

BAXTER INTERNATIONAL INC.
Consolidated Statements of Income
Three Months Ended June 30, 2006 and 2005
(unaudited)
(in millions, except per share and percentage data)

	Three Months Ended June 30,		Change
	2006	2005	
<u>CONTINUING OPERATIONS:</u>			
NET SALES	\$2,649	\$2,577	3%
GROSS PROFIT	1,155	1,036	11%
<i>% of Sales</i>	43.6%	40.2%	3.4 pts
MARKETING AND ADMINISTRATIVE EXPENSES	582	537	8%
<i>% of Sales</i>	22.0%	20.8%	1.2 pts
RESEARCH AND DEVELOPMENT EXPENSES	146	133	10%
RESTRUCTURING ADJUSTMENTS	-	(104)	(100%)
OPERATING INCOME	427	470	(9%)
<i>% of Sales</i>	16.1%	18.2%	(2.1 pts)
INTEREST, NET	10	33	(70%)
OTHER EXPENSE, NET	19	25	(24%)
INCOME BEFORE INCOME TAXES	398	412	(3%)
INCOME TAX EXPENSE	89	88	1%
INCOME FROM CONTINUING OPERATIONS	\$309	\$324	(5%)
BASIC EPS FROM CONTINUING OPERATIONS	\$0.47	\$0.52	(10%)
DILUTED EPS FROM CONTINUING OPERATIONS	\$0.47	\$0.51	(8%)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING			
Basic	654	621	
Diluted	659	626	
ADJUSTED INCOME FROM CONTINUING OPERATIONS (excluding certain items)	\$373 (1)	\$309 (1)	
ADJUSTED DILUTED EPS FROM CONTINUING OPERATIONS (excluding certain items)	\$0.57 (1)	\$0.49 (1)	

(1) See page 8 for description of adjustments and reconciliation to GAAP (generally accepted accounting principles) measures.

Note: Effective January 1, 2006, the company adopted SFAS No. 123-R using the modified prospective method. After-tax stock-option expense for the second quarter of 2006 was \$10 million, or \$0.02 per diluted share. In accordance with the modified prospective adoption method, the company did not adjust its historical consolidated financial statements to reflect the impact of stock-option expense. Based on the pro forma application of SFAS No. 123 for the calculation of stock-option expense prior to January 1, 2006 (as previously disclosed in the company's consolidated financial statements), pro forma after-tax stock-option expense in the second quarter of 2005 was \$16 million, or \$0.02 per diluted share.

Non-GAAP Financial Measures: The non-GAAP financial measures contained in this press release (earnings and per-share earnings, excluding certain items) adjust for factors that are unusual or nonrecurring. Unusual or nonrecurring items can be highly variable, difficult to predict, and of a size that may substantially impact the company's reported operations for a period. Management believes that non-GAAP financial measures can facilitate a fuller analysis of the company's results of operations, particularly in evaluating performance period over period. Management uses these non-GAAP financial measures internally in financial planning, to monitor business unit performance, and in evaluating management performance. Refer to the Company's filing on Form 8-K of today's date for additional information.