(169)	(140)	(161)
State and local taxes, net of federal benefit	(2)	(17)	5
Impact of foreign taxes	88	65	122
Swiss tax reform net asset basis step-up	—	(159)	—
Deferred tax revaluation due to 2017 Tax Act and foreign tax reform	—	(19)	(8)
Transition tax due to 2017 Tax Act	—	(16)	(5)
U.S. valuation allowance due to 2017 Tax Act	—	—	(194)
Other valuation allowances	8	110	21
Stock compensation windfall tax benefits	(27)	(54)	(40)
Research and development tax credits	(7)	(13)	(17)
Unutilized foreign tax credits	15	5	—
Other, net	5	(7)	2
Income tax expense (benefit)	**$ 182**	$ (41)	$ 65

The enactment of the 2017 Tax Act created a territorial tax system that allows companies to repatriate certain foreign earnings without incurring additional U.S. federal tax by providing for a 100% dividend exemption. Under the dividend-exemption provision, 100% of the foreign-source portion of dividends paid by certain foreign corporations to a U.S. corporate stockholder are exempt from U.S. federal taxation. As a result of the U.S. change to a territorial tax system and the incurrence of the one-time transition tax charge, we plan to repatriate our foreign earnings that were previously considered indefinitely reinvested with the exception of approximately $243 million of accumulated earnings as of December 31, 2020 related to one of our foreign operations. Additional withholding taxes of $24 million would be incurred if such earnings were remitted currently.

Our tax provisions for 2020, 2019 and 2018 do not include any tax charges related to either the Base Erosion and Anti-Abuse Tax (BEAT) or Global Intangible Low Taxed Income (GILTI) provisions, except for the inability to fully utilize foreign tax credits against such GILTI. While we are not expecting to be subject to a tax charge under the 2017 Tax Act GILTI provisions in the near term, our accounting policy is to recognize this charge as a period cost.

Our effective income tax rate can differ from the 21% U.S. federal statutory rate due to a number of factors, including foreign rate differences, tax incentives, increases or decreases in valuation allowances and liabilities for uncertain tax positions and excess tax benefits on stock compensation awards.

In 2020, our effective tax rate was impacted favorably by geographic earnings mix and excess tax benefits on stock compensation awards.

In 2019, Switzerland and India enacted tax reform legislation that had a material impact on our effective tax rate. We recognized a deferred tax benefit of $90 million to reflect a tax basis step-up, net of a valuation allowance, partially offset by a $5 million deferred tax revaluation to reflect an increase in the statutory tax rate, under the newly

enacted Swiss tax laws. We also recognized a net deferred tax benefit of $24 million associated with deferred tax revaluation in India to reflect a decrease in the statutory tax rate. Our effective tax rate was also favorably impacted by $57 million in 2019 related to a notional interest deduction on the share capital of a foreign subsidiary. The gross tax benefit of the deduction is included in the table above within impact of foreign taxes and the portion not expected to be realized is included within other valuation allowances.

In 2018, we completed our one-year measurement period adjustments to the 2017 Tax Act provisional amounts in accordance with SAB 118, which resulted in tax benefits comprised of the items described in the following paragraphs. These benefits were partially offset by the tax impact of non-deductible corrections of misstatements related to foreign exchange gains and losses for the year ended December 31, 2018 which are included above within the impact of foreign taxes.

The 2017 Tax Act reduced the U.S. statutory tax rate from 35% to 21% for years after 2017. In 2018, we collected all of the necessary data to complete our analysis of the effect of the 2017 Tax Act on the remeasurement of the underlying deferred taxes and recognized an additional deferred tax benefit of $8 million.

The 2017 Tax Act requires us to pay U.S. income taxes on accumulated foreign subsidiary earnings not previously subject to U.S. income tax at a rate of 15.5% to the extent of foreign cash and certain other net current assets and 8% on the remaining earnings. In 2018, after further study of the 2017 Tax Act and related U.S. Treasury Regulations, and further analysis of historical earnings and profits and tax pools, as well as refinements of the cash portion of the charge, which was provisional due to certain foreign subsidiaries with non-calendar tax year-ends, we reduced our one-time transitional tax expense by $5 million.
Additionally, the 2017 Tax Act changed the rules that enabled taxpayers to generate foreign source income related to export sales that were eligible to utilize foreign tax credits. After studying the 2017 Tax Act and related U.S. Treasury Regulations and evaluating any elections or other opportunities that may be available, we currently expect to be able to realize some, but not all, of the foreign tax credit deferred tax assets up to our ODL balance plus recurring and non-recurring foreign inclusions. Accordingly, we reduced our provisional foreign tax credit deferred tax asset valuation allowance and recognized a 2018 benefit of $194 million.

Unrecognized Tax Benefits

We classify interest and penalties associated with income taxes in income tax expense (benefit) within the consolidated statements of income. Net interest and penalties recognized were not significant during 2020, 2019 and 2018. The liability recognized related to interest and penalties was $17 million and $21 million as of December 31, 2020 and 2019, respectively. The total amount of gross unrecognized tax benefits that, if recognized, would impact the effective tax rate are $48 million, $70 million and $84 million as of December 31, 2020, 2019 and 2018, respectively.

The following table is a reconciliation of our unrecognized tax benefits, including those related to discontinued operations, for the years ended December 31, 2020, 2019 and 2018.

as of and for the years ended (in millions)	2020	2019	2018
Balance at beginning of the year	**$ 111**	$ 127	$ 108
Increase associated with tax positions taken during the current year	**8**	8	33
Increase (decrease) associated with tax positions taken during a prior year	**(1)**	(3)	13
Settlements	**(18)**	(20)	(5)
Decrease associated with lapses in statutes of limitations	**(10)**	(1)	(22)
Balance at end of the year	**$ 90**	$ 111	$ 127

Of the gross unrecognized tax benefits, $47 million and $62 million were recognized as liabilities in the consolidated balance sheets as of December 31, 2020 and 2019, respectively. We have recognized net indemnification receivables from Baxalta in the amount of $2 million, $6 million and $6 million as of December 31, 2020, 2019 and 2018, respectively, related to the unrecognized tax benefits for which we are the primary obligor but economically relate to Baxalta operations.

Tax Incentives

We have received tax incentives in Puerto Rico, Switzerland, Dominican Republic, Costa Rica and Thailand. 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 per diluted share from continuing operations by $0.33 in 2020, $0.27 in 2019, and $0.29 in 2018. The above grants provide that our manufacturing operations are and will be partially exempt from local taxes with varying expirations from 2025 to 2029.

Examinations of Tax Returns

As of December 31, 2020, we had ongoing audits in the United States, Germany, United Kingdom, China and other jurisdictions. Tax years 2016 and forward remain under examination by the IRS and tax years 2012 and forward remain under examination by various foreign taxing authorities. We believe that it is reasonably possible that our gross unrecognized tax benefits will be reduced within the next 12 months by $5 million. While the final outcome of these matters is inherently uncertain, we believe we have made adequate tax provisions for all years subject to examination.

NOTE 13
EARNINGS PER SHARE

The numerator for both basic and diluted earnings per share (EPS) is net income attributable to Baxter stockholders. The denominator for basic EPS is the weighted-average number of shares outstanding during the period. The dilutive effect of outstanding stock options, RSUs and PSUs is reflected in the denominator for diluted EPS using the treasury stock method.

The following table is a reconciliation of income from continuing operations to net income attributable to Baxter stockholders.

years ended December 31(in millions)	**2020**	2019	2018
Income from continuing operations	**$ 1,110**	$ 1,011	$ 1,552
Less: Income from continuing operations attributable to noncontrolling interests	**8**	10	—
Income from continuing operations attributable to Baxter stockholders	**1,102**	1,001	1,552
Loss from discontinued operations attributable to Baxter stockholders	**—**	—	(6)
Net income attributable to Baxter stockholders	**$ 1,102**	$ 1,001	$ 1,546

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

years ended December 31(in millions)	**2020**	2019	2018
Basic shares	**509**	509	534
Effect of dilutive securities	**8**	10	12
Diluted shares	**517**	519	546

The effect of dilutive securities included unexercised stock options, unvested RSUs and contingently issuable shares related to granted PSUs. The computation of diluted EPS excluded 4 million, 4 million, and 3 million equity awards in 2020, 2019, and 2018, respectively, because their inclusion would have had an anti-dilutive effect on diluted EPS. Refer to Note 8 for additional information regarding items impacting basic shares.

NOTE 14

FINANCIAL INSTRUMENTS, DERIVATIVES AND HEDGING ACTIVITIES

Accounts Receivable Sales

For accounts receivable originated in Japan, we have entered into agreements with financial institutions in which the entire interest in and ownership of the receivable is sold. We continue to service the receivables in this arrangement. Servicing assets or liabilities are not recognized because we receive adequate compensation to

service the sold receivables. The Japanese arrangement includes limited recourse provisions, which are not material.

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

as of and for the years ended December 31 (in millions)	2020	2019	2018
Sold receivables at beginning of year	**$ 79**	$ 69	$ 70
Proceeds from sales of receivables	**348**	292	267
Cash collections (remitted to the owners of the receivables)	**(335)**	(282)	(270)
Effect of foreign exchange rate changes	**4**	—	2
Sold receivables at end of year	**$ 96**	$ 79	$ 69

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

Concentrations of Credit Risk

We invest excess cash in certificates of deposit or money market or other funds and diversify the concentration of cash among different financial institutions. With respect to financial instruments, where appropriate, we have diversified our selection of counterparties, and have arranged collateralization and master-netting agreements to minimize the risk of loss.

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 us to re-evaluate the collectability of our receivables and we could potentially incur additional credit losses. These conditions may also impact the stability of the Euro.

Foreign Currency and Interest Rate Risk Management

We operate on a global basis and are exposed to the risk that our earnings, cash flows and equity could be adversely impacted by fluctuations in foreign exchange and interest rates. Our hedging policy attempts to manage these risks to an acceptable level based on our judgment of the appropriate trade-off between risk, opportunity and costs.

We are 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, Mexican Peso, Indian Rupee and Swedish Krona. We manage our foreign currency exposures on a consolidated basis, which allows us to net exposures and take advantage of any natural offsets. In addition, we use derivative and nonderivative instruments to further reduce the net exposure to foreign exchange risk. Gains and losses on the hedging instruments offset losses and gains on the hedged transactions and reduce the earnings and equity volatility resulting from changes in foreign exchange rates. Financial market and currency volatility may limit our ability to cost-effectively hedge these exposures.

We are also exposed to the risk that our earnings and cash flows could be adversely impacted by fluctuations in interest rates. Our policy is to manage interest costs using the mix of fixed- and floating-rate debt that we believe is appropriate at that time. To manage this mix in a cost-efficient manner, we periodically enter into interest rate swaps in which we agree to exchange, at specified intervals, the difference between fixed and floating interest amounts calculated by reference to an agreed-upon notional amount.

We do not hold any instruments for trading purposes and none of our outstanding derivative instruments contain credit-risk-related contingent features.

Cash Flow Hedges

We 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. We periodically use treasury rate locks to hedge the risk to earnings associated with movements in interest rates relating to anticipated issuances of debt.

The notional amounts of foreign exchange contracts designated as cash flow hedges were $345 million and $617 million as of December 31, 2020 and 2019, respectively. The maximum term over which we have cash flow hedge contracts in place related to forecasted transactions at December 31, 2020 is 12 months for foreign exchange contracts. The total notional amounts of interest rate contracts designated as cash flow hedges were $550 million as of December 31, 2019. Those interest rate contracts were hedging the variability in future benchmark interest payments attributable to changes in interest rates on the forecasted issuance of fixed-rate debt and were terminated in 2020 when we issued $650 million of senior notes due in 2031. There were no outstanding interest rate contracts designated as cash flow hedges as of December 31, 2020.

Fair Value Hedges

We periodically use interest rate swaps to convert a portion of our fixed-rate debt into variable-rate debt. These instruments hedge our earnings from changes in the fair value of debt due to fluctuations in the designated benchmark interest rate.

There were no outstanding interest rate contracts designated as fair value hedges as of December 31, 2020 and 2019.

Net Investment Hedges

In May 2017, we issued €600 million of senior notes due May 2025. In May 2019, we issued €750 million of senior notes due May 2024 and €750 million of senior notes due May 2029. We have designated these debt obligations as hedges of our net investment in our European operations and, as a result, mark to spot rate adjustments of the outstanding debt balances are recorded as a component of AOCI. As of December 31, 2020, we had an accumulated pre-tax unrealized translation loss in AOCI of $245 million related to the Euro-denominated senior notes.

In May 2019, we entered into forward contracts designated as net investment hedges to reduce exposure to changes in currency rates on €1.2 billion of our net investment in our European operations. Those hedges were entered into in advance of the issuance of our senior notes mentioned above, were settled in the second quarter of 2019 and resulted in an insignificant loss.

Dedesignations

If it is determined that a derivative or nonderivative hedging instrument is no longer highly effective as a hedge, we discontinue hedge accounting prospectively. Gains or losses relating to terminations of effective cash flow hedges generally continue to be deferred and are recognized consistent with the loss or income recognition of the underlying hedged items. However, if it is probable that hedged forecasted transactions will not occur, any gains or losses would be immediately reclassified from AOCI to earnings. There were no cash flow hedge dedesignations in 2020, 2019 or 2018 resulting from changes in our assessment of the probability that the hedged forecasted transactions would occur. In 2020, we terminated interest rate contracts with a notional amount of $550 million for $173 million in cash payments. The losses relating to these terminations continue to be deferred and are being recognized consistent with the underlying hedged item, interest expense on the issuance of debt.

If we terminate a fair value hedge, an amount equal to the cumulative fair value adjustment to the hedged item at the date of termination is amortized to earnings over the remaining term of the hedged item. There were no fair value hedges terminated in 2020 or 2019. In 2018, we terminated our interest rate fair value hedges and the cumulative fair value adjustment to the hedged item was insignificant.

If we remove a net investment hedge designation, any gain or loss recognized in AOCI is not reclassified to earnings until we sell, liquidate, or deconsolidate the foreign investments that were being hedged. In 2019, we dedesignated €1.2 billion of forward contracts designated as a net investment hedge of our European operations. There were no net investment hedges terminated in 2020 or 2018.

Undesignated Derivative Instruments

We use forward contracts to hedge earnings from the effects of foreign exchange relating to certain of our intra-company 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 $1.0 billion and $619 million as of December 31, 2020 and 2019, respectively.

Gains and Losses on Hedging Instruments and Undesignated Derivative Instruments

The following tables summarize the gains and losses on our hedging instruments and the classification of those gains and losses within our consolidated financial statements for the years ended December 31, 2020, 2019, and 2018.

	Gain (loss) recognized in OCI			Location of gain (loss) in income statement	Gain (loss) reclassified from AOCI into income		
(in millions)	**2020**	2019	2018		**2020**	2019	2018
Cash flow hedges							
Interest rate contracts	**$ (131)**	$ (37)	$ (3)	Interest expense, net	**$ (1)**	$ —	$ —
Foreign exchange contracts	**(21)**	(9)	3	Cost of sales	**(5)**	4	(12)
Net investment hedges	**(224)**	12	32	Other (income) expense, net	**—**	**—**	**—**
Total	**$ (376)**	$ (34)	$ 32		**$ (6)**	$ 4	$ (12)

	Location of gain (loss) in income statement	Gain (loss) recognized in income		
(in millions)		**2020**	2019	2018
Fair value hedges				
Interest rate contracts	Interest expense, net	**$ —**	$ —	$ (4)
Undesignated derivative instruments				
Foreign exchange contracts	Other (income) expense, net	**$ 49**	$ 17	$ —

For our fair value hedges, an equal and offsetting gain of $4 million was recognized in interest expense, net as an adjustment to the underlying hedged item, fixed-rate debt, in 2018.

The following table summarizes net-of-tax activity in AOCI, a component of stockholders' equity, related to our cash flow hedges.

as of and for the year ended December 31 (in millions)	**2020**	2019	2018
Accumulated other comprehensive income (loss) balance at beginning of year	**$ (41)**	$ (1)	$ (10)
Adoption of new accounting standard	**—**	(1)	—
(Loss) gain in fair value of derivatives during the year	**(117)**	(36)	(1)
Amount reclassified to earnings during the year	**5**	(3)	10
Accumulated other comprehensive income (loss) balance at end of year	**$ (153)**	$ (41)	$ (1)

As of December 31, 2020, $23 million of deferred, net after-tax losses 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.

Derivative Assets and Liabilities

The following table summarizes the classification and fair values of derivative instruments reported in the consolidated balance sheet as of December 31, 2020.

	Derivatives in asset positions		Derivatives in liability positions	
(in millions)	Balance sheet location	Fair value	Balance sheet location	Fair value
Derivative instruments designated as hedges				
Foreign exchange contracts	Prepaid expenses and other current assets	$ —	Accounts payable and accrued liabilities	$ 17
Total derivative instruments designated as hedges		—		17
Undesignated derivative instruments				
Foreign exchange contracts	Prepaid expenses and other current assets	11	Accounts payable and accrued liabilities	2
Total derivative instruments		$ 11		$ 19

The following table summarizes the classification and fair values of derivative instruments reported in the consolidated balance sheet as of December 31, 2019.

	Derivatives in asset positions		Derivatives in liability positions	
(in millions)	Balance sheet location	Fair value	Balance sheet location	Fair value
Derivative instruments designated as hedges				
Interest rate contracts	Other non-current assets	$ 10	Other non-current liabilities	$ 52
Foreign exchange contracts	Prepaid expenses and other current assets	10	Accounts payable and accrued liabilities	—
Total derivative instruments designated as hedges		20		52
Undesignated derivative instruments				
Foreign exchange contracts	Prepaid expenses and other current assets	1	Accounts payable and accrued liabilities	2
Total derivative instruments		$ 21		$ 54

While some of our derivatives are subject to master netting arrangements, we present our assets and liabilities related to derivative instruments on a gross basis within the consolidated balance sheets. Additionally, we are not required to post collateral for any of our outstanding derivatives.

The following table provides information on our derivative positions as if they were presented on a net basis, allowing for the right of offset by counterparty.

	December 31, 2020		December 31, 2019	
(in millions)	Asset	Liability	Asset	Liability
Gross amounts recognized in the consolidated balance sheets	**$ 11**	**$ 19**	$ 21	$ 54
Gross amount subject to offset in master netting arrangements not offset in the consolidated balance sheets	**(6)**	**(6)**	(11)	(11)
Total	**$ 5**	**$ 13**	$ 10	$ 43

The following table presents the amounts recorded on the consolidated balance sheets related to fair value hedges:

(in millions)	Carrying amount of hedged item		Cumulative amount of fair value hedging adjustment included in the carrying amount of the hedged item (a)	
	Balance as of December 31, 2020	Balance as of December 31, 2019	Balance as of December 31, 2020	Balance as of December 31, 2019
Long-term debt	**$ 102**	$ 103	**$ 5**	$ 6

(a) These fair value hedges were terminated prior to December 31, 2018.

NOTE 15

FAIR VALUE MEASUREMENTS

The fair value hierarchy consists of the following three levels:

- Level 1 — Quoted prices in active markets that we have 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 management about the assumptions market participants would use in pricing the asset or liability.

The following tables summarize our assets and liabilities that are measured at fair value on a recurring basis.

(in millions)	Balance as of December 31, 2020	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 exchange contracts	$ 11	$ —	$ 11	$ —
Debt securities	13	—	13	—
Marketable equity securities	17	17	—	—
Total	$ 41	$ 17	$ 24	$ —
Liabilities				
Foreign exchange contracts	$ 19	$ —	$ 19	$ —
Contingent payments related to acquisitions	30	—	—	30
Total	$ 49	$ —	$ 19	$ 30

(in millions)	Balance as of December 31, 2019	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 exchange contracts	$ 11	$ —	$ 11	$ —
Interest rate contracts	10	—	10	—
Marketable equity securities	3	3	—	—
Total	$ 24	$ 3	$ 21	$ —
Liabilities				
Foreign exchange contracts	$ 2	$ —	$ 2	$ —
Interest rate contracts	52	—	52	—
Contingent payments related to acquisitions	39	—	—	39
Total	$ 93	$ —	$ 54	$ 39

As of December 31, 2020 and 2019, cash and cash equivalents of $3.7 billion and $3.3 billion, respectively, included money market and other short-term funds of approximately $1.8 billion and $1.7 billion, respectively, which are 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 majority of the derivatives entered into by us 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, which are considered observable and vary depending on the type of derivative, include contractual terms, interest rate yield curves, foreign exchange rates and volatility.

Contingent payments related to acquisitions, which consist of milestone payments and sales-based payments, are valued using discounted cash flow techniques. The fair value of milestone payments reflects management's expectations of probability of payment, and increases as the probability of payment increases or the expected 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 increases or the expected timing of payment is accelerated. The following table is a reconciliation of our recurring fair value measurements that use significant unobservable inputs (Level 3), which consist of contingent payments related to acquisitions.

as of and for the years ended December 31 (in millions)	**2020**	2019
Fair value at beginning of period	**$ 39**	$ 32
Additions	**4**	18
Change in fair value recognized in earnings	**(2)**	(4)
Payments	**(11)**	(7)
Fair value at end of period	**$ 30**	$ 39

Financial Instruments Not Measured at Fair Value

In addition to the financial instruments that we are required to recognize at fair value in the consolidated balance sheets, we have certain financial instruments that are recognized at amortized 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 estimated fair values.

as of December 31 (in millions)	Book values 2020	Book values 2019	Fair values(a) 2020	Fair values(a) 2019
Liabilities				
Short-term debt	**$ —**	$ 226	**$ —**	$ 226
Current maturities of long-term debt and finance lease obligations	**406**	315	**409**	315
Long-term debt and finance lease obligations	**5,786**	4,809	**6,471**	5,156

(a) These fair value amounts are classified as Level 2 within the fair value hierarchy as they are estimated based on observable inputs.

The carrying value of short-term debt approximates its fair value due to the short-term maturities of the obligations. The estimated fair values of current and long-term debt were computed by multiplying price by the notional amount of the respective debt instruments. Price is calculated using the stated terms of the respective debt instrument and yield curves commensurate with our credit risk. The carrying values of other financial instruments, such as accounts receivable and accounts payable, approximate their fair values due to the short-term maturities of most of those assets and liabilities.

Equity investments not measured at fair value are comprised of other equity investments without readily determinable fair values and were $105 million and $73 million at December 31, 2020 and 2019, respectively. These amounts are included in Other non-current assets on our consolidated balance sheets.

NOTE 16

SEGMENT INFORMATION

We manage our business based on three geographical segments: Americas (North and South America), EMEA (Europe, Middle East and Africa) and APAC (Asia Pacific). Our segments provide a broad portfolio of essential healthcare products, including acute and chronic dialysis therapies; sterile IV solutions; infusion systems and devices; parenteral nutrition therapies; inhaled anesthetics; generic injectable pharmaceuticals; and surgical hemostat and sealant products.

We use operating income on a segment basis to make resource allocation decisions and assess the ongoing performance of our business segments. Intersegment sales are eliminated in consolidation.

Certain items are maintained at Corporate and are not allocated to a segment. They primarily include the majority of foreign currency hedging activities, corporate headquarters costs, certain R&D costs, certain GBU support costs, stock compensation expense, certain employee benefit plan costs, and certain gains, losses, and other charges (such as business optimization, acquisition and integration costs, intangible asset amortization and asset impairments). Our chief operating decision maker does not receive any asset information by operating segment and, accordingly, we do not report asset information by operating segment.

Financial information for our segments is as follows:

for the years ended December 31 (in millions)	2020	2019	2018
Net sales:			
Americas	$ **6,069**	$ 6,094	$ 5,951
EMEA	**3,129**	2,968	2,946
APAC	**2,475**	2,300	2,202
Total net sales	$ **11,673**	$ 11,362	$ 11,099
Operating income:			
Americas	$ **2,235**	$ 2,374	$ 2,411
EMEA	**677**	652	666
APAC	**591**	549	532
Total segment operating income	$ **3,503**	$ 3,575	$ 3,609
Depreciation Expense:			
Americas	$ **249**	$ 255	$ 229
EMEA	**150**	149	158
APAC	**94**	85	95
Corporate and other	**108**	117	120
Total depreciation expense	$ **601**	$ 606	$ 602
Capital expenditures:			
Americas	$ **380**	$ 325	$ 296
EMEA	**157**	143	140
APAC	**103**	98	122
Corporate and other	**84**	120	134
Total capital expenditures	$ **724**	$ 686	$ 692

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

for the years ended December 31 (in millions)	2020	2019	2018
Total segment operating income	$ **3,503**	$ 3,575	$ 3,609
Corporate and other	**(1,887)**	(1,803)	(2,025)
Total operating income	**1,616**	1,772	1,584
Net interest expense	**134**	71	45
Other (income) expense, net	**190**	731	(78)
Income from continuing operations before income taxes	$ **1,292**	$ **970**	$ **1,617**

Geographic information

for the years ended December 31 (in millions)	2020	2019	2018
Net sales:			
United States	$ **4,878**	$ 4,826	$ 4,723
Latin America and Canada	**1,191**	1,268	1,228
Total Americas	$ **6,069**	$ 6,094	$ 5,951
EMEA	**3,129**	2,968	2,946
APAC	**2,475**	2,300	2,202
Total net sales	$ **11,673**	$ 11,362	$ 11,099

as of December 31 (in millions)	2020	2019
PP&E and operating lease right-of-use assets, net:		
United States	**$ 1,888**	$ 1,889
EMEA	**1,556**	1,447
APAC	**1,024**	959
Latin America and Canada	**857**	825
Consolidated PP&E and operating lease right-of-use assets, net	**$ 5,325**	$ 5,120

NOTE 17

QUARTERLY FINANCIAL DATA (UNAUDITED)

years ended December 31 (in millions, except per share data)	First quarter	Second quarter	Third quarter	Fourth quarter[2]	Full year[1]
2020					
Net sales	**$ 2,802**	**$ 2,718**	**$ 2,972**	**$ 3,181**	**$ 11,673**
Gross margin	**1,163**	**1,038**	**1,195**	**1,191**	**4,587**
Net income attributable to Baxter stockholders	**332**	**246**	**356**	**168**	**1,102**
Earnings per share					
Basic	**0.65**	**0.48**	**0.70**	**0.33**	**2.17**
Diluted	**0.64**	**0.48**	**0.69**	**0.33**	**2.13**

	First quarter	Second quarter	Third quarter	Fourth quarter[3]	Full year
2019					
Net sales	$ 2,638	$ 2,834	$ 2,851	$ 3,039	$ 11,362
Gross margin	1,080	1,153	1,230	1,298	4,761
Net income (loss) attributable to Baxter stockholders	342	313	369	(23)	1,001
Earnings (loss) per share					
Basic	0.67	0.61	0.72	(0.05)	1.97
Diluted	0.66	0.60	0.71	(0.05)	1.93

[1]Totals may not add across due to rounding.

[2]Results for the fourth quarter and full year of 2020 include a pre-tax charge of $110 million ($90 million, or $0.17 per diluted share, on an after-tax basis) related to the November 2020 early extinguishment of $750 million of 3.75% senior notes that were issued in March 2020, a pre-tax charge of $29 million ($22 million, or $0.04 per diluted share, on an after-tax basis) related to Sigma Spectrum infusion pump inspection and remediation activities and a pre-tax charge of $43 million ($33 million, or $0.06 per diluted share, on an after-tax basis) related to lump-sum settlement distributions made to certain former U.S. employees with vested pension benefits.

[3]Results for the fourth quarter and full year of 2019 include a pre-tax charge of $755 million ($568 million, or $1.09 per diluted share, on an after-tax basis) related to the annuitization of a portion of our U.S. pension plan.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Baxter International Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Baxter International Inc. and its subsidiaries (the “Company”) as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2020, including the related notes and financial statement schedule listed in the index appearing under Item 15(2) (collectively referred to as the “consolidated financial statements”). We also have audited the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the COSO.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2019.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, 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 Assessment of Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. 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.

Definition and Limitations of Internal Control over Financial Reporting

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.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Valuation Allowance on United States (U.S.) Foreign Tax Credit Carryforwards
As described in Note 12 to the consolidated financial statements, as of December 31, 2020, the Company has $1,367 million of total deferred tax assets, including $373 million of deferred tax assets for U.S. foreign tax credit carryforwards in the United States. The deferred tax assets for U.S. foreign tax credit carryforwards is partially offset by a valuation allowance of $157 million. As disclosed by management, valuation allowances are maintained unless it is more likely than not that all or a portion of the deferred tax asset will be realized. In determining whether a valuation allowance is warranted, management 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. After evaluating the 2017 Tax Act and related U.S. Treasury Regulations, any elections or other opportunities that may be available, and the future expiration of certain U.S. tax provisions that will impact the utilization of the Company's U.S. foreign tax credit carryforwards, management expects to be able to realize some, but not all, of the U.S. foreign tax credit deferred tax assets up to its overall domestic loss balance plus other recurring and non-recurring foreign inclusions.

The principal considerations for our determination that performing procedures relating to the valuation allowance on U.S. foreign tax credit carryforwards is a critical audit matter are the significant judgment by management when assessing factors related to expected future earnings, which in turn led to a high degree of auditor judgment, subjectivity, and audit effort in performing procedures and evaluating evidence related to management's expected future earnings.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included testing the effectiveness of controls over the valuation allowance on U.S. foreign tax credit carryforwards, including controls over the development of expected future earnings. These procedures also included, among others, evaluating management's assessment of the realizability of the deferred tax assets, including evaluating the reasonableness of expected future earnings during the applicable periods. Evaluating management's factors related to expected future earnings involved evaluating whether the factors were reasonable considering the current and past performance of the Company and evidence obtained in other areas of the audit.

/s/ PricewaterhouseCoopers LLP
Chicago, Illinois
February 11, 2021

We have served as the Company's auditor since 1985.

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

We have established disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 (the Exchange Act) is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is communicated to our management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2020. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2020.

Remediation of Material Weakness

As previously reported in our Annual Report on Form 10-K for the year ended December 31, 2019, we identified a material weakness over the accounting for certain foreign exchange gains and losses. Specifically, we did not have controls in place to monitor and quantify the difference between the foreign exchange gains and losses that we reported and the foreign exchange gains and losses that we would have reported using exchange rates determined in accordance with U.S. GAAP. Additionally, our policies and controls related to approvals and monitoring of intra-company transactions were insufficient to prevent or detect intra-company transactions undertaken solely for the purpose of generating foreign exchange gains or avoiding losses under our historical exchange rate convention. This material weakness resulted in misstatements that were corrected in the restatement included in our Annual Report on Form 10-K for the year ended December 31, 2019.

Due to the actions taken by us to implement new controls and procedures, management has concluded that this material weakness has been remediated as of December 31, 2020. The actions we took to remediate the material weakness were as follows:

- Exchange Rate Policy – We discontinued the use of our historical exchange rate convention and are using the exchange rates determined in accordance with U.S. GAAP for purposes of measuring foreign currency transactions and remeasuring monetary assets and liabilities denominated in a foreign currency.
- Automated Feed – We implemented an automated feed that extracts foreign exchange rates on a daily basis from a recognized third-party exchange rate source.
- Daily Rate Comparison – We implemented a daily rate comparison control that extracts foreign exchange rates from (a) a third-party exchange rate source, (b) our treasury application, and (c) our enterprise resource planning (ERP) system and compares those rates in order to identify any potential differences and provide assurance that the correct rates were captured and are being used in our financial systems.
- Intra-company Transaction Approvals – We updated our policies to require additional approvals of intra-company transactions and implemented a requirement that such transactions be supported by a documented business purpose.
- Personnel - We made personnel changes including hiring a new treasurer from outside Baxter with more than thirty years of treasury experience and responsibility, including at four publicly traded companies. We have also hired another experienced treasury professional in a newly created director role responsible for treasury governance and controls. Additionally, we created a treasury controller role within our accounting function and are continuing to add resources as appropriate to improve our financial reporting controls related to treasury activities.

We and our Board of Directors are committed to maintaining a strong control environment and we believe that these remediation efforts represent significant improvements in our controls. We monitored the related processes and controls throughout the remediation period and have concluded that they are operating effectively.

Management's Assessment of Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) of the Exchange Act. Our internal control over financial reporting is designed 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 (U.S. GAAP).

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 policies may deteriorate.

Management performed an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2020. 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 our internal control over financial reporting was effective as of December 31, 2020.

The effectiveness of our internal control over financial reporting as of December 31, 2020 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

As previously disclosed, since 2017, we have been implementing a long-term business transformation project within our finance, human resources, purchasing and information technology functions which will further centralize and standardize business processes and systems across the company. We have transitioned and continue to transition some processes to our shared services centers while others have been moved to outsourced providers. This multi-year initiative is being conducted in phases and includes modifications to the design and operation of controls over financial reporting.

Other than as described in the preceding paragraph and in the *Remediation of Material Weakness* section above, there have been no changes in our 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, 2020 that have materially affected, or are reasonably likely to materially affect, our 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," "— Board of Directors — Nomination of Directors," "— Committees of the Board — Audit Committee," "— Board Responsibilities — Code of Conduct," and "Ownership of Our Stock — Delinquent Section 16(a) Reports" 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 expected to be held on May 4, 2021 (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 our existing equity compensation plans as of December 31, 2020.

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)(b))	
Equity Compensation Plans Approved by Stockholders	22,075,966	(1)	$ 56.95	(2)	16,910,977	(3)
Equity Compensation Plans Not Approved by Stockholders	53,160	(4)	$ 28.97		—	
Total	22,129,126	(5)	$ 56.88	(2)	16,910,977	

(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) 2,002,996 shares of common stock available for purchase under the Employee Stock Purchase Plan; (ii) 447,261 shares of common stock available under the 2007 Incentive Plan; (iii) 2,689,357 shares of common stock available under the 2011 Incentive Plan; and (iv) 11,771,363 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 stockholders. These additional shares were approved by our Board of Directors, not our stockholders, although our stockholders have approved the 2001 Incentive Compensation Program.

(5) Includes outstanding awards of 20,195,617 stock options, which have a weighted-average exercise price of $56.88 and a weighted-average remaining term of 6.1 years, 1,137,920 shares of common stock issuable upon vesting of restricted stock units, and 759,681 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:

Item 16. ***Form 10-K Summary.***

Not applicable.

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 November 13, 2018 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed on November 15, 2018).
4.1(P)	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	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).
4.4	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).
4.5	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 form of 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).
4.6	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).
4.7	Eleventh Supplemental Indenture, dated as of May 30, 2017, by and between the Company and The Bank of New York Mellon Trust Company, N.A., as Trustee (including form of 1.300% Senior Notes due 2025) (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K, filed on May 30, 2017).
4.8	Twelfth Supplemental Indenture, dated as of May 15, 2019, by and between the Company and The Bank of New York Mellon Trust Company, N.A., as Trustee (including form of 0.400% Senior Notes due 2024 and form of 1.300% Senior Notes due 2029) (incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K, filed on May 15, 2019).
4.9	Indenture, dated as of March 26, 2020, between the Company and The Bank of New York Mellon Trust Company, N.A., as Trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed on March 27, 2020).
4.10	First Supplemental Indenture, dated as of March 26, 2020, to the Indenture, dated as of March 26, 2020, between the Company and The Bank of New York Mellon Trust Company, N.A., as Trustee (including form of form of 3.950% Senior Notes due 2030) (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K, filed on March 27, 2020).
4.11	Registration Rights Agreement, dated as of March 26, 2020, by and among the Company and Citigroup Global Markets Inc., Goldman Sachs & Co. LLC and J.P. Morgan Securities LLC (as representatives of the initial purchasers) (incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K, filed on March 27, 2020).

Number and Description of Exhibit	
4.12	Second Supplemental Indenture, dated as of November 2, 2020, to the Indenture, dated as of March 26, 2020, between the Company and The Bank of New York Mellon Trust Company, N.A., as Trustee, (including form of 1.730% Senior Notes due 2031) (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed on November 6, 2020).
4.13	Registration Rights Agreement, dated as of November 2, 2020, by and among the Company and BofA Securities, Inc., Deutsche Bank Securities Inc. and J.P. Morgan Securities LLC, as representatives of the Initial Purchasers (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K, filed on November 6, 2020).
4.14	Description of Securities Registered Under Section 12 of the Exchange Act (incorporated by reference to Exhibit 4.9 to the Company's Annual Report on Form 10-K, filed on March 17, 2020).
10.1	Five-Year Credit Agreement, dated as of December 20, 2019, 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 December 20, 2019).
10.2	Credit Agreement, dated as of December 20, 2019, 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 December 20, 2019).
10.30	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).
10.4	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).
10.50	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 10.6	Form of Indemnification Agreement entered into with directors and officers (incorporated by reference to Exhibit 10.8 to the Company's Annual Report on Form 10-K, filed on February 21, 2019).
C 10.7	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 10.8	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 10.9	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 10.10	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 10.11	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 10.12	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 10.13	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 10.14	Baxter International Inc. 2017 Equity Plan, effective as of March 2, 2017 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed on March 3, 2017).

	Number and Description of Exhibit
C 10.15	Baxter International Inc. 2020 Equity Plan, effective as of March 16, 2020 (incorporated by reference to Exhibit 10.22 to the Company's Annual Report on Form 10-K, filed on March 17, 2020).
C 10.16	Baxter International Inc. Directors' Deferred Compensation Plan (amended and restated effective May 6, 2019) (incorporated by reference to Exhibit 10.16 to the Company's Quarterly Report on Form 10-Q, filed on May 8, 2019).
C 10.17	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 10.18	Offer Letter between the Company and José E. Almeida, dated as of March 12, 2020 (incorporated by reference to Exhibit 10.25 to the Company's Annual Report on Form 10-K, filed on March 17, 2020).
C 10.19	Offer letter between Baxter Healthcare SA and Cristiano Franzi, dated June 8, 2017 (incorporated by reference to Exhibit 10.26 to the Company's Annual Report on Form 10-K, filed on March 17, 2020).
C 10.20	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 10.21	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 10.22	First Amendment to Baxter International Inc. Employee Stock Purchase Plan (dated as of July 15, 2016) (incorporated by reference to Exhibit 10.27 to the Company's Annual Report on Form 10-K, filed on February 23, 2017).
C 10.23	Baxter International Inc. Non-Employee Director Compensation Plan (as amended and restated effective January 1, 2018) (incorporated by reference to Exhibit 10.21 to the Company's Annual Report on Form 10-K, filed on February 21, 2019).
C 10.24	Form of Non-Competition, Non-Solicitation and Confidentiality Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on April 14, 2017).
C 10.25R	Commitment Agreement, dated as of October 4, 2019, by and among the Company, The Prudential Insurance Company of America and State Street Global Advisors Trust Company, acting solely in its capacity as the independent fiduciary of the Baxter International Inc. and Subsidiaries Pension Plan (incorporated by reference to Exhibit 10.32 to the Company's Annual Report on Form 10-K, filed on March 17, 2020).
C 10.26	Baxter International Inc. and Subsidiaries Pension Plan (Amended and Restated effective January 5, 2018) (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on January 8, 2018).
C 10.27	First Amendment to the Baxter International Inc. and Subsidiaries Pension Plan (incorporated by reference to Exhibit 10.34 to the Company's Annual Report on Form 10-K, filed on March 17, 2020).
C 10.28	Second Amendment to the Baxter International Inc. and Subsidiaries Pension Plan (incorporated by reference to Exhibit 10.35 to the Company's Annual Report on Form 10-K, filed on March 17, 2020).
C 10.29	Baxter International Inc. and Subsidiaries Pension Plan II (Amended and Restated effective January 1, 2019) (incorporated by reference to Exhibit 10.36 to the Company's Annual Report on Form 10-K, filed on March 17, 2020).
C 10.30	Baxter International Inc. and Subsidiaries Supplemental Pension Plan (Amended and Restated effective January 5, 2018) (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K, filed on January 8, 2018).
C 10.31*	Baxter International Inc. and Subsidiaries Deferred Compensation Plan (As Amended and Restated effective January 1, 2021).

Number and Description of Exhibit	
C 10.32	Baxter International Inc. Management Incentive Compensation Program – 2020 Program Document (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, filed on July 30, 2020).
C 10.33	New Change-in-Control Agreement, dated as of September 24, 2020, between the Company and José E. Almeida (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on September 25, 2020).
C 10.34	Form of Amended Grandfathered Change-in-Control Agreement (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K, filed on September 25, 2020).
C 10.35	Amended OUS Change-in-Control Agreement, dated as of September 25, 2020, between Baxter Healthcare SA and Cristiano Franzi (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K, filed on September 25, 2020).
C 10.36	Form of Change-in-Control Agreement (incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q, filed on October 29, 2020).
C 10.37	Baxter International Inc. Executive Severance Plan, effective November 16, 2020 (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on November 20, 2020).
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.
R Includes redactions.
C Management contract or compensatory plan or arrangement.
(P) Paper exhibit

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 11, 2021

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 11, 2021.

Signature	Title
/s/ José E. Almeida José E. Almeida	Chairman and Chief Executive Officer (principal executive officer)
/s/ James K. Saccaro James K. Saccaro	Executive Vice President and Chief Financial Officer (principal financial officer)
/s/ Brian C. Stevens Brian C. Stevens	Senior Vice President, Chief Accounting Officer and Controller (principal accounting officer)
/s/ Thomas F. Chen Thomas F. Chen	Director
/s/ John D. Forsyth John D. Forsyth	Director
/s/ James R. Gavin III, M.D., Ph.D. James R. Gavin III, M.D., Ph.D.	Director
/s/ Peter S. Hellman Peter S. Hellman	Director
/s/ Michael F. Mahoney Michael F. Mahoney	Director
/s/ Patricia B. Morrison Patricia B. Morrison	Director
/s/ Stephen N. Oesterle, M.D. Stephen N. Oesterle, M.D.	Director
/s/ Cathy R. Smith Cathy R. Smith	Director
/s/ Thomas T. Stallkamp Thomas T. Stallkamp	Director
/s/ Albert P. L. Stroucken Albert P. L. Stroucken	Director
/s/ Amy A. Wendell Amy A. Wendell	Director

SCHEDULE II – Qualifying and Valuation accounts for each of the three years in the period ended December 31, 2020

Valuation and Qualifying Accounts (in millions)	Balance at beginning of period	Additions: Charged to costs and expenses	Additions: (Credited) charged to other accounts (1)	Deductions	Balance at end of period
Year ended December 31, 2020:					
Allowance for doubtful accounts	$ 112	11	6	(4)	$ 125
Deferred tax asset valuation allowance	$ 420	77	26	(69)	$ 454
Year ended December 31, 2019:					
Allowance for doubtful accounts	$ 110	12	(2)	(8)	$ 112
Deferred tax asset valuation allowance (as restated)	$ 310	117	—	(7)	$ 420
Year ended December 31, 2018:					
Allowance for doubtful accounts	$ 120	4	(7)	(7)	$ 110
Deferred tax asset valuation allowance	$ 483	20	(4)	(189)	$ 310

(1) Valuation accounts of acquired or divested companies, adoption of a new accounting pronouncement and foreign currency translation adjustments.

Reserves are deducted from assets to which they apply.

EXHIBIT 10.31

Baxter International Inc. and Subsidiaries

Deferred Compensation Plan

(As Amended and Restated Effective January 1, 2021)

C E R T I F I C A T E

Baxter International, Inc., acting through a duly authorized member of the Baxter International Inc. Administrative Committee, as the duly authorized delegate of the Board of Directors, hereby adopts this amendment and restatement of the Baxter International Inc. and Subsidiaries Deferred Compensation Plan, effective January 1, 2021, in the form attached hereto.

Dated this 16th day of December, 2020.

Baxter International, Inc.

By: 

Sven Skillrud

Administrative Committee Member

TABLE OF CONTENTS

BAXTER INTERNATIONAL INC. AND SUBSIDIARIES
DEFERRED COMPENSATION PLAN

(As Amended and Restated Effective January 1, 2021)

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 U.S. Retirement Savings Plan ("RSP"), 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, January 1, 2009, January 1, 2018, and January 5, 2018. The Plan is hereby further amended and restated effective January 1, 2021. Capitalized terms not defined in this Plan are deemed to have the meaning given them in the RSP.

1.2 Effective Date.

The effective date of this restatement is January 1, 2021, except as otherwise provided herein; provided that any provision of the Plan that is required to be effective as of an earlier date 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.

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 RSP.

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 RSP, and also includes any other bonuses which are approved by the Administrative Committee.

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 RSP 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 a United States employee (or United States expatriate on assignment in another country) who:

(a) Is a previously identified eligible executive of Baxter or another Participating Employer or an individual who, receives or is designated to receive performance share units ("PSUs") under Baxter's shareholder-approved long-term incentive plan 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 an individual designated to receive PSUs for a Plan Year but is not granted PSUs 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;

(b) 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;

(c) solely for purposes of Section 3.6, is eligible to receive an Employer Non-Matching Contribution into the RSP 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 (c); or

(d) for Plan Years 2023 through 2027, and solely for purposes of Section 3.10, is eligible to receive an Employer Transition Contribution into the RSP for said Plan Year and has Compensation for the Plan Year in excess of the limitations of Section 401(a)(17) of the

Code and/or has Annual Additions into the RSP for said Plan Year in excess of the limitations of Section 415 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 Matching Contribution.

The term Employer Matching Contribution has the same meaning in the Plan as it does in the RSP.

2.14 Employer Non-Matching Contribution.

The term Employer Non-Matching Contribution has the same meaning in the Plan as it does in the RSP.

2.15 Employer Transition Contribution.

The term Employer Transition Contribution has the same meaning in the Plan as it does in the RSP.

2.16 Excess Matching Contribution.

The Excess Matching Contribution is the difference between the Employer Matching Contributions allocated to a Participant's RSP 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.

2.17 Excess Non-Matching Contribution.

The Excess Non-Matching Contribution is described in Section 3.6 of the Plan.

2.18 Excess Transition Contribution.

The Excess Transition Contribution is described in Section 3.10 of the Plan.

2.19 Participant.

A Participant is any Eligible Employee who has an Account balance in the Plan.

2.20 Pay Deferral Contribution.

The term Pay Deferral Contribution has the same meaning as Pay Deferral Contribution in the RSP. 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.

2.21 Plan Year.

The Plan Year is the calendar year.

2.21 Section 409A.

Section 409A means Section 409A of the Code, as interpreted by Treasury Regulations or other authority issued thereunder.

2.23 Termination of Employment.

For purposes of the Plan, 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 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.

2.24 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.

2.25 Vesting.

For purposes of the Plan, Vesting has the same meaning as Vesting in the RSP.

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 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 RSP for the Plan Year.

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, in accordance with Section 3.8, 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 RSP 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 RSP by reason of the annual contribution limit under Section 415 or 402(g) 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 in accordance with Section 3.8, which Pay Deferral Election shall apply prospectively only. Beginning with the 2021 Plan Year, an Eligible Employee may defer a different percentage of his or her Compensation under the Plan than the amount of Compensation that such Employee elects to defer under the RSP for a Plan Year.

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 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 Excess Non-Matching Contribution.

An Eligible Employee who (i) is eligible to receive an Employer Non-Matching Contribution into the RSP 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 an Excess Non-Matching Contribution equal to the Employer Non-Matching Contribution percentage in the RSP applied

to 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 Excess Non-Matching Contributions and, effective January 1, 2023, Excess Transition Contributions, shall be entitled to receive the Excess Non-Matching Contributions and Excess Transition 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 end on or around June 1st of the Plan Year, unless otherwise determined by the Administrative Committee, and be no more than thirty (30) days in length. 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 3.2(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 Treasury Regulation Section 1.409A-2(a)(7).

3.9 Gambro Plans.

Effective as of January 1, 2015, the Plan assumed 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 was 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 B, 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 were 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.

3.10 Excess Transition Contributions.

For Plan Years 2023 through 2027, an Eligible Employee who is eligible to receive an Employer Transition Contribution into the RSP for the Plan Year shall receive an Excess Transition Contribution equal to the difference between the Employer Transition Contribution allocated to the Eligible Employee's RSP Account during the Plan Year and the amount that would have been allocated if the limitations of Sections 415 or 401(a)(17) of the Code were disregarded.

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 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, Excess Non-Matching Contributions and Excess Transition 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, and Bonus 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 forgoing 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 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 RSP.

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. On a daily basis, 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 in such form and 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 RSP, the portion of his or her Deferred Compensation Account attributable to Excess 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 RSP 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.

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 had not previously been described in subparagraph (c) was permitted to 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 subparagraphs (c) and (d) below, only one Distribution Election Form was permitted to 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 failed 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 3.5, or 3.6 shall be permitted to 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 is permitted to 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, then 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 became eligible to make a Bonus Deferral or Pay Deferral Election, he or she shall be permitted to file a new Distribution Election Form pursuant to subparagraph (b) above or (d) below. 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).

(d) Effective beginning with the 2021 Plan Year, an Eligible Employee pursuant to Sections 3.1, 3.2, or 3.3 above may file a Distribution Election Form with respect to a single Plan Year, pursuant to which the portion of the Participant's Deferred Compensation Account that represents amounts credited to the Deferred Compensation Account with respect to that Plan Year shall be distributed in accordance with the Distribution Election Form specific to such Plan Year. Such Distribution Election Forms must be filed by the end of the period for making the Participant's Bonus Deferral or Pay Deferral Election. For the avoidance of doubt, an Employee who becomes an Eligible Employee only pursuant to Section 3.5, or 3.6 shall only be permitted to file a Distribution Election Form as described in Section 5.2(c), which shall apply to the Participant's entire Deferred

Compensation Account unless and until the Participant makes a Bonus Deferral or Pay Deferral Election.

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). If a lump sum payment is elected, or is default to as a form of distribution as provided for below, the amount of the lump sum shall be equal to the balance in the Participant's Account prior to the payment of the lump sum.

Except as provided below, 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. Such lump sum payment shall be equal to the balance in the Participant's account prior to the payment of the lump sum.

(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 Treasury Regulation Section 1.409A-1(i), using the safe harbor definition of compensation contained in Treasury Regulation Section 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. Unless determined otherwise in accordance with Section 409A, 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 delayed payment terms described above 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 RSP 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 RSP 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 full discretionary 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 full discretionary 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. Baxter'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 Baxter, 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 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 (without regard to any state's conflict of laws principles), 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.

APPENDIX A

PARTICIPATING EMPLOYERS

Participating Employers in the Plan include all participating Employers in the Baxter International Inc. and Subsidiaries Retirement Savings Plan.

APPENDIX B

SPECIAL DISTRIBUTION PROVISIONS APPLICABLE TO AMOUNTS TRANSFERRED FROM GAMBRO PLANS

Forms of Distribution under the Voluntary Deferral Plan

B.1 The following terms shall govern the manner in which accounts 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 B.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 below),

(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 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 subparagraph is intended to be a separate payment for purposes of Code Section 409A and Treasury Regulation 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 B.1(c)(5) below.

(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 B.1(c)(5) below. 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 subparagraph B.1.(b)(3) above

(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 subparagraphs (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 subparagraph B.1(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 B.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 subparagraph B.1(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 Sections B.1(b) and (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 B.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 subparagraph B.1(e) 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 B.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 subparagraph 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 subparagraph shall 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

B.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 B.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.

EXHIBIT 21

BAXTER INTERNATIONAL INC.

The following is a list of subsidiaries of Baxter International Inc. as of December 31, 2020, omitting some subsidiaries which, when considered in the aggregate, would not constitute a significant subsidiary. Where ownership 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 Corporation Englewood	Colorado
Baxter Healthcare Corporation	Delaware
Baxter Pharmaceutical Solutions LLC	Delaware
Baxter Sales and Distribution LLC	Delaware
Cheetah Medical, Inc.	Delaware
Gambro Renal Products, Inc.	Colorado
Gambro UF Solutions, Inc.	Delaware
Laboratorios Baxter S.A.	Delaware
Synovis Life Technologies, Inc.	Minnesota
Synovis Micro Companies Alliance, Inc.	Minnesota

Foreign Subsidiary	Incorporation	
Baxter Healthcare Pty Ltd	Australia	
Baxter Belgium SPRL	Belgium	
Baxter Distribution Center Europe SA	Belgium	
Baxter R and D Europe SPRL	Belgium	
Baxter SA	Belgium	
Baxter Services Europe SA	Belgium	
Baxter World Trade SPRL	Belgium	
Baxter Hospitalar Ltda.	Brazil	
Baxter Corporation (Canada)	Canada	
Baxter (China) Investment Co., Ltd	China	
Baxter Healthcare (Guangzhou) Company Ltd	China	88 %
Baxter Healthcare (Shanghai) Company Ltd.	China	
Baxter Healthcare (Suzhou) Company Ltd	China	
Baxter Healthcare (Tianjin) Co., Ltd.	China	70 %
Baxter Healthcare Trading (Shanghai) Co., Ltd.	China	
RTS Colombia SAS	Colombia	
Baxter Productos Medicos, Ltda.	Costa Rica	
Baxter S.A.S.	France	
Gambro Industries SAS	France	
Baxter Deutschland GmbH	Germany	
Baxter Oncology GmbH	Germany	
Gambro Dialysatoren GmbH	Germany	
Baxter (Hellas) EPE	Greece	
Baxter de Guatemala, Sociedad Anonima	Guatemala	
Baxter Healthcare Limited (Hong Kong, China)	Hong Kong	

Baxter (India) Private Limited	India	
Baxter Pharmaceuticals India Pvt Ltd.	India	
Baxter Innovations & Business Solutions Private Limited (India)	India	
Baxter Shared Services & Competencies Limited	Ireland	
Cheetah Medical (Israel), Ltd.	Israel	
Baxter S.p.A.	Italy	
Bieffe Medital S.p.A.	Italy	
Gambro Dasco S.p.A.	Italy	
Baxter Limited	Japan	
Baxter S.A. de C.V.	Mexico	
Baxter Healthcare Limited	New Zealand	
Baxter Polska Sp. z o.o.	Poland	
Baxter AO	Russian Federation	
Baxter Company Ltd	Saudi Arabia	51 %
Baxter Healthcare SA (Singapore Woodlands Branch)	Singapore	
Baxter Pharmaceuticals (Asia) Pte Ltd.	Singapore	
Baxter Incorporated	South Korea	
Baxter, S.L.	Spain	
Baxter Medical AB	Sweden	
Gambro AB	Sweden	
Gambro Lundia AB	Sweden	
Baxter AG	Switzerland	
Baxter Healthcare SA	Switzerland	
Baxter Healthcare Limited (Taiwan)	Taiwan	
Baxter Healthcare (Thailand) Company Limited	Thailand	
Baxter Manufacturing, (Thailand) Co., Ltd.	Thailand	
Baxter Holding B.V.	The Netherlands	
ApaTech Limited	United Kingdom	
Baxter Healthcare Limited	United Kingdom	
Cheetah Medical (UK) Limited	United Kingdom	

EXHIBIT 23

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, 333-71553, 333-80403, 333-88257, 333-48906, 333-62820, 333-104420, 333-104421, 333-105032, 333-143063, 333-174400, 333-174401, 333-206700 and 333-206701) of Baxter International Inc. of our report dated February 11, 2021 relating to the financial statements and 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 11, 2021

EXHIBIT 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

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 11, 2021

EXHIBIT 31.2

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
Executive Vice President and
Chief Financial Officer

Date: February 11, 2021

EXHIBIT 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

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, 2020 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 11, 2021

EXHIBIT 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

James K. Saccaro, as Executive 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, 2020 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
Executive Vice President and
Chief Financial Officer

February 11, 2021