

BAXTER INTERNATIONAL INC.
Consolidated Statements of Income
Three Months Ended December 31, 2006 and 2005
(unaudited)
(in millions, except per share and percentage data)

	Three Months Ended December 31,		
	2006	2005	Change
<u>CONTINUING OPERATIONS:</u>			
NET SALES	\$2,763	\$2,491	11%
GROSS PROFIT	1,315	1,079	22%
<i>% of Sales</i>	<i>47.6%</i>	<i>43.3%</i>	<i>4.3 pts</i>
MARKETING AND ADMINISTRATIVE EXPENSES	612	520	18%
<i>% of Sales</i>	<i>22.1%</i>	<i>20.9%</i>	<i>1.2 pts</i>
RESEARCH AND DEVELOPMENT EXPENSES	181	134	35%
OPERATING INCOME	522	425	23%
<i>% of Sales</i>	<i>18.9%</i>	<i>17.1%</i>	<i>1.8 pts</i>
INTEREST, NET	1	23	(96%)
OTHER EXPENSE, NET	6	18	(67%)
INCOME BEFORE INCOME TAXES	515	384	34%
INCOME TAX EXPENSE	82	90	(9%)
INCOME FROM CONTINUING OPERATIONS	\$433	\$294	47%
BASIC EPS FROM CONTINUING OPERATIONS	\$0.66	\$0.47	40%
DILUTED EPS FROM CONTINUING OPERATIONS	\$0.66	\$0.46	43%
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING			
Basic	653	624	
Diluted	659	634	
ADJUSTED INCOME FROM CONTINUING OPERATIONS (excluding certain items)	\$433	\$379 (1)	
ADJUSTED DILUTED EPS FROM CONTINUING OPERATIONS (excluding certain items)	\$0.66	\$0.60 (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 fourth quarter of 2006 was \$15 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 fourth quarter of 2005 was \$15 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.
Note to Consolidated Statements of Income
Three Months Ended December 31, 2005
Description of Adjustments and Reconciliation of GAAP to Non-GAAP
(unaudited)
(in millions, except per share and percentage data)

The company's GAAP results for the three months ended December 31, 2005 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:

	Operating Income	Income Tax Expense	Income from Continuing Operations	Diluted EPS
GAAP	\$425	\$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	\$513	\$93	\$379	\$0.60
Adjusted operating income percentage	20.6%			

- (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 percentage is 46.2%.
- (B) Included in the Other Expense, Net line in the accompanying consolidated statement of income.

BAXTER INTERNATIONAL INC.
Consolidated Statements of Income
Twelve Months Ended December 31, 2006 and 2005
(unaudited)
(in millions, except per share and percentage data)

	Twelve Months Ended December 31,		Change
	2006	2005	
<u>CONTINUING OPERATIONS:</u>			
NET SALES	\$10,378	\$9,849	5%
GROSS PROFIT	4,737	4,093	16%
<i>% of Sales</i>	<i>45.6%</i>	<i>41.6%</i>	<i>4.0 pts</i>
MARKETING AND ADMINISTRATIVE EXPENSES	2,282	2,030	12%
<i>% of Sales</i>	<i>22.0%</i>	<i>20.6%</i>	<i>1.4 pts</i>
RESEARCH AND DEVELOPMENT EXPENSES	614	533	15%
RESTRUCTURING ADJUSTMENTS	-	(109)	(100%)
OPERATING INCOME	1,841	1,639	12%
<i>% of Sales</i>	<i>17.7%</i>	<i>16.6%</i>	<i>1.1 pts</i>
INTEREST, NET	34	118	(71%)
OTHER EXPENSE, NET	61	77	(21%)
INCOME BEFORE INCOME TAXES	1,746	1,444	21%
INCOME TAX EXPENSE	348	486	(28%)
INCOME FROM CONTINUING OPERATIONS	\$1,398	\$958	46%
BASIC EPS FROM CONTINUING OPERATIONS	\$2.15	\$1.54	40%
DILUTED EPS FROM CONTINUING OPERATIONS	\$2.13	\$1.52	40%
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING			
Basic	651	622	
Diluted	656	629	
ADJUSTED INCOME FROM CONTINUING OPERATIONS (excluding certain items)	\$1,462 (1)	\$1,208 (1)	
ADJUSTED DILUTED EPS FROM CONTINUING OPERATIONS (excluding certain items)	\$2.23 (1)	\$1.92 (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 year ended December 31, 2006 was \$53 million, or \$0.08 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 year ended December 31, 2005 was \$56 million, or \$0.09 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.
Note to Consolidated Statements of Income
Twelve Months Ended December 31, 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 adjustment and reconciliation of GAAP to Non-GAAP

The company's GAAP results for the twelve months ended December 31, 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	\$1,841	\$348	\$1,398	\$2.13
COLLEAGUE infusion pump charge (A)	76	12	64	0.10
Excluding specified items	\$1,917	\$360	\$1,462	\$2.23

Adjusted operating income percentage **18.5%**

- (A) Included in the Gross Profit line in the accompanying consolidated statement of income. Excluding this item, adjusted gross profit is \$4.81 billion and the adjusted gross profit percentage is 46.4%.

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

The company's GAAP results for the twelve months ended December 31, 2005 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:

	Operating Income	Income Tax Expense	Income from Continuing Operations	Diluted EPS
GAAP	\$1,639	\$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	\$1,723	\$320	\$1,208	\$1.92

Adjusted operating income percentage **17.5%**

- (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 percentage is 43.3%.
- (B) Included in the Other Expense, Net line in the accompanying consolidated statement of income.
- (C) Included in the Restructuring Adjustments line in the accompanying consolidated statement of income.

Baxter International Inc.
Condensed Consolidated Balance Sheets
(unaudited)
(\$ in millions)

	<u>December 31,</u> <u>2006</u>	<u>December 31,</u> <u>2005</u>
<u>ASSETS</u>		
Cash and equivalents	\$2,485	\$841
Receivables	1,838	1,766
Inventories	2,066	1,925
Other current assets	581	584
Total current assets	<u>6,970</u>	<u>5,116</u>
Property, plant and equipment, net	4,229	4,144
Other long-term assets	3,487	3,467
Total assets	<u>\$14,686</u>	<u>\$12,727</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Short-term debt	\$234	\$924
Other current liabilities	3,376	3,241
Long-term debt	2,567	2,414
Other long-term liabilities	2,237	1,849
Shareholders' equity	6,272	4,299
Total liabilities and shareholders' equity	<u>\$14,686</u>	<u>\$12,727</u>

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,	
	2006	2005	2006	2005
Net income	\$431	\$292	\$1,397	\$956
Adjustments				
Depreciation and amortization	144	144	575	580
Deferred income taxes	(68)	3	8	201
Stock compensation	26	2	94	9
Infusion pump and hemodialysis instrument charges	-	71	76	176
Restructuring adjustments	-	-	-	(109)
Other	6	2	34	48
Changes in balance sheet items				
Receivables	(49)	45	(16)	178
Inventories	73	20	(35)	88
Accounts payable and accrued liabilities	160	(38)	1	(325)
Restructuring payments	(8)	(22)	(42)	(117)
Other	47	(283)	91	(135)
Cash flows from operations	\$762	\$236	\$2,183	\$1,550
Changes in Net Debt				
Increase (decrease)				
	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2006	2005	2006	2005
Net debt, beginning of period	\$741	\$2,650	\$2,497	\$3,185
Cash flows from operations	(762)	(236)	(2,183)	(1,550)
Capital expenditures	190	165	526	444
Dividends	-	-	363	359
Acquisitions, net	2	33	5	47
Issuances of common stock	-	-	(1,249)	-
Purchases of treasury stock	258	-	737	-
Other, including the effect of exchange rate changes	(113)	(115)	(380)	12
Decrease in net debt	(425)	(153)	(2,181)	(688)
Net debt, December 31	\$316	\$2,497	\$316	\$2,497
Key statistics, December 31:				
Days sales outstanding	52.9	55.1	52.9	55.1
Inventory turns	2.7	2.6	2.7	2.6
Net-debt-to-capital ratio (A)	4.8%	36.7%	4.8%	36.7%

(A) The decrease in the debt-to-capital ratio from December 31, 2005 to December 31, 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. 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
Periods Ending December 31, 2006 and 2005
(unaudited)
(\$ in millions)

	Q4	Q4	% Growth @	% Growth @	YTD	YTD	% Growth @	% Growth @
	2006	2005	Actual Rates	Constant Rates	2006	2005	Actual Rates	Constant Rates
BioScience								
United States	\$587	\$479	23%	23%	\$2,127	\$1,764	21%	21%
International	600	531	13%	7%	2,269	2,088	9%	9%
Total	\$1,187	\$1,010	18%	14%	\$4,396	\$3,852	14%	14%
Medication Delivery								
United States	\$549	\$532	3%	3%	\$2,081	\$2,234	(7%)	(7%)
International	490	440	11%	8%	1,836	1,756	5%	5%
Total	\$1,039	\$972	7%	5%	\$3,917	\$3,990	(2%)	(2%)
Renal								
United States	\$95	\$96	(1%)	(1%)	\$381	\$385	(1%)	(1%)
International	442	413	7%	5%	1,684	1,622	4%	4%
Total	\$537	\$509	6%	4%	\$2,065	\$2,007	3%	3%
Baxter International Inc.								
United States	\$1,231	\$1,107	11%	11%	\$4,589	\$4,383	5%	5%
International	1,532	1,384	11%	7%	5,789	5,466	6%	6%
Total	\$2,763	\$2,491	11%	9%	\$10,378	\$9,849	5%	5%

Baxter International Inc.
Key Product Line Sales
Periods Ending December 31, 2006 and 2005
(unaudited)
(\$ in millions)

	Q4 2006	Q4 2005 ¹	% Growth @ Actual Rates	% Growth @ Constant Rates	YTD 2006	YTD 2005 ¹	% Growth @ Actual Rates	% Growth @ Constant Rates
BioScience								
Recombinants	\$452	\$394	15%	11%	\$1,696	\$1,527	11%	11%
Plasma Proteins ²	262	193	36%	33%	881	709	24%	24%
Antibody Therapy	207	147	41%	38%	785	452	74%	73%
BioSurgery ³	78	67	16%	13%	298	266	12%	12%
Transfusion Therapies	145	140	4%	2%	516	547	(6%)	(5%)
Other ⁴	43	69	(38%)	(42%)	220	351	(37%)	(37%)
Total BioScience	\$1,187	\$1,010	18%	14%	\$4,396	\$3,852	14%	14%
Medication Delivery								
IV Therapies ⁵	\$341	\$316	8%	6%	\$1,285	\$1,225	5%	5%
Drug Delivery	219	196	12%	11%	832	818	2%	1%
Infusion Systems	221	194	14%	12%	817	853	(4%)	(5%)
Anesthesia and Injectable Drugs	247	249	(1%)	(2%)	938	1,021	(8%)	(8%)
Other ⁶	11	17	(35%)	(29%)	45	73	(38%)	(36%)
Total Medication Delivery	\$1,039	\$972	7%	5%	\$3,917	\$3,990	(2%)	(2%)
Renal								
PD Therapy	\$429	\$400	7%	6%	\$1,634	\$1,553	5%	6%
HD Therapy	108	109	(1%)	(2%)	431	454	(5%)	(5%)
Total Renal⁷	\$537	\$509	6%	4%	\$2,065	\$2,007	3%	3%
TOTAL BAXTER	\$2,763	\$2,491	11%	9%	\$10,378	\$9,849	5%	5%

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
Periods Ending December 31, 2006 and 2005
(unaudited)
(\$ in millions)

	Q4 2006			Q4 2005 ¹			% Growth		
	US	International	Total	US	International	Total	US	International	Total
BioScience									
Recombinants	\$191	\$261	\$452	\$168	\$226	\$394	14%	15%	15%
Plasma Proteins ²	102	160	262	72	121	193	42%	32%	36%
Antibody Therapy	158	49	207	103	44	147	53%	11%	41%
BioSurgery ³	43	35	78	39	28	67	10%	25%	16%
Transfusion Therapies	78	67	145	67	73	140	16%	(8%)	4%
Other ⁴	15	28	43	30	39	69	(50%)	(28%)	(38%)
Total BioScience	\$587	\$600	\$1,187	\$479	\$531	\$1,010	23%	13%	18%
Medication Delivery									
IV Therapies ⁵	\$113	\$228	\$341	\$109	\$207	\$316	4%	10%	8%
Drug Delivery	144	75	219	128	68	196	13%	10%	12%
Infusion Systems	132	89	221	123	71	194	7%	25%	14%
Anesthesia and Injectable Drugs	154	93	247	166	83	249	(7%)	12%	(1%)
Other ⁶	6	5	11	6	11	17	-	(55%)	(35%)
Total Medication Delivery	\$549	\$490	\$1,039	\$532	\$440	\$972	3%	11%	7%
Renal									
PD Therapy	\$67	\$362	\$429	\$65	\$335	\$400	3%	8%	7%
HD Therapy	28	80	108	31	78	109	(10%)	3%	(1%)
Total Renal ⁷	\$95	\$442	\$537	\$96	\$413	\$509	(1%)	7%	6%
TOTAL BAXTER	\$1,231	\$1,532	\$2,763	\$1,107	\$1,384	\$2,491	11%	11%	11%

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.

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