

BAXTER INTERNATIONAL INC.
Note to Consolidated Statements of Income
Twelve Months Ended December 31, 2011 and 2010
Description of Adjustments and Reconciliation of GAAP to Non-GAAP Measures
(unaudited)
(in millions, except per share and percentage data)

The company's GAAP results for the twelve months ended December 31, 2011 and 2010 included special items which impacted the GAAP results as follows:

	Twelve Months Ended December 31,									
	2011					2010				
	GAAP	Special items through Q3 2011 ¹	Business optimization charge ²	Asset impairment and other charges ³	Excluding special items	GAAP	Special items through Q3 2010 ⁴	Special items in Q4 2010 ⁵	Excluding special items	Change ⁶
NET SALES	\$13,893	\$ -	\$ -	\$ -	\$13,893	\$12,843	\$ 213	\$ -	\$13,056	6%
COST OF SALES	6,847	-	(95)	-	6,752	6,885	(375)	(132)	6,378	6%
GROSS MARGIN	7,046	-	95	-	7,141	5,958	588	132	6,678	7%
<i>% of Net Sales</i>	<i>50.7%</i>				<i>51.4%</i>	<i>46.4%</i>			<i>51.1%</i>	<i>0.3 pts</i>
MARKETING AND ADMINISTRATIVE EXPENSES	3,154	(79)	(97)	(41)	2,937	2,907	(28)	(125)	2,754	7%
<i>% of Net Sales</i>	<i>22.7%</i>				<i>21.1%</i>	<i>22.6%</i>			<i>21.1%</i>	<i>0 pts</i>
RESEARCH AND DEVELOPMENT EXPENSES	946	-	-	-	946	915	-	(34)	881	7%
<i>% of Net Sales</i>	<i>6.8%</i>				<i>6.8%</i>	<i>7.1%</i>			<i>6.7%</i>	<i>0.1 pt</i>
NET INTEREST EXPENSE	54	-	-	-	54	87	-	-	87	(38%)
OTHER EXPENSE (INCOME), NET	83	-	-	(62)	21	159	(112)	(62)	(15)	N/M
PRE-TAX INCOME	2,809	79	192	103	3,183	1,890	728	353	2,971	7%
INCOME TAX EXPENSE	553	31	64	32	680	463	9	126	598	14%
<i>% of Pre-Tax Income</i>	<i>19.7%</i>				<i>21.4%</i>	<i>24.5%</i>			<i>20.1%</i>	<i>1.3 pts</i>
NET INCOME	2,256	48	128	71	2,503	1,427	719	227	2,373	5%
LESS: NONCONTROLLING INTERESTS	32	-	-	-	32	7	-	-	7	N/M
NET INCOME ATTRIBUTABLE TO BAXTER	\$2,224	\$48	\$128	\$71	\$2,471	\$1,420	\$719	\$227	\$2,366	4%
BASIC EPS	\$3.91	\$0.09	\$0.22	\$0.12	\$4.34	\$2.41	\$1.21	\$0.39	\$4.01	8%
DILUTED EPS	\$3.88	\$0.09	\$0.22	\$0.12	\$4.31	\$2.39	\$1.20	\$0.39	\$3.98	8%
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING										
Basic	569				569	590			590	
Diluted	573				573	594			594	

- Marketing and administrative expenses in the third quarter of 2011 included a charge totaling \$79 million (\$48 million, or \$0.09 per diluted share, on an after-tax basis) related to the resolution of litigation pertaining to average wholesale prices and certain historical rebate and discount adjustments.
- Cost of sales and marketing and administrative expenses in the fourth quarter of 2011 included a charge totaling \$192 million (\$128 million, or \$0.22 per diluted share, on an after-tax basis) related to business optimization efforts.
- Marketing and administrative expenses and other expense (income), net in the fourth quarter of 2011 included charges totaling \$103 million (\$71 million, or \$0.12 per diluted share, on an after-tax basis). The charge recorded in marketing and administrative expenses principally related to a contribution to the Baxter International Foundation, and the charge recorded in other expense (income), net primarily related to the write-down of Greek government bonds.
- Net sales and cost of sales in the first quarter of 2010 included a charge totaling \$588 million, or \$0.98 per diluted share, related to the recall of COLLEAGUE infusion pumps, for which there was no net tax benefit recognized. Marketing and administrative expenses in the second quarter of 2010 included a charge of \$28 million (\$22 million, or \$0.03 per diluted share, on an after-tax basis) to write down accounts receivable in Greece. Other expense (income), net in the third quarter of 2010 included an impairment charge of \$112 million (\$70 million, or \$0.12 per diluted share, on an after-tax basis) related to the divestiture of the company's U.S. multi-source generic injectables business. Income tax expense in the first quarter of 2010 included a charge of \$39 million, or \$0.07 per diluted share, to write off a deferred tax asset as a result of a change in the tax treatment of reimbursements under the Medicare Part D retiree prescription drug subsidy program.
- Cost of sales and marketing and administrative expenses in the fourth quarter of 2010 included a charge totaling \$257 million (\$164 million, or \$0.28 per diluted share, on an after-tax basis) related to business optimization efforts. R&D expenses in the fourth quarter of 2010 included IPR&D charges of \$34 million (\$25 million, or \$0.04 per diluted share, on an after-tax basis) which principally related to the acquisition of hemophilia-related intellectual property and other assets from Archemix. Other expense (income), net in the fourth quarter of 2010 included a charge of \$62 million (\$38 million, or \$0.07 per diluted share, on an after-tax basis) related to increased litigation reserves.
- Represents the percentage change between the 2011 and 2010 results, both excluding special items.

For more information on the company's use of non-GAAP financial measures in this press release, please see the company's Current Report on Form 8-K filed with the Securities and Exchange Commission on the date of this press release.