

BAXTER INTERNATIONAL INC.
Consolidated Statements of Income
Twelve Months Ended December 31, 2007 and 2006
(unaudited)
(in millions, except per share and percentage data)

	Twelve Months Ended		Change
	December 31,		
	2007	2006	
NET SALES	\$11,263	\$10,378	9%
COST OF GOODS SOLD	5,744	5,641 ¹	2%
GROSS PROFIT	5,519	4,737	17%
<i>% of Sales</i>	49.0%	45.6%	3.4 pts
MARKETING AND ADMINISTRATIVE EXPENSES	2,521²	2,282	10%
<i>% of Sales</i>	22.4%	22.0%	0.4 pts
RESEARCH AND DEVELOPMENT EXPENSES	760³	614	24%
<i>% of Sales</i>	6.7%	5.9%	0.8 pts
RESTRUCTURING CHARGES	70⁴	--	N/A
NET INTEREST EXPENSE	22	34	(35%)
OTHER EXPENSE, NET	32⁵	61	(48%)
PRE-TAX INCOME	2,114	1,746	21%
INCOME TAX EXPENSE	407	348	17%
<i>% of Pre-Tax Income</i>	19.3%	19.9%	(0.6) pts
INCOME FROM CONTINUING OPERATIONS	\$1,707	\$1,398	22%
BASIC EPS	\$2.65	\$2.15	23%
DILUTED EPS FROM CONTINUING OPERATIONS	\$2.61	\$2.13	23%
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING			
Basic	644	651	
Diluted	654	656	
ADJUSTED PRE-TAX INCOME (excluding certain items)	\$2,290⁶	\$1,822 ⁶	26%
ADJUSTED INCOME FROM CONTINUING OPERATIONS (excluding certain items)	\$1,826⁶	\$1,462 ⁶	25%
ADJUSTED DILUTED EPS FROM CONTINUING OPERATIONS (excluding certain items)	\$2.79⁶	\$2.23 ⁶	25%

- 1 Cost of goods sold in 2006 included a \$76 million charge (\$64 million, or \$0.10 per share, on an after-tax basis) related to COLLEAGUE infusion pumps.
- 2 Marketing and administrative expenses in 2007 included a \$56 million charge (\$34 million, or \$0.05 per diluted share, on an after-tax basis) related to the company's AWP litigation.
- 3 R&D expenses in 2007 included IPR&D charges of \$25 million associated with an arrangement related to the development of a next-generation home hemodialysis machine, \$10 million associated with an arrangement with Halozyme Therapeutics, Inc. relating to the use of HYLENEX recombinant with the company's proprietary and non-proprietary small molecule drugs, \$10 million associated with an arrangement with Nycomed Pharma AS relating to the distribution of a product used for hemostasis and tissue sealing, and \$5 million associated with the expansion of the company's existing relationship with Nektar Therapeutics relating to the development of longer-acting forms of blood clotting proteins. The after-tax impact of these charges was \$39 million, or \$0.06 per diluted share. Also included in research and development expenses in 2007 was an IPR&D charge of \$11 million (\$7 million or \$0.01 per diluted share, on an after-tax basis) related to the acquisition of MAAS Medical, LLC.
- 4 Restructuring charges of \$70 million (\$46 million, or \$0.07 per share, on an after-tax basis) in 2007 were primarily for asset impairments and other costs associated with the consolidation of certain commercial and manufacturing operations outside of the United States
- 5 Other expense, net in 2007 included income of \$23 million, representing a gain on the sale of the Transfusion Therapies business of \$58 million less related charges of \$35 million. The net after-tax impact of these items was \$6 million of income, or \$0.01 per diluted share.
- 6 Refer to page 12 for a description of adjustments and a reconciliation to GAAP measures.

Non-GAAP Financial Measures: The non-GAAP financial measures contained in this press release (pre-tax income, income from continuing operations 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.