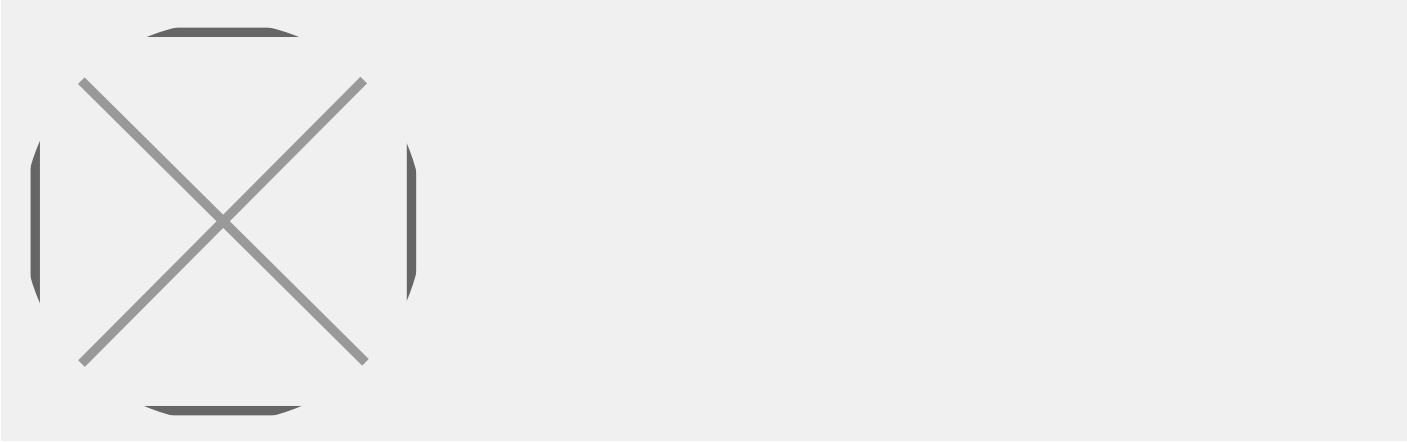
Interview with Silvio Gherardi, President, Baxter Italy



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Following 20 years of a comprehensive experience in diverse fields of the pharmaceutical industry, you entered Baxter in 2000. At the time, the Italian affiliate was already a well established reality, and the company now celebrates its 40th anniversary with four production sites and more than 1000 employees. What have been the main milestones of Baxter Italy since you took the reins of such a wide and diversified company?

Back in 2000, Baxter was the combination of four independent entities, and I entered the group as Managing Director of Bioscience Italy, under the direct responsibility of the European and American headquarters. At this stage, the company was really unable to be recognized by authorities and customers as a highly significant group in the country. For this reason, the most recent yet most important step in Baxter Italy's development has been the fusion of each entity into a unified company- a long process which has just been fully completed this year, when the whole workforce moved into the same premises in Roma. Milano and Pisa offices therefore had to be closed, but it is worth mentioning that such consolidation has not been leaded by financial concerns, the only objective being to be able to act as a strong and coordinated reality. Beyond this restructuration, the launch of several new products in the recent years also has to be highlighted. Firstly, as a leader in haemophilia, Baxter successfully released the latest generation of Recombinant Factor VIII. In addition, it has consolidated its vocation of "compounding company". Indeed, being the only laboratory in Italy able to produce customized products for patients on an individual basis for extremely severe conditions, Baxter receives prescriptions from specialists, and prepares the adequate products to be directly shipped to the patient's residence. So not only has Baxter's leadership in core areas such as haemophilia and nutrition been reinforced, but new services have been developed in the field of home care assistance- a very specific skill of the Italian affiliate.As a

result, Italian activities generated a 400 million dollars turnover in 2008- experiencing 50% growth since 2000. Since the acquisition of Immuno in 1997, Italy became strategically important for Baxter's activities –especially the Bioscience division.

Could you describe the identity of the Italian branch, and to which extent is it a priority for Baxter on a global scale?

Baxter surely considers Italy as main priority. The Rieti facilities, fully dedicated to plasma fractionations, are currently receiving major investments in terms of financial means, but also human capital and technology. The goal is to double the plant's capacity from 600 000 to 1, 2 million litres of plasma, as well as the headcount which will switch from 130 to 250 employees. At a later stage, Rieti will become the unique production center for all Baxter's gamma-globulins, exporting worldwide including to the US and Canada, as FDA authorization has just been received. Such investments will surely enable Baxter to keep building on its leadership position among the top 3 plasma companies in Italy. Baxter's industrial presence in the country has been growing, and enabled Italy to really contribute to the group's worldwide leadership.

How challenging is it to convince global and European headquarters to keep investing in the Italian facilities despite the current trend of delocalisation- and which elements of the Italian industrial environment make it a strategic place to develop and maintain an international manufacturing centre?

When buying a house in the United States, it is often said that the choice should be based on three main criteria: "location, location, and location". And in the same way, manufacturing investment strategies should be driven by "quality, quality, and quality". The levels of quality delivered by the Italian facilities are at least equal to the US and Canadian standards. In addition, investing in an existing plant is less costly than building a new one–even in countries that are considered more cost-effective. And overall, while a wave of enthusiasm is currently addressed to emerging markets, there is no doubt that in a ten years time, these less developed countries will offer the same price levels and the same amount of obstacles than the mature ones.For these reasons, long term considerations strongly advise Baxter headquarters to sustain investment in Italy. Following such a long term vision, it is crucial to keep Baxter's Italian facilities profitable.

Are third part manufacturing activities considered as a strategic asset in this regard?

They are not in the case of the Rieti, which is a highly specialized plant. Even when the fractionation capacity will be increased, the production processes will remain very complicated and focused on specific plasma needs- excluding the possibility to develop toll manufacturing.On the other hand, the Grosotto facility, which already carries out production aimed at other European affiliates, will also develop additional agreements with other laboratories.

As an increasing number of multinationals and local players are betting on third part manufacturing to generate enough profits, what really makes Baxter and its Grosotto facilities the partner of choice for customers in need to outsource part of their production?

The main historical strategic asset of Baxter is its steady focus in niche areas such as renal impairment, haemophilia and critical care- avoiding the so-called “big markets”. Thus, the quality levels reached in these areas are absolutely unmatched by competitors- and the production costs are extremely competitive as well. As a result Baxter delivers the best quality, but not necessarily at a higher price than its counterparts. To highlight another main competitive advantage of Baxter; the group has recently been awarded for its environmental concerns by the Dow Jones Sustainability Index.

Could you explain the strategy behind your investment policy, in terms of continuously upgrading the facilities, making sure to combine the best quality standards, with safety of employees and the environmental friendliness to which Baxter is strongly committed?

What could seem challenging at first glance is in fact only a matter of philosophical approach. A steady focus on profitability might lead a company into serious troubles- but when the main concerns are patients’ health and social responsibility, profit losses are acceptable as they actually correspond to major investments on the long term. Delivering higher quality requires higher spending, but also boosts market share and turnover, leading to very positive results. While other companies earned their success thanks to an aggressive approach to the market, Baxter has been remarkably known worldwide for the past 75 years for the consistent quality of its products and its commitment to social responsibility. Looking closer at Baxter’s philosophy, the group has a special business model since it does not sell drugs per se but complete solutions -and has been the only healthcare company managing to blend pharmaceuticals, biopharmaceuticals, solutions and medical devices.

Which of these business lines are currently the most strategic in the Italian market and how do you see the contribution of each of them further evolving?

In terms of strategy, Baxter wants to remain a differentiated healthcare company – not specialized in pharmaceuticals, medical devices or generics, but in healthcare, providing the best services, products and devices. In regards to future developments in Italy, Baxter will maintain its excellence in drugs and devices’ production and delivery, but will also increasingly focus on the services granted directly to the patients. Indeed, considerations related to the cost of healthcare encourage the government to work on reducing the number of hospitalizations, limiting it to the most severe conditions- while on the other hand promoting home care assistance. This new approach is not only crucial to cost containment, but also contributes to improving the quality of life of patients and their families, which is Baxter’s first priority. For this reason, the company will get acquainted with

different ways to deliver products directly to the patients' residence- a trend that has already started, Baxter currently being the only laboratory in Italy able to follow patients from the beginning of their treatment, support them while using drugs, offer them the best delivery options, and whenever necessary assist them with home nurses.These home care services are free of charge, which responds to our economical system's need to keep pricing under control. Baxter considers that any organization should give its contribution to the society; and companies offering home assistance can really become actors of the cost rationalization, instead of denigrating it.The upcoming services pipeline will be dedicated to enable patients to stay at home yet being exactly treated as in a hospital, creating for instance virtual consultations to analyse blood testing or ECG by telephone. Home delivery of products is another objective; this practice is still forbidden in Italy by the excessive regulations currently in place, but could really contribute to reduce the costs of the delivery chain, which in some cases represent up to 33% of the total cost of the product. Baxter's pioneering approach very well illustrates how most initiatives are currently launched by the industry itself, without significant support from the Italian government.

How could authorities and laboratories better collaborate?

The authorities are slowly changing their mindset. Whereas the government used to implement very restrictive decrees on a regular basis, some Regions are now consulting the industry to find solutions and manage to work together towards the conciliation of quality and services with cost containing policies, trying to deliver better services at a lower cost. Of course, Local Health Authorities are still trying to limit the excessive number of visits to GPs and specialists carried out by most laboratories' sales force. But Baxter is not affected by such policies as its sales force does not exceed 100 representatives- whereas other hospital-focused companies rely on an average of 250 or more. I am personally convinced that representatives shall not act as a sales tool by pressuring prescriptions; their role is to upgrade the customers' knowledge, letting the specialists freely decide to prescribe Baxter's products. As a result of our workforce's efficiency with the products' quality, most specialists are now aware that when choosing Baxter, they know exactly what they buy. Baxter is surely known on a global scale as a laboratory at the forefront of innovation.

What would you say Baxter stands for in today's Italian industry, and where do you see further for improvement in terms of image?

Baxter's image has always been and will remain linked to quality- and it will be complemented in the future by the company's commitment to manage costs and social responsibility, in which we will excel. As a first example of such commitments, Baxter new offices are going to be leed certified- which requires higher investments in the infrastructures, but complies with Baxter's long term vision. Contrary to most American companies, Baxter does not necessarily follow a profit-driven strategy. Its stock is surely highly valuable, but the CEO, Mr Robert Parkinson, has found a way of

matching high returns on investment with strong social and ethical behaviours.

Building on these unique values of Baxter, what are your personal ambitions for the Italian affiliate in the coming years and at which level do you want to take the company?

In terms of business, I would like Baxter Italy to sustain its growth level, which would already be a great achievement in the current economic context.In terms of people, we would like to be recognized as one of best places to work. In terms social responsibility, Baxter will remain very active in a wide range of fields, from ecological commitment to ecology non-profit organizations' support.

Having only 100 sales representatives out of a total headcount of 1000 employees, Baxter surely bets on the most efficient teams. How do you recruit and retain the best talents?

On the recruitment side, Baxter's professionals can rely on their market expertise to know exactly what kind of skills they need in their teams- and are even able to help recruiters in the selection processes. In addition, the HR department is extremely efficient and recently recruited 100 new collaborators.In terms of keeping the best talents, even if salaries are surely part of the motivation, I believe that Baxter's workforce appreciates to be part of the group's project on a global scale. Receiving recognition from patients whose lives have been saved by our products, and knowing that they can realize their ideals through their daily work is certainly more important to them than any annual bonus.

How would you characterize your personal management stile?

I am a honest person, but I would not say I have a personal stile. With 1000 people reporting to me, they don't have to adjust to me but I have to adjust to them. I am driven by the fact that I am never fully satisfied with my achievements, and I try to communicate this vision to Baxter's workforce. I am deeply convinced that being clever is not enough- one must try to be the best. This is why, after such a long experience I still behave as if it was the beginning of my career.

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