

BAXTER INTERNATIONAL INC.
Consolidated Statements of Income
Three Months Ended June 30, 2016 and 2015
(unaudited)
(in millions, except per share and percentage data)

	Three Months Ended June 30,		Change
	2016	2015	
NET SALES	\$2,585	\$2,475	4%
COST OF SALES	1,613	1,454	11%
GROSS MARGIN	972	1,021	(5%)
<i>% of Net Sales</i>	<i>37.6%</i>	<i>41.3%</i>	<i>(3.7 pts)</i>
MARKETING AND ADMINISTRATIVE EXPENSES	709	783	(9%)
<i>% of Net Sales</i>	<i>27.4%</i>	<i>31.6%</i>	<i>(4.2 pts)</i>
RESEARCH AND DEVELOPMENT EXPENSES	195	151	29%
<i>% of Net Sales</i>	<i>7.5%</i>	<i>6.1%</i>	<i>1.4 pts</i>
OPERATING INCOME	68	87	(22%)
<i>% of Net Sales</i>	<i>2.6%</i>	<i>3.5%</i>	<i>(0.9 pts)</i>
NET INTEREST EXPENSE	11	30	(63%)
OTHER INCOME, NET ^A	(1,161)	(51)	NM
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	1,218	108	NM
INCOME TAX EXPENSE	6	34	(82%)
<i>% of Income from Continuing Operations before Income Taxes</i>	<i>0.5%</i>	<i>31.5%</i>	<i>(31 pts)</i>
INCOME FROM CONTINUING OPERATIONS	1,212	74	NM
INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX ^B	0	258	(100%)
NET INCOME	\$1,212	\$332	NM
INCOME FROM CONTINUING OPERATIONS PER COMMON SHARE			
Basic	\$2.21	\$0.14	NM
Diluted	\$2.19	\$0.13	NM
INCOME FROM DISCONTINUED OPERATIONS PER COMMON SHARE			
Basic	\$0.00	\$0.47	(100%)
Diluted	\$0.00	\$0.47	(100%)
NET INCOME PER COMMON SHARE			
Basic	\$2.21	\$0.61	NM
Diluted	\$2.19	\$0.60	NM
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING			
Basic	548	544	
Diluted	553	549	
ADJUSTED OPERATING INCOME (excluding special items)	\$318 ^C	\$174 ^C	83%
ADJUSTED PRE-TAX INCOME FROM CONTINUING OPERATIONS (excluding special items)	\$320 ^C	\$143 ^C	124%
ADJUSTED INCOME FROM CONTINUING OPERATIONS (excluding special items)	\$256 ^C	\$107 ^C	139%
ADJUSTED DILUTED EPS FROM CONTINUING OPERATIONS (excluding special items)	\$0.46 ^C	\$0.19 ^C	142%

NM - Not Meaningful

^A Other Income, net for the period ended June 30, 2016 includes \$1.1 billion realized gains on the disposition of the company's retained shares in Baxalta Incorporated (the "Retained Shares transactions").

^B Operating results from Baxalta Incorporated ("Baxalta") are classified as discontinued operations for all periods presented.

^C Refer to page 8 for a description of the adjustments and a reconciliation to GAAP measures.

BAXTER INTERNATIONAL INC.
Note to Consolidated Statements of Income
Three Months Ended June 30, 2016 and 2015
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 three months ended June 30, 2016 and 2015 included special items which impacted the GAAP measures as follows:

	Three Months Ended June 30,		Change
	2016	2015	
Gross Margin	\$972	\$1,021	(5%)
Intangible asset amortization expense ¹	42	40	
Business optimization items ²	66	3	
Intangible asset impairment ³	51	-	
Adjusted Gross Margin	\$1,131	\$1,064	6%
% of Net Sales	43.8%	43.0%	0.8 pts
Marketing and Administrative Expenses	\$709	\$783	(9%)
Business optimization items ²	(28)	(25)	
Baxalta separation-related costs ⁴	(18)	(16)	
Adjusted Marketing and Administrative Expenses	\$663	\$742	(11%)
% of Net Sales	25.6%	30.0%	(4.4 pts)
Research and Development Expenses	\$195	\$151	29%
Business optimization items ²	(45)	(3)	
Adjusted Research and Development Expenses	\$150	\$148	1%
% of Net Sales	5.8%	6.0%	(0.2 pts)
Operating Income	\$68	\$87	(22%)
Impact of special items	250	87	
Adjusted Operating Income	\$318	\$174	83%
% of Net Sales	12.3%	7.0%	5.3 pts
Other Income, Net	\$(1,161)	\$(51)	NM
Realized gains on Retained Shares transactions ⁵	1,148	-	
Litigation settlement ⁶	-	52	
Adjusted Other (Income) Expense, Net	\$(13)	\$1	NM
Pre-Tax Income from Continuing Operations	\$1,218	\$108	NM
Impact of special items	(898)	35	
Adjusted Pre-Tax Income from Continuing Operations	\$320	\$143	124%
Income Tax Expense	\$6	\$34	(82%)
Impact of special items	58	2	
Adjusted Income Tax Expense	\$64	\$36	78%
% of Adjusted Pre-Tax Income from Continuing Operations	20.0%	25.2%	(5.2 pts)
Income from Continuing Operations	\$1,212	\$74	NM
Impact of special items	(956)	33	
Adjusted Income from Continuing Operations	\$256	\$107	139%
Diluted EPS from Continuing Operations	\$2.19	\$0.13	NM
Impact of special items	(1.73)	0.06	
Adjusted Diluted EPS from Continuing Operations	\$0.46	\$0.19	142%
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING			
Diluted	553	549	

¹ The company's results in 2016 and 2015 included intangible asset amortization expense of \$42 million (\$32 million, or \$0.06 per diluted share, on an after-tax basis) and \$40 million (\$31 million, or \$0.06 per diluted share, on an after-tax basis), respectively.

² The company's results in 2016 included a charge of \$139 million (\$107 million, or \$0.19 per diluted share, on an after-tax basis) related to business optimization initiatives. This included a charge of \$103 million related to restructuring activities, \$15 million of costs to implement business optimization programs which included external consulting and employee salary and related costs, \$14 million of accelerated depreciation associated with facilities to be closed, and \$7 million of Gambro integration costs. The \$103 million of restructuring activities include \$39 million of employee termination costs, \$58 million of costs related to the discontinuance of the VIVIA home hemodialysis development program, and \$6 million of other exit costs.

The company's results in 2015 included a business optimization net charge of \$31 million (\$22 million, or \$0.04 per diluted share, on an after-tax basis) which included a charge of \$11 million primarily related to employee termination costs and \$20 million related to the integration of Gambro.

³ The company's results in 2016 included a \$51 million (\$39 million, or \$0.07 per diluted share, on an after-tax basis) impairment primarily related to developed technology.

⁴ The company's results in 2016 and 2015 included costs incurred related to the Baxalta separation totaling \$18 million (\$14 million, or \$0.03 per diluted share, on an after-tax basis) and \$16 million (\$13 million, or \$0.02 per diluted share, on an after-tax basis), respectively.

⁵ The company's results in 2016 included realized gains of \$1.1 billion (\$1.1 billion, or \$2.08 per diluted share, on an after-tax basis) related to the exchange of the company's retained shares in Baxalta for Baxter shares and the contribution of retained shares in Baxalta to Baxter's U.S. pension fund.

⁶ The company's results in 2015 included income, net of expenses, of \$52 million (\$33 million, or \$0.06 per diluted share, on an after-tax basis) related to a litigation settlement in which Baxter was the beneficiary.

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.

BAXTER INTERNATIONAL INC.
Consolidated Statements of Income
Six Months Ended June 30, 2016 and 2015
(unaudited)
(in millions, except per share and percentage data)

	Six Months Ended June 30,		Change
	2016	2015	
NET SALES	\$4,960	\$4,878	2%
COST OF SALES	3,023	2,838	7%
GROSS MARGIN	1,937	2,040	(5%)
<i>% of Net Sales</i>	<i>39.1%</i>	<i>41.8%</i>	<i>(2.7 pts)</i>
MARKETING AND ADMINISTRATIVE EXPENSES	1,350	1,567	(14%)
<i>% of Net Sales</i>	<i>27.2%</i>	<i>32.1%</i>	<i>(4.9 pts)</i>
RESEARCH AND DEVELOPMENT EXPENSES	331	294	13%
<i>% of Net Sales</i>	<i>6.7%</i>	<i>6.0%</i>	<i>0.7 pts</i>
OPERATING INCOME	256	179	43%
<i>% of Net Sales</i>	<i>5.2%</i>	<i>3.7%</i>	<i>1.5 pts</i>
NET INTEREST EXPENSE	39	60	(35%)
OTHER INCOME, NET ^A	(4,330)	(137)	NM
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	4,547	256	NM
INCOME TAX (BENEFIT) EXPENSE	(52)	48	NM
<i>% of Income from Continuing Operations before Income Taxes</i>	<i>(1.1%)</i>	<i>18.8%</i>	<i>(19.9 pts)</i>
INCOME FROM CONTINUING OPERATIONS	4,599	208	NM
INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX ^B	(7)	554	(101%)
NET INCOME	\$4,592	\$762	NM
INCOME FROM CONTINUING OPERATIONS PER COMMON SHARE			
Basic	\$8.39	\$0.38	NM
Diluted	\$8.33	\$0.38	NM
INCOME FROM DISCONTINUED OPERATIONS PER COMMON SHARE			
Basic	(\$0.01)	\$1.02	(101%)
Diluted	(\$0.01)	\$1.01	(101%)
NET INCOME PER COMMON SHARE			
Basic	\$8.38	\$1.40	NM
Diluted	\$8.32	\$1.39	NM
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING			
Basic	548	544	
Diluted	552	548	
ADJUSTED OPERATING INCOME (excluding special items)	\$567 ^C	\$335 ^C	69%
ADJUSTED PRE-TAX INCOME FROM CONTINUING OPERATIONS (excluding special items)	\$568 ^C	\$360 ^C	58%
ADJUSTED INCOME FROM CONTINUING OPERATIONS (excluding special items)	\$455 ^C	\$294 ^C	55%
ADJUSTED DILUTED EPS FROM CONTINUING OPERATIONS (excluding special items)	\$0.82 ^C	\$0.54 ^C	52%

NM - Not Meaningful

^A Other Income, net for the period ended June 30, 2016 includes \$4.4 billion net realized gains on the Retained Shares transactions and a \$101 million net debt extinguishment loss.

^B Operating results from Baxalta are classified as discontinued operations for all periods presented.

^C Refer to page 10 for a description of the adjustments and a reconciliation to GAAP measures.

BAXTER INTERNATIONAL INC.
Note to Consolidated Statements of Income
Six Months Ended June 30, 2016 and 2015
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 six months ended June 30, 2016 and 2015 included special items which impacted the GAAP measures as follows:

	Six Months Ended		Change
	2016	2015	
Gross Margin	\$1,937	\$2,040	(5%)
Intangible asset amortization expense ¹	82	80	
Business optimization items ²	78	(4)	
Product-related items ³	(12)	-	
Intangible asset impairment ⁴	51	-	
Adjusted Gross Margin	\$2,136	\$2,116	1%
% of Net Sales	43.1%	43.4%	(0.3 pts)
Marketing and Administrative Expenses	\$1,350	\$1,567	(14%)
Business optimization items ²	(31)	(49)	
Baxalta separation-related costs ⁵	(36)	(28)	
Adjusted Marketing and Administrative Expenses	\$1,283	\$1,490	(14%)
% of Net Sales	25.9%	30.5%	(4.6 pts)
Research and Development Expenses	\$331	\$294	13%
Business optimization items ²	(45)	(3)	
Adjusted Research and Development Expenses	\$286	\$291	(2%)
% of Net Sales	5.8%	6.0%	(0.2 pts)
Operating Income	\$256	\$179	43%
Impact of special items	311	156	
Adjusted Operating Income	\$567	\$335	69%
% of Net Sales	11.4%	6.9%	4.5 pts
Other Income, Net	\$(4,330)	\$(137)	NM
Net realized gains on Retained Shares transactions ⁶	4,391	-	
Loss on debt extinguishment ⁷	(101)	-	
Litigation settlement ⁸	-	52	
Adjusted Other Income, Net	\$(40)	\$(85)	(53%)
Pre-Tax Income from Continuing Operations	\$4,547	\$256	NM
Impact of special items	(3,979)	104	
Adjusted Pre-Tax Income from Continuing Operations	\$568	\$360	58%
Income Tax (Benefit) Expense	\$(52)	\$48	NM
Impact of special items	165	18	
Adjusted Income Tax Expense	\$113	\$66	71%
% of Adjusted Pre-Tax Income from Continuing Operations	19.9%	18.3%	1.6 pts
Income from Continuing Operations	\$4,599	\$208	NM
Impact of special items	(4,144)	86	
Adjusted Income from Continuing Operations	\$455	\$294	55%
Diluted EPS from Continuing Operations	\$8.33	\$0.38	NM
Impact of special items	(7.51)	0.16	
Adjusted Diluted EPS from Continuing Operations	\$0.82	\$0.54	52%
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING			
Diluted	552	548	

¹ The company's results in 2016 and 2015 included intangible asset amortization expense of \$82 million (\$62 million, or \$0.11 per diluted share, on an after-tax basis) and \$80 million (\$63 million, or \$0.12 per diluted share, on an after-tax basis), respectively.

² The company's results in 2016 included a net charge of \$154 million (\$117 million, or \$0.21 per diluted share, on an after-tax basis) related to business optimization initiatives. This included a net charge of \$107 million related to restructuring activities, \$19 million of costs to implement business optimization programs which included external consulting and employee salary and related costs, \$14 million of accelerated depreciation associated with facilities to be closed, and \$14 million of Gambro integration costs. The \$107 million of restructuring activities included \$43 million of employee termination costs, \$58 million of costs related to the discontinuance of the VIVIA home hemodialysis development program, and \$6 million of other exit costs.

The company's results in 2015 included a business optimization net charge of \$48 million (\$34 million, or \$0.06 per diluted share, on an after-tax basis) which included a net charge of \$10 million primarily related to employee termination costs and \$38 million related to the integration of Gambro.

³ The company's results in 2016 included a benefit of \$12 million (\$9 million, or \$0.02 per diluted share, on an after-tax basis) related to an adjustment to the SIGMA SPECTRUM infusion pump reserves.

⁴ The company's results in 2016 included a \$51 million (\$39 million, or \$0.07 per diluted share, on an after-tax basis) impairment primarily related to developed technology.

⁵ The company's results in 2016 and 2015 included costs incurred related to the Baxalta separation totaling \$36 million (\$27 million, or \$0.05 per diluted share, on an after-tax basis) and \$28 million (\$22 million, or \$0.04 per diluted share, on an after-tax basis), respectively.

⁶ The company's results in 2016 included net realized gains of \$4.4 billion (\$4.4 billion, or \$8.05 per diluted share, on an after-tax basis), related to the debt-for-equity exchanges of the company's retained shares in Baxalta for certain company indebtedness, the exchange of retained shares in Baxalta for Baxter shares and the contribution of retained shares in Baxalta to Baxter's U.S. pension fund. A tax benefit of \$54 million was recognized as a result of the Retained Shares transactions.

⁷ The company's results in 2016 included a net debt extinguishment loss totaling \$101 million (\$65 million, or \$0.12 per diluted share, on an after-tax basis) related to the March 2016 debt-for-equity exchange for certain company indebtedness.

⁸ The company's results in 2015 included income, net of expenses, of \$52 million (\$33 million, or \$0.06 per diluted share, on an after-tax basis) related to a litigation settlement in which Baxter was the beneficiary.

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.

BAXTER INTERNATIONAL INC.
Net Sales
Periods Ending June 30, 2016 and 2015
(unaudited)
(\$ in millions)

	Q2 2016	Q2 2015	% Growth @ Actual Rates	% Growth @ Constant Rates	YTD 2016	YTD 2015	% Growth @ Actual Rates	% Growth @ Constant Rates
Renal								
United States	\$210	\$193	9%	9%	\$411	\$379	8%	8%
International	755	756	0%	2%	1,452	1,483	(2%)	4%
Total Renal	\$965	\$949	2%	4%	\$1,863	\$1,862	0%	5%
Hospital Products								
United States	\$873	\$795	10%	10%	\$1,664	\$1,554	7%	7%
International	747	731	2%	5%	1,433	1,462	(2%)	4%
Total Hospital Products	\$1,620	\$1,526	6%	7%	\$3,097	\$3,016	3%	6%
Baxter International Inc.								
United States	\$1,083	\$988	10%	10%	\$2,075	\$1,933	7%	7%
International	1,502	1,487	1%	3%	2,885	2,945	(2%)	4%
Total Baxter	\$2,585	\$2,475	4%	6%	\$4,960	\$4,878	2%	5%

BAXTER INTERNATIONAL INC.
Sales by Franchise
Periods Ending June 30, 2016 and 2015
(unaudited)
(\$ in millions)

	Q2 2016	Q2 2015	% Growth @ Actual Rates	% Growth @ Constant Rates	YTD 2016	YTD 2015	% Growth @ Actual Rates	% Growth @ Constant Rates
Total Renal ¹	\$965	\$949	2%	4%	\$1,863	\$1,862	0%	5%
Hospital Products								
Fluid Systems ²	\$586	\$518	13%	15%	\$1,110	\$1,011	10%	13%
Integrated Pharmacy Solutions ³	563	548	3%	4%	1,119	1,112	1%	4%
Surgical Care ⁴	347	333	4%	5%	652	655	0%	2%
Other ⁵	124	127	(2%)	(5%)	216	238	(9%)	(9%)
Total Hospital Products	\$1,620	\$1,526	6%	7%	\$3,097	\$3,016	3%	6%
Total Baxter	\$2,585	\$2,475	4%	6%	\$4,960	\$4,878	2%	5%

¹ Includes sales of the company's peritoneal dialysis, hemodialysis and continuous renal replacement therapies.

² Includes sales of the company's IV therapies, infusion pumps and administration sets.

³ Includes sales of the company's premixed and oncology drug platforms, nutrition products and pharmacy compounding services.

⁴ Includes sales of the company's inhaled anesthesia products as well as biological products and medical devices used in surgical procedures for hemostasis, tissue sealing and adhesion prevention.

⁵ Includes sales primarily from the company's pharmaceutical partnering business.

BAXTER INTERNATIONAL INC.
Franchise Sales by U.S. and International
Periods Ending June 30, 2016 and 2015
(unaudited)
(\$ in millions)

	Q2 2016			Q2 2015			% Growth		
	U.S.	International	Total	U.S.	International	Total	U.S.	International	Total
Total Renal	\$210	\$755	\$965	\$193	\$756	\$949	9%	0%	2%
Hospital Products									
Fluid Systems	\$329	\$257	\$586	\$247	\$271	\$518	33%	(5%)	13%
Integrated Pharmacy Solutions	261	302	563	260	288	548	0%	5%	3%
Surgical Care	200	147	347	196	137	333	2%	7%	4%
Other	83	41	124	92	35	127	(10%)	17%	(2%)
Total Hospital Products	\$873	\$747	\$1,620	\$795	\$731	\$1,526	10%	2%	6%
Total Baxter	\$1,083	\$1,502	\$2,585	\$988	\$1,487	\$2,475	10%	1%	4%