

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,		
	2006	2005	Change
<u>CONTINUING OPERATIONS:</u>			
NET SALES	\$2,649	\$2,577	3%
GROSS PROFIT	1,155	1,036	11%
<i>% of Sales</i>	<i>43.6%</i>	<i>40.2%</i>	<i>3.4 pts</i>
MARKETING AND ADMINISTRATIVE EXPENSES	582	537	8%
<i>% of Sales</i>	<i>22.0%</i>	<i>20.8%</i>	<i>1.2 pts</i>
RESEARCH AND DEVELOPMENT EXPENSES	146	133	10%
RESTRUCTURING ADJUSTMENTS	-	(104)	(100%)
OPERATING INCOME	427	470	(9%)
<i>% of Sales</i>	<i>16.1%</i>	<i>18.2%</i>	<i>(2.1 pts)</i>
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.

BAXTER INTERNATIONAL, INC.
Consolidated Statements of Income
Three Months Ended June 30, 2006 and 2005
Description of Adjustments and Reconciliation of GAAP to Non-GAAP
(unaudited)
(in millions, except per share and percentage data)

2006 description of adjustments and reconciliation of GAAP to Non-GAAP

As previously announced, the Company's GAAP results for the three months ended June 30, 2006 included a charge related to COLLEAGUE infusion pumps, which impacted the GAAP results as follows:

	Operating Income	Income Tax Expense	Income from Continuing Operations	Diluted EPS
GAAP	\$427	\$89	\$309	\$0.47
COLLEAGUE infusion pump charge (A)	76	12	64	0.10
Excluding specified items	\$503	\$101	\$373	\$0.57
 Adjusted operating income %	 19.0%			

- (A) Included in the Gross Profit line in the accompanying consolidated statement of income. Excluding this item, adjusted gross profit is \$1,231 million and the adjusted gross profit percentage is 46.5%

2005 description of adjustments and reconciliation of GAAP to Non-GAAP

As previously announced, the Company's GAAP results for the three months ended June 30, 2005 included a charge related to COLLEAGUE infusion pumps, and a credit related to restructuring adjustments, which impacted the GAAP results as follows:

	Operating Income	Income Tax Expense	Income from Continuing Operations	Diluted EPS
GAAP	\$470	\$88	\$324	\$0.51
COLLEAGUE infusion pump charge (B)	77	12	65	0.10
Restructuring adjustments (C)	(104)	(24)	(80)	(0.12)
Excluding specified items	\$443	\$76	\$309	\$0.49
 Adjusted operating income %	 17.2%			

- (B) Included in the Gross Profit line in the accompanying consolidated statement of income. Excluding this item, adjusted gross profit is \$1,113 million and the adjusted gross profit percentage is 43.2%.
- (C) Included in the Restructuring Adjustments line in the accompanying consolidated statement of income.

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

	Six Months Ended June 30,		
	2006	2005	Change
<u>CONTINUING OPERATIONS:</u>			
NET SALES	\$5,058	\$4,960	2%
GROSS PROFIT	2,207	2,005	10%
<i>% of Sales</i>	<i>43.6%</i>	<i>40.4%</i>	<i>3.2 pts</i>
MARKETING AND ADMINISTRATIVE EXPENSES	1,108	1,020	9%
<i>% of Sales</i>	<i>21.9%</i>	<i>20.6%</i>	<i>1.3 pts</i>
RESEARCH AND DEVELOPMENT EXPENSES	284	266	7%
RESTRUCTURING ADJUSTMENTS	-	(104)	(100%)
OPERATING INCOME	815	823	(1%)
<i>% of Sales</i>	<i>16.1%</i>	<i>16.6%</i>	<i>(0.5 pts)</i>
INTEREST, NET	28	64	(56%)
OTHER EXPENSE, NET	35	49	(29%)
INCOME BEFORE INCOME TAXES	752	710	6%
INCOME TAX EXPENSE	161	162	(1%)
INCOME FROM CONTINUING OPERATIONS	\$591	\$548	8%
BASIC EPS FROM CONTINUING OPERATIONS	\$0.91	\$0.88	3%
DILUTED EPS FROM CONTINUING OPERATIONS	\$0.90	\$0.88	2%
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING			
Basic	648	620	
Diluted	654	624	
ADJUSTED INCOME FROM CONTINUING OPERATIONS (excluding certain items)	\$655 (1)	\$533 (1)	
ADJUSTED DILUTED EPS FROM CONTINUING OPERATIONS (excluding certain items)	\$1.00 (1)	\$0.85 (1)	

(1) See page 10 for description of adjustments and reconciliation to GAAP 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 six months ended June 30, 2006 was \$20 million, or \$0.03 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 for the six months ended June 30, 2005 was \$28 million, or \$0.05 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.

BAXTER INTERNATIONAL, INC.
Consolidated Statements of Income
Six Months Ended June 30, 2006 and 2005
Description of Adjustments and Reconciliation of GAAP to Non-GAAP
(unaudited)
(in millions, except per share and percentage data)

2006 description of adjustments and reconciliation of GAAP to Non-GAAP

As previously announced, the Company's GAAP results for the six months ended June 30, 2006 included a charge related to COLLEAGUE infusion pumps, which impacted the GAAP results as follows:

	Operating Income	Income Tax Expense	Income from Continuing Operations	Diluted EPS
GAAP	\$815	\$161	\$591	\$0.90
COLLEAGUE infusion pump charge (A)	76	12	64	0.10
Excluding specified items	\$891	\$173	\$655	\$1.00
 Adjusted operating income %	 17.6%			

- (A) Included in Gross Profit line in the accompanying consolidated statement of income. Excluding this item, adjusted gross profit is \$2,283 million and the adjusted gross profit percentage is 45.1%.

2005 description of adjustments and reconciliation of GAAP to Non-GAAP

As previously announced, the Company's GAAP results for the six months ended June 30, 2005 included a charge related to COLLEAGUE infusion pumps, and a credit related to restructuring adjustments, which impacted the GAAP results as follows:

	Operating Income	Income Tax Expense	Income from Continuing Operations	Diluted EPS
GAAP	\$823	\$162	\$548	\$0.88
COLLEAGUE infusion pump charge (B)	77	12	65	0.10
Restructuring adjustments (C)	(104)	(24)	(80)	(0.13)
Excluding specified items	\$796	\$150	\$533	\$0.85
 Adjusted operating income %	 16.0%			

- (B) Included in the Gross Profit line in the accompanying consolidated statement of income. Excluding this item, adjusted gross profit is \$2,082 million and the adjusted gross profit percentage is 42.0%.
- (C) Included in the Restructuring Adjustments line in the accompanying consolidated statement of income.

BAXTER INTERNATIONAL INC.
Condensed Consolidated Balance Sheets
(unaudited)
(in millions)

	June 30, 2006	December 31, 2005
<u>ASSETS</u>		
Cash and equivalents	\$1,061	\$841
Receivables	1,754	1,766
Inventories	2,020	1,925
Other current assets	592	584
Total current assets	5,427	5,116
Property, plant and equipment, net	4,159	4,144
Other long-term assets	3,421	3,467
Total assets	\$13,007	\$12,727

LIABILITIES AND SHAREHOLDERS' EQUITY

Short-term debt	\$115	\$924
Other current liabilities	2,846	3,241
Long-term debt	2,244	2,414
Other long-term liabilities	1,937	1,849
Shareholders' equity	5,865	4,299
Total liabilities and shareholders' equity	\$13,007	\$12,727

BAXTER INTERNATIONAL INC.
Cash Flows from Operations and Changes in Net Debt
(unaudited)
(\$ in millions)

Cash Flows from Operations				
(Brackets denote cash outflows)				
	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Net income	\$309	\$322	\$591	\$548
Adjustments				
Depreciation and amortization	146	145	285	292
Deferred income taxes	16	96	18	119
Stock compensation	20	3	38	4
Infusion pump charges	76	77	76	77
Restructuring adjustments	-	(104)	-	(104)
Other	4	10	22	26
Changes in balance sheet items				
Receivables	(23)	(25)	15	35
Inventories	13	72	(50)	90
Accounts payable and accrued liabilities	(32)	(83)	(137)	(342)
Restructuring payments	(6)	(31)	(25)	(73)
Other	20	24	15	106
Cash flows from operations	\$543	\$506	\$848	\$778
Changes in Net Debt				
Increase (decrease)				
	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Net debt, beginning of period	\$1,524	\$3,493	\$2,497	\$3,185
Cash flows from operations	(543)	(506)	(848)	(778)
Capital expenditures	122	98	198	163
Dividends	-	-	363	359
Issuances of common stock	-	-	(1,249)	-
Purchases of treasury stock	221	-	392	-
Other, including the effect of exchange rate changes	(26)	(24)	(55)	132
Decrease in net debt	(226)	(432)	(1,199)	(124)
Net debt, June 30	\$1,298	\$3,061	\$1,298	\$3,061
Key statistics, June 30:				
Days sales outstanding	52.1	58.4	52.1	58.4
Inventory turns	2.7	2.9	2.7	2.9
Net-debt-to-capital ratio (A)	18.1%	30.1%	18.1%	30.1%

- (A) The decrease in the debt-to-capital ratio from June 30, 2005 to June 30, 2006 primarily related to the settlement of the company's equity units. In February 2006, the purchase contracts included in the company's equity units matured, and the company issued approximately 35 million common shares in exchange for \$1.25 billion. Management used a portion of the cash proceeds to pay down maturing debt. The net-debt-to-capital ratio at June 30, 2005 was calculated in accordance with the company's primary credit agreements, which gave 70% equity credit to the company's \$1.25 billion equity units debt outstanding on that date (the majority of which was repurchased and retired in the fourth quarter of 2005). Refer to the company's Form 10-K for the year ended December 31, 2005 for additional information regarding the equity units.

Baxter International Inc.
Net Sales from Continuing Operations
Period Ended June 30, 2006
(unaudited)
(\$ in millions)

	Q2 2006	Q2 2005	% Growth @ Actual Rates	% Growth @ Constant Rates	YTD 2006	YTD 2005	% Growth @ Actual Rates	% Growth @ Constant Rates
BioScience								
United States	\$538	\$438	23%	23%	\$1,012	\$836	21%	21%
International	583	552	6%	8%	1,109	1,056	5%	9%
Total	\$1,121	\$990	13%	15%	\$2,121	\$1,892	12%	15%
Medication Delivery								
United States	\$552	\$619	(11%)	(11%)	\$1,043	\$1,171	(11%)	(11%)
International	460	464	(1%)	-%	885	890	(1%)	2%
Total	\$1,012	\$1,083	(7%)	(6%)	\$1,928	\$2,061	(6%)	(5%)
Renal								
United States	\$97	\$99	(2%)	(2%)	\$191	\$193	(1%)	(1%)
International	419	405	3%	5%	818	814	-%	3%
Total	\$516	\$504	2%	4%	\$1,009	\$1,007	-%	2%
Baxter International Inc.								
United States	\$1,187	\$1,156	3%	3%	\$2,246	\$2,200	2%	2%
International	1,462	1,421	3%	5%	2,812	2,760	2%	5%
Total	\$2,649	\$2,577	3%	4%	\$5,058	\$4,960	2%	4%

Baxter International Inc.
Key Product Line Sales
Period Ended June 30, 2006
(unaudited)
(\$ in millions)

	Q2	Q2	% Growth @	% Growth @	YTD	YTD	% Growth @	% Growth @
	2006	2005¹	Actual Rates	Constant Rates	2006	2005¹	Actual Rates	Constant Rates
BioScience								
Recombinants	\$437	\$397	10%	12%	\$811	\$741	9%	13%
Plasma Proteins ²	213	170	25%	27%	405	340	19%	21%
Antibody Therapy	199	93	114%	114%	382	182	110%	112%
BioSurgery ³	79	70	13%	14%	148	136	9%	11%
Transfusion Therapies	126	140	(10%)	(9%)	250	273	(8%)	(7%)
Other ⁴	67	120	(44%)	(43%)	125	220	(43%)	(41%)
Total BioScience	\$1,121	\$990	13%	15%	\$2,121	\$1,892	12%	15%
Medication Delivery								
IV Therapies ⁵	\$323	\$312	4%	4%	\$627	\$608	3%	5%
Drug Delivery	213	226	(6%)	(5%)	408	430	(5%)	(4%)
Infusion Systems	204	245	(17%)	(17%)	399	475	(16%)	(16%)
Anesthesia	258	282	(9%)	(7%)	470	513	(8%)	(7%)
Other ⁶	14	18	(22%)	(28%)	24	35	(31%)	(31%)
Total Medication Delivery	\$1,012	\$1,083	(7%)	(6%)	\$1,928	\$2,061	(6%)	(5%)
Renal								
PD Therapy	\$408	\$390	5%	6%	\$796	\$767	4%	6%
HD Therapy	108	114	(5%)	(4%)	213	240	(11%)	(10%)
Total Renal⁷	\$516	\$504	2%	4%	\$1,009	\$1,007	-%	2%
TOTAL BAXTER	\$2,649	\$2,577	3%	4%	\$5,058	\$4,960	2%	4%

¹ Prior year sales data has been reclassified to reflect the changes that are described in notes 2, 3, 4 and 7 below.

² Includes plasma-derived hemophilia (FVII, FVIII, FIX and FEIBA), albumin, and certain other plasma-based products. Sales of Tisseel, sales of plasma to third parties, and contract manufacturing revenues were previously reported in Plasma Proteins, and are now reported in other product lines, as detailed below.

³ Includes sales of Tisseel and FloSeal/CoSeal, which were previously reported in Plasma Proteins and Other, respectively.

⁴ Principally includes vaccines and sales of plasma to third parties. The sales of plasma to third parties were previously reported in Plasma Proteins. The prior year sales include contract manufacturing revenues.

⁵ Principally includes intravenous solutions and nutritional products.

⁶ Principally includes other hospital-distributed products.

⁷ Sales of pharmaceutical and certain other products, which were previously reported in Other, are now reported in PD Therapy.

Baxter International Inc.
Key Product Line Sales -- US/International
Period Ended June 30, 2006
(unaudited)
(\$ in millions)

	Q2 2006			Q2 2005 ¹			% Growth		
	US	International	Total	US	International	Total	US	International	Total
BioScience									
Recombinants	\$194	\$243	\$437	\$170	\$227	\$397	14%	7%	10%
Plasma Proteins ²	87	126	213	55	115	170	58%	10%	25%
Antibody Therapy	148	51	199	50	43	93	196%	19%	114%
BioSurgery ³	44	35	79	38	32	70	16%	9%	13%
Transfusion Therapies	59	67	126	68	72	140	(13%)	(7%)	(10%)
Other ⁴	6	61	67	57	63	120	(89%)	(3%)	(44%)
Total BioScience	\$538	\$583	\$1,121	\$438	\$552	\$990	23%	6%	13%
Medication Delivery									
IV Therapies ⁵	\$108	\$215	\$323	\$98	\$214	\$312	10%	-%	4%
Drug Delivery	137	76	213	148	78	226	(7%)	(3%)	(6%)
Infusion Systems	123	81	204	163	82	245	(25%)	(1%)	(17%)
Anesthesia	176	82	258	204	78	282	(14%)	5%	(9%)
Other ⁶	8	6	14	6	12	18	33%	(50%)	(22%)
Total Medication Delivery	\$552	\$460	\$1,012	\$619	\$464	\$1,083	(11%)	(1%)	(7%)
Renal									
PD Therapy	\$68	\$340	\$408	\$65	\$325	\$390	5%	5%	5%
HD Therapy	29	79	108	34	80	114	(15%)	(1%)	(5%)
Total Renal ⁷	\$97	\$419	\$516	\$99	\$405	\$504	(2%)	3%	2%
TOTAL BAXTER	\$1,187	\$1,462	\$2,649	\$1,156	\$1,421	\$2,577	3%	3%	3%

¹ Prior year sales data has been reclassified to reflect the changes that are described in notes 2, 3, 4 and 7 below.

² Includes plasma-derived hemophilia (FVII, FVIII, FIX and FEIBA), albumin, and certain other plasma-based products. Sales of Tisseel, sales of plasma to third parties, and contract manufacturing revenues were previously reported in Plasma Proteins, and are now reported in other product lines, as detailed below.

³ Includes sales of Tisseel and FloSeal/CoSeal, which were previously reported in Plasma Proteins and Other, respectively.

⁴ Principally includes vaccines and sales of plasma to third parties. The sales of plasma to third parties were previously reported in Plasma Proteins. The prior year sales include contract manufacturing revenues.

⁵ Principally includes intravenous solutions and nutritional products.

⁶ Principally includes other hospital-distributed products.

⁷ Sales of pharmaceutical and certain other products, which were previously reported in Other, are now reported in PD Therapy.