

BAXTER INTERNATIONAL INC.
Consolidated Statements of Income
Three Months Ended December 31, 2008 and 2007
(unaudited)
(in millions, except per share and percentage data)

	Three Months Ended December 31,		
	2008	2007	Change
NET SALES	\$3,131	\$3,009	4%
COST OF GOODS SOLD	1,529	1,524	0%
GROSS PROFIT	1,602	1,485	8%
<i>% of Net Sales</i>	<i>51.2%</i>	49.4%	1.8 pts
MARKETING AND ADMINISTRATIVE EXPENSES	674	654	3%
<i>% of Net Sales</i>	<i>21.5%</i>	21.7%	(0.2 pts)
RESEARCH AND DEVELOPMENT EXPENSES	226 ¹	221 ¹	2%
<i>% of Net Sales</i>	<i>7.2%</i>	7.3%	(0.1 pt)
NET INTEREST EXPENSE	14	12	17%
OTHER EXPENSE, NET	1	4	(75%)
PRE-TAX INCOME	687	594	16%
INCOME TAX EXPENSE	118 ²	116	2%
<i>% of Pre-Tax Income</i>	<i>17.2%</i>	19.5%	(2.3 pts)
NET INCOME	\$569	\$478	19%
BASIC EPS	\$0.92	\$0.75	23%
DILUTED EPS	\$0.91	\$0.74	23%
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING			
Basic	619	634	
Diluted	628	645	
ADJUSTED PRE-TAX INCOME (excluding specified items)	\$694 ³	\$609 ³	14%
ADJUSTED NET INCOME (excluding specified items)	\$574 ³	\$488 ³	18%
ADJUSTED DILUTED EPS (excluding specified items)	\$0.91 ³	\$0.76 ³	20%

¹ Research and development (R&D) expenses in 2008 included a pre-tax in-process R&D (IPR&D) charge of \$7 million related to the acquisition of certain technology applicable to the BioScience business. R&D expenses in 2007 included \$15 million of pre-tax IPR&D charges, as previously disclosed.

² Income tax expense in 2008 included a benefit of \$8 million, or \$0.01 per diluted share, related to the extension of R&D tax credits in the United States.

³ Refer to page 9 for a description of the adjustments and a reconciliation to GAAP (generally accepted accounting principles) measures.

Non-GAAP Financial Measures: The non-GAAP financial measures contained in this press release (pre-tax income, income tax expense, net income, diluted EPS, and R&D expenses, excluding specified 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.
Notes to Consolidated Statements of Income
Three Months Ended December 31, 2008 and 2007
Description of Adjustments and Reconciliation of GAAP to Non-GAAP Measures
(unaudited)
(in millions, except per share and percentage data)

2008 description of adjustment and reconciliation of GAAP to Non-GAAP

The company's GAAP results for the three months ended December 31, 2008 included an IPR&D charge related to the acquisition of certain technology related to the BioScience business, which impacted the GAAP results as follows:

	Pre-tax Income	Income Tax Expense	Net Income	Diluted EPS
GAAP	\$687	\$118	\$569	\$0.91
IPR&D charge (A)	7	2	5	-
Excluding specified item	\$694	\$120	\$574	\$0.91
Effective tax rate		17.3%		

- (A) Included in the R&D Expenses line within the accompanying consolidated statement of income. Excluding this item, adjusted R&D expenses were \$219 million, or 7.0% of net sales, which represented a 6.3% increase over 2007 adjusted R&D expenses of \$206 million.

2007 description of adjustments and reconciliation of GAAP to Non-GAAP

The company's GAAP results for the three months ended December 31, 2007 included IPR&D charges, which impacted the GAAP results as follows:

	Pre-tax Income	Income Tax Expense	Net Income	Diluted EPS
GAAP	\$594	\$116	\$478	\$0.74
IPR&D charges (B)	15	5	10	0.02
Excluding specified items	\$609	\$121	\$488	\$0.76
Effective tax rate		19.9%		

- (B) Included in the R&D Expenses line within the accompanying consolidated statement of income. Excluding these IPR&D charges, adjusted R&D expenses were \$206 million, or 6.8% of net sales.

BAXTER INTERNATIONAL INC.
Consolidated Statements of Income
Twelve Months Ended December 31, 2008 and 2007
(unaudited)
(in millions, except per share and percentage data)

	Twelve Months Ended December 31,		
	2008	2007	Change
NET SALES	\$12,348	\$11,263	10%
COST OF GOODS SOLD	6,218 ¹	5,744	8%
GROSS PROFIT	6,130	5,519	11%
<i>% of Net Sales</i>	<i>49.6%</i>	49.0%	0.6 pts
MARKETING AND ADMINISTRATIVE EXPENSES	2,698	2,521 ²	7%
<i>% of Net Sales</i>	<i>21.8%</i>	22.4%	(0.6 pts)
RESEARCH AND DEVELOPMENT EXPENSES	868 ³	760 ³	14%
<i>% of Net Sales</i>	<i>7.0%</i>	6.7%	0.3 pts
RESTRUCTURING CHARGE	-	70 ⁴	(100%)
NET INTEREST EXPENSE	76	22	245%
OTHER EXPENSE, NET	37 ⁵	32 ⁵	16%
PRE-TAX INCOME	2,451	2,114	16%
INCOME TAX EXPENSE	437 ⁶	407	7%
<i>% of Pre-Tax Income</i>	<i>17.8%</i>	19.3%	(1.5 pts)
NET INCOME	\$2,014	\$1,707	18%
BASIC EPS	\$3.22	\$2.65	22%
DILUTED EPS	\$3.16	\$2.61	21%
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING			
Basic	625	644	
Diluted	637	654	
ADJUSTED PRE-TAX INCOME (excluding specified items)	\$2,626 ⁷	\$2,290 ⁷	15%
ADJUSTED NET INCOME (excluding specified items)	\$2,155 ⁷	\$1,826 ⁷	18%
ADJUSTED DILUTED EPS (excluding specified items)	\$3.38 ⁷	\$2.79 ⁷	21%

¹ Cost of goods sold in 2008 included charges totaling \$125 million (\$110 million on an after-tax basis, or \$0.17 per diluted share) related to COLLEAGUE infusion pumps.

² Marketing and administrative expenses in 2007 included a charge of \$56 million (\$34 million on an after-tax basis, or \$0.05 per diluted share) related to the company's Average Wholesale Pricing (AWP) litigation.

³ R&D expenses in 2008 included an IPR&D charge of \$12 million related to the company's in-licensing agreement with Innocoll Pharmaceuticals Ltd. (Innocoll) to market and distribute Innocoll's gentamicin surgical implant in the United States and an IPR&D charge of \$7 million related to the acquisition of certain technology applicable to the BioScience business. R&D expenses in 2007 included IPR&D charges of \$50 million, as previously disclosed. The after-tax impact of the charges was \$12 million, or \$0.02 per diluted share, in 2008 and \$39 million, or \$0.06 per diluted share, in 2007.

⁴ A restructuring charge in 2007 of \$70 million (\$46 million on an after-tax basis, or \$0.07 per diluted share) was primarily for costs and asset impairments associated with the consolidation of certain commercial and manufacturing operations outside of the United States.

⁵ Other expense, net in 2008 included an impairment charge of \$31 million (\$19 million on an after-tax basis, or \$0.03 per diluted share) associated with the discontinuation of the CLEARSHOT pre-filled syringe program. Other expense, net in 2007 included income of \$23 million, reflecting a gain on the sale of the Transfusion Therapies business of \$58 million less related charges of \$35 million. The after-tax impact of these items was \$6 million of income, or \$0.01 per diluted share, in 2007.

⁶ Income tax expense in 2008 included a net benefit of \$23 million, or \$0.04 per diluted share, related primarily to the reversal of a valuation allowance and the extension of R&D tax credits in the United States, partially offset by tax expense associated with foreign earnings that the company planned to repatriate to the United States.

⁷ Refer to page 11 for a description of the adjustments and a reconciliation to GAAP measures.

Non-GAAP Financial Measures: The non-GAAP financial measures contained in this press release (pre-tax income, income tax expense, net income, diluted EPS, and R&D expenses, excluding specified 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.
Notes to Consolidated Statements of Income
Twelve Months Ended December 31, 2008 and 2007
Description of Adjustments and Reconciliation of GAAP to Non-GAAP Measures
(unaudited)
(in millions, except per share and percentage data)

2008 description of adjustments and reconciliation of GAAP to Non-GAAP

The company's GAAP results for the twelve months ended December 31, 2008 included charges related to COLLEAGUE infusion pumps, an impairment charge associated with the discontinuation of the CLEARSHOT pre-filled syringe program, and IPR&D charges related to the company's in-licensing agreement with Innocoll and the acquisition of certain technology applicable to the BioScience business, which impacted the GAAP results as follows:

	Pre-tax Income	Income Tax Expense	Net Income	Diluted EPS
GAAP	\$2,451	\$437	\$2,014	\$3.16
COLLEAGUE infusion pump charges (A)	125	15	110	0.17
Impairment charge	31	12	19	0.03
IPR&D charges (B)	19	7	12	0.02
Excluding specified items	\$2,626	\$471	\$2,155	\$3.38
Effective tax rate		17.9%		

- (A) Included in the Cost of Goods Sold line within the accompanying consolidated statement of income. Excluding this item, adjusted gross profit was \$6.26 billion and the adjusted gross profit percentage was 50.7%.
- (B) Included in the R&D Expenses line within the accompanying consolidated statement of income. Excluding these items, adjusted R&D expenses were \$849 million, or 6.9% of net sales, which represented a 19.6% increase over 2007 adjusted R&D expenses of \$710 million.

2007 description of adjustments and reconciliation of GAAP to Non-GAAP

The company's GAAP results for the twelve months ended December 31, 2007 included a restructuring charge, a charge related to the company's AWP litigation and IPR&D charges. These charges impacted the GAAP results as follows:

	Pre-tax Income	Income Tax Expense	Net Income	Diluted EPS
GAAP	\$2,114	\$407	\$1,707	\$2.61
Restructuring charge	70	24	46	0.07
Litigation-related charge (C)	56	22	34	0.05
IPR&D charges (D)	50	11	39	0.06
Excluding specified items	\$2,290	\$464	\$1,826	\$2.79
Effective tax rate		20.3%		

- (C) Included in the Marketing and Administrative Expenses line within the accompanying consolidated statement of income. Excluding this charge, adjusted marketing and administrative expenses were \$2.47 billion, or 21.9% of net sales.
- (D) Included in the R&D Expenses line within the accompanying consolidated statement of income. Excluding these charges, adjusted R&D expenses were \$710 million, or 6.3% of net sales.

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

	<u>December 31, 2008</u>	<u>December 31, 2007</u>
<u>Assets</u>		
Cash and equivalents	\$2,131	\$2,539
Receivables	1,980	2,026
Inventories	2,361	2,334
Other current assets	676	656
Total current assets	<u>7,148</u>	<u>7,555</u>
Property, plant and equipment, net	4,609	4,487
Other long-term assets	3,648	3,252
Total assets	<u>\$15,405</u>	<u>\$15,294</u>
<u>Liabilities and Shareholders' Equity</u>		
Short-term debt	\$394	\$425
Other current liabilities	3,241	3,387
Long-term debt	3,362	2,664
Other long-term liabilities	2,179	1,902
Shareholders' equity	6,229	6,916
Total liabilities and shareholders' equity	<u>\$15,405</u>	<u>\$15,294</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		Twelve Months Ended	
	December 31,		December 31,	
	2008	2007	2008	2007
Net income	\$569	\$478	\$2,014	\$1,707
Adjustments				
Depreciation and amortization	150	153	631	581
Deferred income taxes	116	94	280	126
Stock compensation	35	37	146	136
Excess tax benefits from stock compensation	(84)	-	(112)	-
Infusion pump and restructuring charges	-	-	125	70
Impairment charge	-	-	31	-
Litigation-related charge	-	-	-	56
IPR&D charges	7	15	19	61
Other	24	10	51	(5)
Changes in balance sheet items				
Receivables	(12)	(164)	(98)	(278)
Inventories	44	50	(163)	(211)
Accounts payable and accrued liabilities	(3)	86	(239)	1
Restructuring payments	(15)	(7)	(50)	(27)
Other (A)	(211)	(1)	(120)	88
Cash flows from operations	\$620	\$751	\$2,515	\$2,305
Changes in Net Debt				
Increase (decrease)				
	Three Months Ended		Twelve Months Ended	
	December 31,		December 31,	
	2008	2007	2008	2007
Net debt, beginning of period	\$1,229	\$752	\$550	\$316
Cash flows from operations	(620)	(751)	(2,515)	(2,305)
Capital expenditures	339	268	954	692
Dividends	135	106	546	704
Proceeds from sale of Transfusion Therapies business	-	-	-	(421)
Proceeds and excess tax benefits from stock issued under employee benefit plans	(133)	(139)	(680)	(639)
Purchases of treasury stock	464	214	1,986	1,855
Acquisitions of and investments in businesses and technologies	26	29	99	112
Payments related to settlements of cross-currency swaps	-	108	542	304
Other, including the effect of exchange rate changes	185	(37)	143	(68)
Increase (decrease) in net debt	396	(202)	1,075	234
Net debt, December 31	\$1,625	\$550	\$1,625	\$550
Key statistics, December 31:				
Days sales outstanding	50.6	53.3	50.6	53.3
Inventory turns	2.5	2.5	2.5	2.5

(A) Other cash flows from operations in the fourth quarter of 2008 included contributions to the company's pension plans of approximately \$240 million.

BAXTER INTERNATIONAL INC.
Net Sales
Periods Ending December 31, 2008 and 2007
(unaudited)
(\$ in millions)

	Q4 2008	Q4 2007	% Growth @ Actual Rates	% Growth @ Constant Rates	YTD 2008	YTD 2007	% Growth @ Actual Rates	% Growth @ Constant Rates
BioScience ¹								
United States	\$647	\$579	12%	12%	\$2,401	\$2,151	12%	12%
International	712	630	13%	23%	2,907	2,419	20%	14%
Total	\$1,359	\$1,209	12%	17%	\$5,308	\$4,570	16%	13%
Medication Delivery								
United States	\$590	\$564	5%	5%	\$2,145	\$2,142	0%	0%
International	584	591	(1%)	8%	2,415	2,089	16%	10%
Total	\$1,174	\$1,155	2%	7%	\$4,560	\$4,231	8%	5%
Renal								
United States	\$98	\$100	(2%)	(2%)	\$388	\$388	0%	0%
International	459	501	(8%)	(4%)	1,918	1,851	4%	(2%)
Total	\$557	\$601	(7%)	(3%)	\$2,306	\$2,239	3%	(2%)
Baxter excluding Transfusion Therapies								
United States	\$1,335	\$1,243	7%	7%	\$4,934	\$4,681	5%	5%
International	1,755	1,722	2%	10%	7,240	6,359	14%	8%
Total	\$3,090	\$2,965	4%	9%	\$12,174	\$11,040	10%	7%
Transfusion Therapies ¹								
United States	\$17	\$31	(45%)	(45%)	\$110	\$139	(21%)	(21%)
International	24	13	85%	54%	64	84	(24%)	(32%)
Total	\$41	\$44	(7%)	(16%)	\$174	\$223	(22%)	(25%)
Baxter International Inc.								
United States	\$1,352	\$1,274	6%	6%	\$5,044	\$4,820	5%	5%
International	1,779	1,735	3%	10%	7,304	6,443	13%	7%
Total	\$3,131	\$3,009	4%	9%	\$12,348	\$11,263	10%	6%

¹ The results of operations of the Transfusion Therapies (TT) business were previously reported in the BioScience business. The TT business was sold on February 28, 2007. The TT totals above include sales of TT products through the date of divestiture, as well as revenues associated with manufacturing, distribution and other services provided by the company to the buyer of the TT business post-divestiture.

BAXTER INTERNATIONAL INC.
Key Product Line Sales
Periods Ending December 31, 2008 and 2007
(unaudited)
(\$ in millions)

	Q4 2008	Q4 2007	% Growth @ Actual Rates	% Growth @ Constant Rates	YTD 2008	YTD 2007	% Growth @ Actual Rates	% Growth @ Constant Rates
BioScience								
Recombinants	\$506	\$463	9%	14%	\$1,966	\$1,714	15%	12%
Plasma Proteins	330	301	10%	12%	1,219	1,015	20%	15%
Antibody Therapy	309	280	10%	14%	1,217	985	24%	22%
Regenerative Medicine ¹	101	95	6%	12%	408	346	18%	15%
Other ²	113	70	61%	83%	498	510	(2%)	(8%)
Total BioScience ³	\$1,359	\$1,209	12%	17%	\$5,308	\$4,570	16%	13%
Medication Delivery								
IV Therapies	\$393	\$390	1%	7%	\$1,575	\$1,402	12%	8%
Global Injectables	420	390	8%	13%	1,584	1,504	5%	3%
Infusion Systems	222	236	(6%)	(2%)	906	860	5%	4%
Anesthesia	131	126	4%	7%	464	422	10%	8%
Other	8	13	(38%)	(38%)	31	43	(28%)	(35%)
Total Medication Delivery	\$1,174	\$1,155	2%	7%	\$4,560	\$4,231	8%	5%
Renal								
PD Therapy	\$458	\$481	(5%)	(1%)	\$1,862	\$1,791	4%	(1%)
HD Therapy	99	120	(18%)	(12%)	444	448	(1%)	(5%)
Total Renal	\$557	\$601	(7%)	(3%)	\$2,306	\$2,239	3%	(2%)
Baxter excluding Transfusion Therapies	\$3,090	\$2,965	4%	9%	\$12,174	\$11,040	10%	7%
Transfusion Therapies ³	\$41	\$44	(7%)	(16%)	\$174	\$223	(22%)	(25%)
TOTAL BAXTER	\$3,131	\$3,009	4%	9%	\$12,348	\$11,263	10%	6%

¹ Previously referred to as BioSurgery.

² Principally includes vaccines, sales of plasma to third parties, and recombinant FIX (BeneFIX). Sales of BeneFIX ceased as of June 30, 2007.

³ The TT business was sold on February 28, 2007. The results of operations of the TT business were previously reported in the BioScience business. The TT totals above include sales of TT products through the date of divestiture, as well as revenues associated with manufacturing, distribution and other services provided by the company to the buyer of the TT business post-divestiture.

BAXTER INTERNATIONAL INC.
Key Product Line Sales by US and International
Three-Month Periods Ending December 31, 2008 and 2007
(unaudited)
(\$ in millions)

	Q4 2008			Q4 2007			% Growth @ Actual Rates		
	US	International	Total	US	International	Total	US	International	Total
BioScience									
Recombinants	\$219	\$287	\$506	\$205	\$258	\$463	7%	11%	9%
Plasma Proteins	132	198	330	112	189	301	18%	5%	10%
Antibody Therapy	228	81	309	199	81	280	15%	0%	10%
Regenerative Medicine ¹	56	45	101	50	45	95	12%	0%	6%
Other ²	12	101	113	13	57	70	(8%)	77%	61%
Total BioScience ³	\$647	\$712	\$1,359	\$579	\$630	\$1,209	12%	13%	12%
Medication Delivery									
IV Therapies	\$123	\$270	\$393	\$117	\$273	\$390	5%	(1%)	1%
Global Injectables	242	178	420	219	171	390	11%	4%	8%
Infusion Systems	134	88	222	141	95	236	(5%)	(7%)	(6%)
Anesthesia	88	43	131	83	43	126	6%	0%	4%
Other	3	5	8	4	9	13	(25%)	(44%)	(38%)
Total Medication Delivery	\$590	\$584	\$1,174	\$564	\$591	\$1,155	5%	(1%)	2%
Renal									
PD Therapy	\$76	\$382	\$458	\$71	\$410	\$481	7%	(7%)	(5%)
HD Therapy	22	77	99	29	91	120	(24%)	(15%)	(18%)
Total Renal	\$98	\$459	\$557	\$100	\$501	\$601	(2%)	(8%)	(7%)
Baxter excluding Transfusion Therapies	\$1,335	\$1,755	\$3,090	\$1,243	\$1,722	\$2,965	7%	2%	4%
Transfusion Therapies ³	\$17	\$24	\$41	\$31	\$13	\$44	(45%)	85%	(7%)
TOTAL BAXTER	\$1,352	\$1,779	\$3,131	\$1,274	\$1,735	\$3,009	6%	3%	4%

¹ Previously referred to as BioSurgery.

² Principally includes vaccines and sales of plasma to third parties.

³ The TT business was sold on February 28, 2007. The results of operations of the TT business were previously reported in the BioScience business. The TT totals above include sales of TT products through the date of divestiture, as well as revenues associated with manufacturing, distribution and other services provided by the company to the buyer of the TT business post-divestiture.