

BAXTER INTERNATIONAL INC.
Consolidated Statements of Income
Three Months Ended December 31, 2005 and 2004
(unaudited)
(in millions, except per share and percentage data)

	Three Months Ended December 31,		
	2005	2004	Change
<u>CONTINUING OPERATIONS:</u>			
NET SALES	\$2,491	\$2,601	(4%)
GROSS PROFIT	1,079	1,120	(4%)
<i>% of Sales</i>	43.3%	43.1%	0.2 pts
MARKETING AND ADMINISTRATIVE EXPENSES	520	500	4%
<i>% of Sales</i>	20.9%	19.2%	1.7 pts
RESEARCH AND DEVELOPMENT EXPENSES	134	128	5%
IMPAIRMENT CHARGES	-	289	(100%)
OPERATING INCOME	425	203	109%
<i>% of Sales</i>	17.1%	7.8%	9.3 pts
INTEREST, NET	23	33	(30%)
OTHER EXPENSE, NET	18	3	500%
INCOME BEFORE INCOME TAXES	384	167	130%
INCOME TAX EXPENSE	90	61	48%
INCOME FROM CONTINUING OPERATIONS	\$294	\$106	177%
BASIC EPS FROM CONTINUING OPERATIONS	\$0.47	\$0.17	176%
DILUTED EPS FROM CONTINUING OPERATIONS	\$0.46	\$0.17	171%
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING			
Basic	624	617	
Diluted	634	620	
ADJUSTED INCOME FROM CONTINUING OPERATIONS (excluding certain items)	\$379 (1)	\$351 (1)	
ADJUSTED DILUTED EPS FROM CONTINUING OPERATIONS (excluding certain items)	\$0.60 (1)	\$0.57 (1)	

(1) See page 8 for description of adjustments and reconciliation to GAAP measures.

Non-GAAP Financial Measures: The non-GAAP (generally accepted accounting principles) 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 December 31, 2005 and 2004
Description of Adjustments and Reconciliation of GAAP to Non-GAAP
(unaudited)
(in millions, except per share and percentage data)

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

As previously announced, the Company's 2005 GAAP results included certain charges related to infusion pumps, the exit of hemodialysis instrument manufacturing, early debt retirement costs, and taxes on the repatriation of foreign earnings, which impacted the GAAP results as follows:

	Income before Income Taxes	Income Tax Expense	Income from Continuing Operations	Diluted EPS
GAAP	\$384	\$90	\$294	\$0.46
6060 infusion pump charge (A)	49	15	34	0.06
Hemodialysis instruments charge (A)	22	9	13	0.02
Early debt retirement costs (B)	17	7	10	0.02
Tax on repatriation of foreign earnings	-	(28)	28	0.04
Excluding specified items	\$472	\$93	\$379	\$0.60

- (A) Included in computing the Gross Profit line in the accompanying consolidated statement of income. Excluding these items, which totaled \$71 million, adjusted gross profit is \$1.15 billion and the adjusted gross profit % is 46.2%.
- (B) Included in Other Expense, Net line in the accompanying consolidated statement of income.

2004 Description of adjustments and reconciliation of GAAP to Non-GAAP

As previously announced, the Company's 2004 GAAP results included impairment charges which were recorded in the Impairment Charges line and impacted the GAAP results as follows:

	Income before Income Taxes	Income Tax Expense	Income from Continuing Operations	Diluted EPS
GAAP	\$167	\$61	\$106	\$0.17
Impairment charges	289	44	245	0.40
Excluding specified items	\$456	\$105	\$351	\$0.57

BAXTER INTERNATIONAL INC.
Consolidated Statements of Income
Twelve Months Ended December 31, 2005 and 2004
(unaudited)
(in millions, except per share and percentage data)

	Twelve Months Ended December 31,		
	2005	2004	Change
<u>CONTINUING OPERATIONS:</u>			
NET SALES	\$9,849	\$9,509	4%
GROSS PROFIT	4,093	3,915	5%
% of Sales	41.6%	41.2%	0.4 pts
MARKETING AND ADMINISTRATIVE EXPENSES	2,030	1,960	4%
% of Sales	20.6%	20.6%	--
RESEARCH AND DEVELOPMENT EXPENSES	533	517	3%
RESTRUCTURING AND IMPAIRMENT CHARGES	(109)	832	(113%)
OPERATING INCOME	1,639	606	170%
% of Sales	16.6%	6.4%	10.2 pts
INTEREST, NET	118	99	19%
OTHER EXPENSE, NET	77	77	-%
INCOME BEFORE INCOME TAXES	1,444	430	236%
INCOME TAX EXPENSE	486	47	934%
INCOME FROM CONTINUING OPERATIONS	\$958	\$383	150%
BASIC EPS FROM CONTINUING OPERATIONS	\$1.54	\$0.62	148%
DILUTED EPS FROM CONTINUING OPERATIONS	\$1.52	\$0.62	145%
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING			
Basic	622	614	
Diluted	629	618	
ADJUSTED INCOME FROM CONTINUING OPERATIONS (excluding certain items)	\$1,208 (1)	\$1,042 (1)	
ADJUSTED DILUTED EPS FROM CONTINUING OPERATIONS (excluding certain items)	\$1.92 (1)	\$1.69 (1)	

(1) See page 10 for description of adjustments and reconciliation to GAAP measures.

BAXTER INTERNATIONAL, INC.
Note to Consolidated Statements of Income
Twelve Months Ended December 31, 2005 and 2004
Description of Adjustments and Reconciliation of GAAP to Non-GAAP
(unaudited)
(in millions, except per share and percentage data)

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

As previously announced, the Company's 2005 GAAP results included certain charges related to infusion pumps, the exit of hemodialysis instrument manufacturing, early debt retirement costs, taxes on the repatriation of foreign earnings, as well as restructuring adjustments, which impacted the GAAP results as follows:

	Income before Income Taxes	Income Tax Expense	Income from Continuing Operations	Diluted EPS
GAAP	\$1,444	\$486	\$958	\$1.52
6060 infusion pump charge (A)	49	15	34	0.06
COLLEAGUE infusion pump charge (A)	77	12	65	0.10
Hemodialysis instruments charge (A)	50	17	33	0.05
Early debt retirement costs (B)	17	7	10	0.02
Tax on repatriation of foreign earnings	-	(191)	191	0.30
Restructuring adjustments (C)	(109)	(26)	(83)	(0.13)
Excluding specified items	\$1,528	\$320	\$1,208	\$1.92

- (A) Included in computing the Gross Profit line in the accompanying consolidated statement of income. Excluding these items, which totaled \$176 million, adjusted gross profit is \$4.27 billion and the adjusted gross profit % is 43.3%.
- (B) Included in Other Expense, Net line in the accompanying consolidated statement of income.
- (C) Included in Restructuring and Impairment Charges line in the accompanying consolidated statement of income.

2004 Description of adjustments and reconciliation of GAAP to Non-GAAP

As previously announced, the Company's 2004 GAAP results included certain charges related to asset valuations, hedges, restructuring and asset impairment charges, as well as tax audit adjustments, which impacted the GAAP results as follows:

	Income before Income Taxes	Income Tax Expense	Income from Continuing Operations	Diluted EPS
GAAP	\$430	\$47	\$383	\$0.62
Inventory reserves (D)	28	10	18	0.03
Loan and receivable reserves (E)	55	19	36	0.06
Excess cash flow hedges (D)	17	6	11	0.02
Restructuring charge (F)	543	149	394	0.64
Impairment charges (F)	289	44	245	0.40
Pathogen Inactivation impairment charge (G)	15	5	10	0.01
Tax audit adjustments	-	55	(55)	(0.09)
Excluding specified items	\$1,377	\$335	\$1,042	\$1.69

- (D) Included in computing the Gross Profit line in the accompanying consolidated statement of income.
- (E) Included in Marketing and Administrative Expenses line in the accompanying consolidated statement of income.
- (F) Included in Restructuring and Impairment Charges line in the accompanying consolidated statement of income.
- (G) Included in Other Expense, Net line in the accompanying consolidated statement of income.

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 December 31,		Twelve Months Ended December 31,	
	2005	2004	2005	2004
Net income	\$292	\$106	\$956	\$388
Adjustments				
Depreciation and amortization	144	155	580	601
Deferred income taxes	(17)	119	181	(141)
Restructuring and impairment charges	-	289	(109)	832
Infusion pump and hemodialysis instrument charges	71	-	176	-
Other	4	(10)	57	149
Changes in balance sheet items				
Receivables	45	14	178	(189)
Inventories	20	72	88	33
Accounts payable and accrued liabilities	(18)	77	(305)	(246)
Restructuring payments	(22)	(59)	(117)	(195)
Other	(283)	80	(135)	148
Cash flows from operations	\$236	\$843	\$1,550	\$1,380
Changes in Net Debt				
Increase (decrease)				
	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2005	2004	2005	2004
Net debt, beginning of period	\$2,650	\$3,767	\$3,185	\$3,649
Cash flows from operations	(236)	(843)	(1,550)	(1,380)
Capital expenditures	165	195	444	558
Dividends	-	-	359	361
Acquisitions, net	33	-	47	20
Purchases of treasury stock	-	-	-	18
Other, including the effect of exchange rate changes	(115)	66	12	(41)
Decrease in net debt	(153)	(582)	(688)	(464)
Net debt, December 31	\$2,497	\$3,185	\$2,497	\$3,185
Key statistics, December 31:				
Days sales outstanding	55.1	55.3	55.1	55.3
Inventory turns	2.6	2.7	2.6	2.7
Net-debt-to-capital ratio (A)	36.7%	33.5%	36.7%	33.5%

(A) The 2004 net-debt-to-capital ratio was calculated in accordance with the company's primary credit agreements, which gave 70% equity credit to the company's December 2002 \$1.25 billion issuance of equity units. As originally scheduled, in November 2005, the \$1.25 billion senior notes included in the equity units were remarketed, and the company repurchased \$1 billion of the remarketed notes. In February 2006, the purchase contracts included in the equity units will mature, and the company will receive \$1.25 billion in cash and issue between 35.0 to 43.4 million common shares, based on a specified exchange ratio (if the average price of the company's stock over the 20-day trading period ending on February 13th exceeds \$35.69, then 35 million shares will be issued). Management plans to use a portion of the cash proceeds to pay down maturing debt. As a result of these cash proceeds, the company's net-debt-to-capital ratio will decrease significantly during the first quarter of 2006. Holding all other variables constant, the February 2006 \$1.25 billion cash proceeds would reduce the net-debt-to-capital ratio at December 31, 2005 by 18.4 percentage points, from 36.7% to 18.3%.

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

	December 31, 2005	December 31, 2004
<u>ASSETS</u>		
Cash and equivalents	\$841	\$1,109
Receivables	1,766	2,091
Inventories	1,925	2,135
Other current assets (1)	584	684
Total current assets	<u>5,116</u>	<u>6,019</u>
Property, plant and equipment, net	4,144	4,369
Other long-term assets (1)	3,467	3,759
Total assets	<u>\$12,727</u>	<u>\$14,147</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Short-term debt (2)	\$924	\$361
Other current liabilities (1)	3,284	3,925
Long-term debt	2,414	3,933
Other long-term liabilities (1)	1,806	2,223
Shareholders' equity	4,299	3,705
Total liabilities and shareholders' equity	<u>\$ 12,727</u>	<u>\$14,147</u>

(1) The following is a summary of the company's cross-currency swap assets (liabilities).

	December 31, 2005	December 31, 2004
<u>Original swaps</u>		
Other current liabilities	\$ -	(\$465)
Other long-term liabilities	(546)	(831)
Total	<u>(546)</u>	<u>(1,296)</u>
<u>Mirror swaps</u>		
Other current assets	-	109
Other long-term assets	-	20
Other long-term liabilities	(99)	(5)
Total	<u>(99)</u>	<u>124</u>
Net total of cross-currency swaps	<u>(\$645)</u>	<u>(\$1,172)</u>

Note: As further discussed in the company's SEC filings, during the fourth quarter of 2004 the company executed offsetting or mirror swaps. These mirror swaps fix the net amount the company will ultimately pay to settle the swaps subject to this strategy. After execution of the mirror swaps, as the market value of the fixed portion of the original portfolio decreases, the market value of the mirror swaps increases, and vice versa. At December 31, 2005, approximately 52% of the net swaps liability has been fixed by the mirror swaps.

During the year ended December 31, 2005, the company settled certain swap agreements (and related mirror swaps, as applicable), and made net payments totaling \$379 million. In accordance with GAAP, \$432 million of outflows were classified in the financing section of the statement of cash flows, and \$53 million of inflows were classified in the operating section of the statement of cash flows.

(2) The increase in short-term debt from December 31, 2004 to December 31, 2005 principally related to the reclassification of approximately \$800 million of notes due in 2006 from long-term to short-term.

Baxter International Inc.
Net Sales from Continuing Operations
Period Ending December 31, 2005
(unaudited)

(\$ in millions)	Q4 2005	Q4 2004	% Growth @ Actual Rates	% Growth @ Constant Rates	YTD 2005	YTD 2004	% Growth @ Actual Rates	% Growth @ Constant Rates
BioScience								
United States	\$479	\$448	7%	7%	\$1,764	\$1,644	7%	7%
International	531	504	5%	9%	2,088	1,860	12%	10%
Total	\$1,010	\$952	6%	8%	\$3,852	\$3,504	10%	9%
Medication Delivery								
United States	\$532	\$694	(23%)	(23%)	\$2,234	\$2,410	(7%)	(7%)
International	440	435	1%	3%	1,756	1,637	7%	4%
Total	\$972	\$1,129	(14%)	(13%)	\$3,990	\$4,047	(1%)	(3%)
Renal								
United States	\$96	\$103	(7%)	(7%)	\$385	\$406	(5%)	(5%)
International	413	417	(1%)	-%	1,622	1,552	5%	1%
Total	\$509	\$520	(2%)	(2%)	\$2,007	\$1,958	3%	-%
Baxter International Inc.								
United States	\$1,107	\$1,245	(11%)	(11%)	\$4,383	\$4,460	(2%)	(2%)
International	1,384	1,356	2%	4%	5,466	5,049	8%	5%
Total	\$2,491	\$2,601	(4%)	(3%)	\$9,849	\$9,509	4%	2%

Baxter International Inc.
Key Product Line Sales
Period Ending December 31, 2005
(unaudited)

(\$ in millions)	Q4 2005	Q4 2004	% Growth @ Actual Rates	% Growth @ Constant Rates	YTD 2005	YTD 2004	% Growth @ Actual Rates	% Growth @ Constant Rates
BioScience								
Recombinants	\$394	\$376	5%	8%	\$1,527	\$1,329	15%	14%
Plasma Proteins ¹	256	278	(8%)	(7%)	1,023	1,037	(1%)	(3%)
Antibody Therapy	147	84	75%	79%	452	336	35%	34%
Transfusion Therapies	140	150	(7%)	(5%)	547	550	(1%)	(2%)
Other ²	73	64	14%	16%	303	252	20%	18%
Total BioScience	\$1,010	\$952	6%	8%	\$3,852	\$3,504	10%	9%
Medication Delivery								
IV Therapies ³	\$316	\$309	2%	3%	\$1,225	\$1,154	6%	4%
Drug Delivery	196	252	(22%)	(22%)	818	840	(3%)	(3%)
Infusion Systems	194	259	(25%)	(25%)	853	928	(8%)	(9%)
Anesthesia	249	288	(14%)	(13%)	1,021	1,037	(2%)	(2%)
Other ⁴	17	21	(19%)	(19%)	73	88	(17%)	(19%)
Total Medication Delivery ⁵	\$972	\$1,129	(14%)	(13%)	\$3,990	\$4,047	(1%)	(3%)
Renal								
PD Therapy	\$394	\$382	3%	4%	\$1,534	\$1,445	6%	4%
HD Therapy	109	134	(19%)	(19%)	454	499	(9%)	(12%)
Other	6	4	50%	50%	19	14	36%	36%
Total Renal	\$509	\$520	(2%)	(2%)	\$2,007	\$1,958	3%	-%
TOTAL BAXTER	\$2,491	\$2,601	(4%)	(3%)	\$9,849	\$9,509	4%	2%

¹ Includes plasma-derived hemophilia (FVII, FVIII, FIX and FEIBA), albumin, biosurgery (Tisseel) and other plasma-based products.

² Principally includes vaccines and non-plasma-based biosurgery products (FloSeal & CoSeal).

³ Principally includes intravenous solutions and nutritional products.

⁴ Principally includes other hospital-distributed products.

⁵ Sales of oncology products, which were previously included in Other, are now reported in Drug Delivery, Infusion Systems or Anesthesia, depending on the product. All prior year sales data has been reclassified to reflect this change.

Baxter International Inc.
Key Product Line Sales -- US/International
Period Ending December 31, 2005
(unaudited)

(\$ in millions)	Q4 2005			Q4 2004			% Growth		
	US	International	Total	US	International	Total	US	International	Total
BioScience									
Recombinants	\$168	\$226	\$394	\$173	\$203	\$376	(3%)	11%	5%
Plasma Proteins ¹	113	143	\$256	118	160	278	(4%)	(11%)	(8%)
Antibody Therapy	103	44	\$147	46	38	84	124%	16%	75%
Transfusion Therapies	67	73	\$140	76	74	150	(12%)	(1%)	(7%)
Other ²	28	45	\$73	35	29	64	(20%)	55%	14%
Total BioScience	\$479	\$531	\$1,010	\$448	\$504	\$952	7%	5%	6%
Medication Delivery									
IV Therapies ³	\$109	\$207	\$316	\$104	\$205	\$309	5%	1%	2%
Drug Delivery	128	68	196	186	66	252	(31%)	3%	(22%)
Infusion Systems	123	71	194	184	75	259	(33%)	(5%)	(25%)
Anesthesia	166	83	249	214	74	288	(22%)	12%	(14%)
Other ⁴	6	11	17	6	15	21	-%	(27%)	(19%)
Total Medication Delivery ⁵	\$532	\$440	\$972	\$694	\$435	\$1,129	(23%)	1%	(14%)
Renal									
PD Therapy	\$62	\$332	\$394	\$65	\$317	\$382	(5%)	5%	3%
HD Therapy	31	78	109	35	99	134	(11%)	(21%)	(19%)
Other	3	3	6	3	1	4	-%	200%	50%
Total Renal	\$96	\$413	\$509	\$103	\$417	\$520	(7%)	(1%)	(2%)
TOTAL BAXTER	\$1,107	\$1,384	\$2,491	\$1,245	\$1,356	\$2,601	(11%)	2%	(4%)

¹ Includes plasma-derived hemophilia (FVII, FVIII, FIX and FEIBA), albumin, biosurgery (Tisseel) and other plasma-based products.

² Principally includes vaccines and non-plasma-based biosurgery products (FloSeal & CoSeal).

³ Principally includes intravenous solutions and nutritional products.

⁴ Principally includes other hospital-distributed products.

⁵ Sales of oncology products, which were previously included in Other, are now reported in Drug Delivery, Infusion Systems or Anesthesia, depending on the product. All prior year sales data has been reclassified to reflect this change.