

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

	Three Months Ended September 30,		Change
	2016	2015	
NET SALES	\$2,558	\$2,487	3%
COST OF SALES	1,487	1,453	2%
GROSS MARGIN	1,071	1,034	4%
<i>% of Net Sales</i>	<i>41.9%</i>	<i>41.6%</i>	<i>0.3 pts</i>
MARKETING AND ADMINISTRATIVE EXPENSES	726	794	(9%)
<i>% of Net Sales</i>	<i>28.4%</i>	<i>31.9%</i>	<i>(3.5 pts)</i>
RESEARCH AND DEVELOPMENT EXPENSES	159	148	7%
<i>% of Net Sales</i>	<i>6.2%</i>	<i>6.0%</i>	<i>0.2 pts</i>
OPERATING INCOME	186	92	102%
<i>% of Net Sales</i>	<i>7.3%</i>	<i>3.7%</i>	<i>3.6 pts</i>
NET INTEREST EXPENSE	14	34	(59%)
OTHER EXPENSE, NET	44	91	(52%)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	128	(33)	NM
INCOME TAX EXPENSE (BENEFIT)	1	(35)	NM
<i>% of Income from Continuing Operations before Income Taxes</i>	<i>0.8%</i>	<i>106.1%</i>	<i>NM</i>
INCOME FROM CONTINUING OPERATIONS	127	2	NM
INCOME (LOSS) FROM DISCONTINUED OPERATIONS, NET OF TAX ^A	3	(1)	NM
NET INCOME	\$130	\$1	NM
INCOME FROM CONTINUING OPERATIONS PER COMMON SHARE			
Basic	\$0.23	\$0.00	NM
Diluted	\$0.23	\$0.00	NM
INCOME FROM DISCONTINUED OPERATIONS PER COMMON SHARE			
Basic	\$0.01	\$0.00	NM
Diluted	\$0.01	\$0.00	NM
NET INCOME PER COMMON SHARE			
Basic	\$0.24	\$0.00	NM
Diluted	\$0.24	\$0.00	NM
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING			
Basic	544	546	
Diluted	551	549	
ADJUSTED OPERATING INCOME (excluding special items)	\$409 ^B	\$279 ^B	47%
ADJUSTED PRE-TAX INCOME FROM CONTINUING OPERATIONS (excluding special items)	\$399 ^B	\$284 ^B	40%
ADJUSTED INCOME FROM CONTINUING OPERATIONS (excluding special items)	\$311 ^B	\$225 ^B	38%
ADJUSTED DILUTED EPS FROM CONTINUING OPERATIONS (excluding special items)	\$0.56 ^B	\$0.41 ^B	37%

NM - Not Meaningful

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

^B Refer to page 7 for a description of the adjustments and a reconciliation to GAAP measures.

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

	Three Months Ended September 30,		
	2016	2015	Change
Gross Margin	\$1,071	\$1,034	4%
Intangible asset amortization expense ¹	42	40	
Business optimization items ²	35	32	
Baxalta separation-related costs ³	1	1	
Product-related items ⁴	-	(18)	
Adjusted Gross Margin	\$1,149	\$1,089	6%
% of Net Sales	44.9%	43.8%	1.1 pts
Marketing and Administrative Expenses	\$726	\$794	(9%)
Business optimization items ²	(106)	(64)	
Baxalta separation-related costs ³	(9)	(60)	
Adjusted Marketing and Administrative Expenses	\$611	\$670	(9%)
% of Net Sales	23.9%	26.9%	(3 pts)
Research and Development Expenses	\$159	\$148	7%
Business optimization items ²	(30)	(8)	
Adjusted Research and Development Expenses	\$129	\$140	(8%)
% of Net Sales	5.0%	5.6%	(0.6 pts)
Operating Income	\$186	\$92	102%
Impact of special items	223	187	
Adjusted Operating Income	\$409	\$279	47%
% of Net Sales	16.0%	11.2%	4.8 pts
Other Expense, Net	\$44	\$91	(52%)
Loss on debt extinguishment ⁵	(48)	(130)	
Adjusted Other Income, Net	\$(4)	\$(39)	(90%)
Pre-Tax Income (Loss) from Continuing Operations	\$128	\$(33)	NM
Impact of special items	271	317	
Adjusted Pre-Tax Income from Continuing Operations	\$399	\$284	40%
Income Tax Expense (Benefit)	\$1	\$(35)	NM
Impact of special items	87	94	
Adjusted Income Tax Expense	\$88	\$59	49%
% of Adjusted Pre-Tax Income from Continuing Operations	22.1%	20.8%	1.3 pts
Income from Continuing Operations	\$127	\$2	NM
Impact of special items	184	223	
Adjusted Income from Continuing Operations	\$311	\$225	38%
Diluted EPS from Continuing Operations	\$0.23	\$0.00	NM
Impact of special items	0.33	0.41	
Adjusted Diluted EPS from Continuing Operations	\$0.56	\$0.41	37%
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING			
Diluted	551	549	

¹ The company's results in 2016 and 2015 included intangible asset amortization expense of \$42 million (\$29 million, or \$0.05 per diluted share, on an after-tax basis) and \$40 million (\$32 million, or \$0.06 per diluted share, on an after-tax basis), respectively.

² The company's results in 2016 included a net charge of \$171 million (\$124 million, or \$0.23 per diluted share, on an after-tax basis) related to business optimization initiatives. This included a net charge of \$130 million related to restructuring activities, \$25 million of costs to implement business optimization programs which included external consulting and employee salary and related costs, \$11 million of accelerated depreciation associated with facilities to be closed, and \$5 million of Gambro integration costs. The \$130 million of net restructuring charges included net \$101 million of employee termination costs, a \$27 million intangible asset impairment charge related to acquired in-process R&D, and net \$2 million of other exit costs.

The company's results in 2015 included a net charge of \$104 million (\$71 million, or \$0.13 per diluted share, on an after-tax basis) related to business optimization initiatives. This included a net charge of \$92 million related to restructuring activities and Gambro integration charges of \$12 million. The \$92 million of net restructuring charges included net \$61 million of employee termination costs, a \$13 million intangible asset impairment, and \$18 million of asset and other exit costs.

³ The company's results in 2016 and 2015 included costs incurred related to the Baxalta separation totaling \$10 million (\$7 million, or \$0.01 per diluted share, on an after-tax basis) and \$61 million (\$49 million, or \$0.09 per diluted share, on an after-tax basis), respectively.

⁴ The company's results in 2015 included a net benefit of \$18 million (\$11 million, or \$0.02 per diluted share, on an after-tax basis) primarily related to adjustments to the COLLEAGUE and SIGMA SPECTRUM infusion pump reserves.

⁵ The company's results in 2016 included a net debt extinguishment loss of \$48 million (\$34 million, or \$0.06 per diluted share, on an after-tax basis) primarily related to certain debt redemptions.

The company's results in 2015 included a loss of \$130 million (\$82 million, or \$0.15 per diluted share, on an after-tax basis) related to the July 2015 debt tender offers.

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
Nine Months Ended September 30, 2016 and 2015
(unaudited)
(in millions, except per share and percentage data)

	Nine Months Ended September 30,		Change
	2016	2015	
NET SALES	\$7,518	\$7,365	2%
COST OF SALES	4,510	4,291	5%
GROSS MARGIN	3,008	3,074	(2%)
<i>% of Net Sales</i>	<i>40.0%</i>	<i>41.7%</i>	<i>(1.7 pts)</i>
MARKETING AND ADMINISTRATIVE EXPENSES	2,076	2,361	(12%)
<i>% of Net Sales</i>	<i>27.6%</i>	<i>32.1%</i>	<i>(4.5 pts)</i>
RESEARCH AND DEVELOPMENT EXPENSES	490	442	11%
<i>% of Net Sales</i>	<i>6.5%</i>	<i>6.0%</i>	<i>0.5 pts</i>
OPERATING INCOME	442	271	63%
<i>% of Net Sales</i>	<i>5.9%</i>	<i>3.7%</i>	<i>2.2 pts</i>
NET INTEREST EXPENSE	53	94	(44%)
OTHER INCOME, NET ^A	(4,286)	(46)	NM
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	4,675	223	NM
INCOME TAX (BENEFIT) EXPENSE	(51)	13	NM
<i>% of Income from Continuing Operations before Income Taxes</i>	<i>(1.1%)</i>	<i>5.8%</i>	<i>(6.9 pts)</i>
INCOME FROM CONTINUING OPERATIONS	4,726	210	NM
(LOSS) INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX ^B	(4)	553	(101%)
NET INCOME	\$4,722	\$763	NM
INCOME FROM CONTINUING OPERATIONS PER COMMON SHARE			
Basic	\$8.64	\$0.39	NM
Diluted	\$8.56	\$0.38	NM
(LOSS) INCOME FROM DISCONTINUED OPERATIONS PER COMMON SHARE			
Basic	(\$0.01)	\$1.01	NM
Diluted	(\$0.01)	\$1.01	NM
NET INCOME PER COMMON SHARE			
Basic	\$8.63	\$1.40	NM
Diluted	\$8.55	\$1.39	NM
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING			
Basic	547	544	
Diluted	552	548	
ADJUSTED OPERATING INCOME (excluding special items)	\$976 ^C	\$614 ^C	59%
ADJUSTED PRE-TAX INCOME FROM CONTINUING OPERATIONS (excluding special items)	\$967 ^C	\$644 ^C	50%
ADJUSTED INCOME FROM CONTINUING OPERATIONS (excluding special items)	\$766 ^C	\$519 ^C	48%
ADJUSTED DILUTED EPS FROM CONTINUING OPERATIONS (excluding special items)	\$1.39 ^C	\$0.95 ^C	46%

NM - Not Meaningful

^A Other Income, net for the period ended September 30, 2016 includes \$4.4 billion net realized gains on the Baxalta retained shares transactions and a \$149 million net debt extinguishment loss.

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

^C Refer to page 9 for a description of the adjustments and a reconciliation to GAAP measures.

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

	Nine Months Ended September 30,		Change
	2016	2015	
Gross Margin	\$3,008	\$3,074	(2%)
Intangible asset amortization expense ¹	124	120	
Business optimization items ²	113	28	
Intangible asset impairment ³	51	-	
Baxalta separation-related costs ⁴	1	1	
Product-related items ⁵	(12)	(18)	
Adjusted Gross Margin	\$3,285	\$3,205	2%
% of Net Sales	43.7%	43.5%	0.2 pts
Marketing and Administrative Expenses	\$2,076	\$2,361	(12%)
Business optimization items ²	(137)	(113)	
Baxalta separation-related costs ⁴	(45)	(88)	
Adjusted Marketing and Administrative Expenses	\$1,894	\$2,160	(12%)
% of Net Sales	25.2%	29.3%	(4.1 pts)
Research and Development Expenses	\$490	\$442	11%
Business optimization items ²	(75)	(11)	
Adjusted Research and Development Expenses	\$415	\$431	(4%)
% of Net Sales	5.5%	5.9%	(0.4 pts)
Operating Income	\$442	\$271	63%
Impact of special items	534	343	
Adjusted Operating Income	\$976	\$614	59%
% of Net Sales	13.0%	8.3%	4.7 pts
Other Income, Net	\$(4,286)	\$(46)	NM
Net realized gains on Retained Shares transactions ⁶	4,391	-	
Loss on debt extinguishment ⁷	(149)	(130)	
Litigation settlement ⁸	-	52	
Adjusted Other Income, Net	\$(44)	\$(124)	(65%)
Pre-Tax Income from Continuing Operations	\$4,675	\$223	NM
Impact of special items	(3,708)	421	
Adjusted Pre-Tax Income from Continuing Operations	\$967	\$644	50%
Income Tax (Benefit) Expense	\$(51)	\$13	NM
Impact of special items	252	112	
Adjusted Income Tax Expense	\$201	\$125	61%
% of Adjusted Pre-Tax Income from Continuing Operations	20.8%	19.4%	1.4 pts
Income from Continuing Operations	\$4,726	\$210	NM
Impact of special items	(3,960)	309	
Adjusted Income from Continuing Operations	\$766	\$519	48%
Diluted EPS from Continuing Operations	\$8.56	\$0.38	NM
Impact of special items	(7.17)	0.57	
Adjusted Diluted EPS from Continuing Operations	\$1.39	\$0.95	46%
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 \$124 million (\$91 million, or \$0.16 per diluted share, on an after-tax basis) and \$120 million (\$97 million, or \$0.18 per diluted share, on an after-tax basis), respectively.

² The company's results in 2016 included a net charge of \$325 million (\$242 million, or \$0.45 per diluted share, on an after-tax basis) related to business optimization initiatives. This included a net charge of \$237 million related to restructuring activities, \$44 million of costs to implement business optimization programs which included external consulting and employee salary and related costs, \$25 million of accelerated depreciation associated with facilities to be closed, and \$19 million of Gambro integration costs. The \$237 million of net restructuring charges included net \$144 million of employee termination costs, \$54 million of costs related to the discontinuance of the VIVIA home hemodialysis development program, a \$27 million of intangible asset impairment charge related to acquired in-process R&D, and net \$12 million of other exit costs.

The company's results in 2015 included a net charge of \$152 million (\$105 million, or \$0.19 per diluted share, on an after-tax basis) primarily related to business optimization charges. This included a net charge of \$102 million related to restructuring activities and Gambro integration charges of \$50 million. The \$102 million of net restructuring charges included net \$71 million of employee termination costs, a \$13 million intangible asset impairment, and \$18 million of asset and other exit costs.

³ The company's results in 2016 included a \$51 million (\$37 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 \$46 million (\$34 million, or \$0.06 per diluted share, on an after-tax basis) and \$89 million (\$69 million, or \$0.13 per diluted share, on an after-tax basis), respectively.

⁵ 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.

The company's results 2015 included a net benefit of \$18 million (\$11 million, or \$0.02 per diluted share, on an after-tax basis) primarily related to adjustments to the COLLEAGUE and SIGMA SPECTRUM infusion pump reserves.

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 these transactions.

⁷ The company's results in 2016 included a net debt extinguishment loss totaling \$149 million (\$100 million, or \$0.18 per diluted share, on an after-tax basis) related to the March 2016 debt-for-equity exchange for certain company indebtedness and certain debt redemptions.

The company's results in 2015 included a loss of \$130 million (\$82 million, or \$0.15 per diluted share, on an after-tax basis) related to the July 2015 debt tender offers.

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 September 30, 2016 and 2015
(unaudited)
(\$ in millions)

	Q3 2016	Q3 2015	% Growth @ Actual Rates	% Growth @ Constant Rates	YTD 2016	YTD 2015	% Growth @ Actual Rates	% Growth @ Constant Rates
Renal								
United States	\$213	\$196	9%	9%	\$624	\$575	9%	9%
International	764	747	2%	5%	2,216	2,230	(1%)	4%
Total Renal	\$977	\$943	4%	6%	\$2,840	\$2,805	1%	5%
Hospital Products								
United States	\$854	\$809	6%	6%	\$2,518	\$2,363	7%	7%
International	727	735	(1%)	1%	2,160	2,197	(2%)	3%
Total Hospital Products	\$1,581	\$1,544	2%	3%	\$4,678	\$4,560	3%	5%
Baxter International Inc.								
United States	\$1,067	\$1,005	6%	6%	\$3,142	\$2,938	7%	7%
International	1,491	1,482	1%	3%	4,376	4,427	(1%)	3%
Total Baxter	\$2,558	\$2,487	3%	4%	\$7,518	\$7,365	2%	5%

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

	Q3 2016	Q3 2015	% Growth @ Actual Rates	% Growth @ Constant Rates	YTD 2016	YTD 2015	% Growth @ Actual Rates	% Growth @ Constant Rates
Total Renal ¹	\$977	\$943	4%	6%	\$2,840	\$2,805	1%	5%
Hospital Products								
Fluid Systems ²	\$576	\$526	10%	11%	\$1,686	\$1,537	10%	12%
Integrated Pharmacy Solutions ³	563	590	(5%)	(4%)	1,682	1,702	(1%)	1%
Surgical Care ⁴	320	322	(1%)	0%	972	977	(1%)	1%
Other ⁵	122	106	15%	15%	338	344	(2%)	(1%)
Total Hospital Products	\$1,581	\$1,544	2%	3%	\$4,678	\$4,560	3%	5%
Total Baxter	\$2,558	\$2,487	3%	4%	\$7,518	\$7,365	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 September 30, 2016 and 2015
(unaudited)
(\$ in millions)

	Q3 2016			Q3 2015			% Growth		
	U.S.	International	Total	U.S.	International	Total	U.S.	International	Total
Total Renal	\$213	\$764	\$977	\$196	\$747	\$943	9%	2%	4%
Hospital Products									
Fluid Systems	\$327	\$249	\$576	\$266	\$260	\$526	23%	(4%)	10%
Integrated Pharmacy Solutions	259	304	563	288	302	590	(10%)	1%	(5%)
Surgical Care	188	132	320	187	135	322	1%	(2%)	(1%)
Other	80	42	122	68	38	106	18%	11%	15%
Total Hospital Products	\$854	\$727	\$1,581	\$809	\$735	\$1,544	6%	(1%)	2%
Total Baxter	\$1,067	\$1,491	\$2,558	\$1,005	\$1,482	\$2,487	6%	1%	3%