

**BAXTER INTERNATIONAL INC.**  
**Cash Flows from Operations and Changes in Net Debt**  
(unaudited)  
(\$ in millions)

<b>Cash Flows from Operations</b> (Brackets denote cash outflows)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2006	2005	2006	2005
Net income	\$309	\$322	\$591	\$548
Adjustments				
Depreciation and amortization	146	145	285	292
Deferred income taxes	16	96	18	119
Stock compensation	20	3	38	4
Infusion pump charges	76	77	76	77
Restructuring adjustments	-	(104)	-	(104)
Other	4	10	22	26
Changes in balance sheet items				
Receivables	(23)	(25)	15	35
Inventories	13	72	(50)	90
Accounts payable and accrued liabilities	(32)	(83)	(137)	(342)
Restructuring payments	(6)	(31)	(25)	(73)
Other	20	24	15	106
<b>Cash flows from operations</b>	<b>\$543</b>	<b>\$506</b>	<b>\$848</b>	<b>\$778</b>

<b>Changes in Net Debt</b> Increase (decrease)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2006	2005	2006	2005
<b>Net debt, beginning of period</b>	<b>\$1,524</b>	<b>\$3,493</b>	<b>\$2,497</b>	<b>\$3,185</b>
Cash flows from operations	(543)	(506)	(848)	(778)
Capital expenditures	122	98	198	163
Dividends	-	-	363	359
Issuances of common stock	-	-	(1,249)	-
Purchases of treasury stock	221	-	392	-
Other, including the effect of exchange rate changes	(26)	(24)	(55)	132
<b>Decrease in net debt</b>	<b>(226)</b>	<b>(432)</b>	<b>(1,199)</b>	<b>(124)</b>
<b>Net debt, June 30</b>	<b>\$1,298</b>	<b>\$3,061</b>	<b>\$1,298</b>	<b>\$3,061</b>

<b>Key statistics, June 30:</b>				
Days sales outstanding	52.1	58.4	52.1	58.4
Inventory turns	2.7	2.9	2.7	2.9
Net-debt-to-capital ratio (A)	18.1%	30.1%	18.1%	30.1%

(A) The decrease in the debt-to-capital ratio from June 30, 2005 to June 30, 2006 primarily related to the settlement of the company's equity units. In February 2006, the purchase contracts included in the company's equity units matured, and the company issued approximately 35 million common shares in exchange for \$1.25 billion. Management used a portion of the cash proceeds to pay down maturing debt. The net-debt-to-capital ratio at June 30, 2005 was calculated in accordance with the company's primary credit agreements, which gave 70% equity credit to the company's \$1.25 billion equity units debt outstanding on that date (the majority of which was repurchased and retired in the fourth quarter of 2005). Refer to the company's Form 10-K for the year ended December 31, 2005 for additional information regarding the equity units.