

GAAP

BAXTER INTERNATIONAL INC.
Consolidated Statements of Income
(unaudited)
(in millions, except per share data)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2005	2004	Change	2005	2004	Change
CONTINUING OPERATIONS:						
NET SALES	\$2,577	\$2,379	8%	\$4,960	\$4,588	8%
GROSS PROFIT	1,113	939	19%	2,082	1,832	14%
% to Sales	43.2%	39.5%	3.7 pts	42.0%	39.9%	2.1 pts
MARKETING AND ADMINISTRATIVE EXPENSES	537	532	1%	1,020	998	2%
% to Sales	20.8%	22.4%	(1.6 pts)	20.6%	21.8%	(1.2 pts)
RESEARCH AND DEVELOPMENT EXPENSES	133	129	3%	266	265	-%
SPECIAL CHARGES, NET	(27)	543	NM	(27)	543	NM
OPERATING INCOME (LOSS)	470	(265)	NM	823	26	NM
% to Sales	18.2%	(11.1%)	NM	16.6%	0.6%	16.0 pts
INTEREST, NET	33	25	32%	64	46	39%
OTHER EXPENSE, NET	25	42	(40%)	49	63	(22%)
INCOME (LOSS) BEFORE INCOME TAXES	412	(332)	NM	710	(83)	NM
INCOME TAX EXPENSE (BENEFIT)	88	(163)	NM	162	(101)	NM
INCOME (LOSS) FROM CONTINUING OPERATIONS	\$324	(\$169)	NM	\$548	\$18	NM
BASIC EPS FROM CONTINUING OPERATIONS	\$0.52	(\$0.28)	NM	\$0.88	\$0.03	NM
DILUTED EPS FROM CONTINUING OPERATIONS	\$0.51	(\$0.28)	NM	\$0.88	\$0.03	NM
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING						
Basic	621	613		620	613	
Diluted	626	613		624	617	
RECONCILIATION TO NET INCOME						
Income (loss) from continuing operations	\$324	(\$169)		\$548	\$18	
Discontinued operations	(2)	(1)		-	(12)	
Net income (loss)	\$322	(\$170)		\$548	\$6	

NM - Not meaningful

ADJUSTED

BAXTER INTERNATIONAL INC.
Adjusted Consolidated Statements of Income
(unaudited)
(in millions, except per share data)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2005	2004	Change	2005	2004	Change
CONTINUING OPERATIONS:						
NET SALES	\$2,577	\$2,379	8%	\$4,960	\$4,588	8%
GROSS PROFIT	1,113	984	13%	2,082	1,877	11%
% to Sales	43.2%	41.4%	1.8 pts	42.0%	40.9%	1.1 pts
MARKETING AND ADMINISTRATIVE EXPENSES	537	477	13%	1,020	943	8%
% to Sales	20.8%	20.1%	0.7 pts	20.6%	20.6%	- pts
RESEARCH AND DEVELOPMENT EXPENSES	133	129	3%	266	265	-%
OPERATING INCOME	443	378	17%	796	669	19%
% to Sales	17.2%	15.9%	1.3 pts	16.0%	14.6%	1.4 pts
INTEREST, NET	33	25	32%	64	46	39%
OTHER EXPENSE, NET	25	27	(7%)	49	48	2%
INCOME BEFORE INCOME TAXES	385	326	18%	683	575	19%
INCOME TAX EXPENSE	76	81	(6%)	150	143	5%
INCOME FROM CONTINUING OPERATIONS	\$309	\$245	26%	\$533	\$432	23%
BASIC EPS FROM CONTINUING OPERATIONS	\$0.50	\$0.40	25%	\$0.86	\$0.70	23%
DILUTED EPS FROM CONTINUING OPERATIONS	\$0.49	\$0.40	23%	\$0.85	\$0.70	21%
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING						
Basic	621	613		620	613	
Diluted	626	613		624	617	

RECONCILIATION OF ADJUSTED AMOUNTS TO GAAP AMOUNTS

Net Income					
Adjusted net income from continuing operations	\$309	\$245		\$533	\$432
Special charges, net	15	(414)		15	(414)
Discontinued operations	(2)	(1)		-	(12)
GAAP net income (loss)	\$322	(\$170)		\$548	\$6
Diluted EPS					
Adjusted net income from continuing operations	\$0.49	\$0.40		\$0.85	\$0.70
Special charges, net	0.02	(0.68)		0.03	(0.67)
Discontinued operations	-	-		-	(0.02)
GAAP net income (loss)	\$0.51	(\$0.28)		\$0.88	\$0.01

Non-GAAP Financial Measures: The non-GAAP (generally accepted accounting principles) financial measures contained in this press release (including the presentation above of 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 performance, and in setting performance compensation targets.

GAAP to ADJUSTED RECONCILIATION - Quarter
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BAXTER INTERNATIONAL INC.
Consolidated Statements of Income
Reconciliation of GAAP to Adjusted
Three Months Ended June 30, 2005 and 2004
(unaudited)
(in millions, except per share data)

	Three Months Ended June 30, 2005			Three Months Ended June 30, 2004		
	GAAP	Special Items	Adjusted	GAAP	Special Items	Adjusted
CONTINUING OPERATIONS:						
NET SALES	\$2,577		\$2,577	\$2,379		\$2,379
GROSS PROFIT	1,113		1,113	939	\$45 (C)	984
MARKETING AND ADMINISTRATIVE EXPENSES	537		537	532	55 (D)	477
RESEARCH AND DEVELOPMENT EXPENSES	133		133	129		129
SPECIAL CHARGES, NET	(27)	(27) (A)	-	543	543 (E)	-
OPERATING INCOME (LOSS)	470	(27)	443	(265)	643	378
INTEREST, NET	33		33	25		25
OTHER EXPENSE, NET	25		25	42	15 (F)	27
INCOME (LOSS) BEFORE INCOME TAXES	412	(27)	385	(332)	658	326
INCOME TAX EXPENSE (BENEFIT)	88	12 (B)	76	(163)	(244) (G)	81
INCOME (LOSS) FROM CONTINUING OPERATIONS	\$324	(\$15)	\$309	(\$169)	\$414	\$245
BASIC EPS FROM CONTINUING OPERATIONS	\$0.52	(\$0.02)	\$0.50	(\$0.28)	\$0.68	\$0.40
DILUTED EPS FROM CONTINUING OPERATIONS	\$0.51	(\$0.02)	\$0.49	(\$0.28)	\$0.68	\$0.40
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING						
Basic	621		621	613		613
Diluted	626		626	613		613

(A) Pump repairs and replacements	\$ 77
Restructuring reserve adjustments	(104)
Total	<u>(\$27)</u>

(B) Tax expense on special charges, net	<u>\$ 12</u>
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(C) Inventory reserves	\$ 28
Excess cash flow hedges	17
Total	<u>\$ 45</u>

(D) Loan and receivable reserves	<u>\$ 55</u>
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(E) Restructuring and asset impairment charges	<u>\$ 543</u>
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(F) Asset impairments	<u>\$ 15</u>
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(G) Tax benefit of restructuring charge	(\$149)
Reversal of tax reserves	(55)
Tax benefit of other charges	(40)
Total	<u>(\$244)</u>

GAAP to ADJUSTED RECONCILIATION - Year-to-

BAXTER INTERNATIONAL INC.
Consolidated Statements of Income
Reconciliation of GAAP to Adjusted
Six Months Ended June 30, 2005 and 2004
(unaudited)
(in millions, except per share data)

	Six Months Ended June 30, 2005			Six Months Ended June 30, 2004		
	GAAP	Special Items	Adjusted	GAAP	Special Items	Adjusted
CONTINUING OPERATIONS:						
NET SALES	\$4,960		\$4,960	\$4,588		\$4,588
GROSS PROFIT	2,082		2,082	1,832	\$45 (C)	1,877
MARKETING AND ADMINISTRATIVE EXPENSES	1,020		1,020	998	55 (D)	943
RESEARCH AND DEVELOPMENT EXPENSES	266		266	265		265
SPECIAL CHARGES, NET	(27)	(27) (A)	-	543	543 (E)	-
OPERATING INCOME	823	(27)	796	26	643	669
INTEREST, NET	64		64	46		46
OTHER EXPENSE, NET	49		49	63	15 (F)	48
INCOME (LOSS) BEFORE INCOME TAXES	710	(27)	683	(83)	658	575
INCOME TAX EXPENSE (BENEFIT)	162	12 (B)	150	(101)	(244) (G)	143
INCOME FROM CONTINUING OPERATIONS	\$548	(\$15)	\$533	\$18	\$414	\$432
BASIC EPS FROM CONTINUING OPERATIONS	\$0.88	(\$0.02)	\$0.86	\$0.03	\$0.67	\$0.70
DILUTED EPS FROM CONTINUING OPERATIONS	\$0.88	(\$0.03)	\$0.85	\$0.03	\$0.67	\$0.70
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING						
Basic	620		620	613		613
Diluted	624		624	617		617

(A) Pump repairs and replacements	\$ 77
Restructuring reserve adjustments	(104)
Total	<u>(\$27)</u>

(B) Tax expense on special charges, net	<u>\$ 12</u>
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(C) Inventory reserves	\$ 28
Excess cash flow hedges	17
Total	<u>\$ 45</u>

(D) Loan and receivable reserves	<u>\$ 55</u>
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(E) Restructuring and asset impairment charges	<u>\$ 543</u>
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(F) Asset impairments	<u>\$ 15</u>
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(G) Tax benefit of restructuring charge	(\$149)
Reversal of tax reserves	(55)
Tax benefit of other charges	(40)
Total	<u>(\$244)</u>

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

Cash Flows from Continuing Operations (Brackets denote cash outflows)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2005	2004	2005	2004
Income (loss) from continuing operations	\$324	(\$169)	\$548	\$18
Adjustments				
Depreciation and amortization	145	146	292	295
Deferred income taxes	96	(213)	119	(203)
Special charges, net	(27)	543	(27)	543
Other	15	124	33	147
Changes in balance sheet items				
Accounts receivable	(24)	(66)	20	(162)
Inventories	71	(9)	90	(75)
Accounts payable and accrued liabilities	(80)	23	(325)	(229)
Restructuring payments	(30)	(25)	(73)	(62)
Other	18	(49)	102	(20)
Cash flows from continuing operations	\$508	\$305	\$779	\$252

Changes in Net Debt Increase (decrease)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2005	2004	2005	2004
Net debt, beginning of period	\$3,493	\$4,161	\$3,185	\$3,649
Cash flows from continuing operations	(508)	(305)	(779)	(252)
Capital expenditures	98	139	163	229
Dividends	-	-	359	361
Acquisitions, net	-	15	-	20
Purchases of treasury stock	-	7	-	18
Other, including the effect of exchange rate changes	(22)	(143)	133	(151)
Increase (decrease) in net debt	(432)	(287)	(124)	225
Net debt, June 30	\$3,061	\$3,874	\$3,061	\$3,874

Key statistics, June 30:				
Days sales outstanding	58.4	60.5	58.4	60.5
Inventory turns	2.9	2.6	2.9	2.6
Net-debt-to-capital ratio (A)	30.1%	41.2%	30.1%	41.2%

(A) The net-debt-to-capital ratio was calculated in accordance with the company's primary credit agreements, which give 70% equity credit to the company's December 2002 \$1.25 billion issuance of equity units.

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

	June 30, 2005	December 31, 2004
<u>ASSETS</u>		
Cash and equivalents	\$1,428	\$1,109
Receivables	1,959	2,091
Inventories	1,944	2,135
Other current assets (1)	508	684
Total current assets	<u>5,839</u>	<u>6,019</u>
Property, plant and equipment, net	4,157	4,369
Other long-term assets (1)	3,630	3,759
Total assets	<u>\$13,626</u>	<u>\$14,147</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Short-term debt (2)	\$1,450	\$361
Other current liabilities (1)	2,911	3,925
Long-term debt	3,039	3,933
Other long-term liabilities (1)	2,016	2,223
Stockholders' equity	4,210	3,705
Total liabilities and stockholders' equity	<u>\$ 13,626</u>	<u>\$14,147</u>

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

	June 30, 2005	December 31, 2004
<u>Original swaps</u>		
Other current liabilities	(\$67)	(\$465)
Other long-term liabilities	(577)	(831)
Total	<u>(644)</u>	<u>(1,296)</u>
<u>Mirror swaps</u>		
Other current assets	-	109
Other long-term assets	-	20
Other current liabilities	(4)	-
Other long-term liabilities	(85)	(5)
Total	<u>(89)</u>	<u>124</u>
Net total of all cross-currency swaps	<u>(\$733)</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 June 30, 2005, approximately 55% of the net swaps liability has been fixed by the mirror swaps.

During the first half of 2005, the company settled certain swap agreements (and related mirror swaps, as applicable), and made net payments totaling \$308 million. In accordance with GAAP, \$363 million of outflows were classified in the financing section of the statement of cash flows, and \$55 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 June 30, 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 June 30, 2005
(unaudited)

(\$ in millions)	Q2 2005	Q2 2004	% Growth @ Actual Rates	% Growth @ Constant Rates	YTD 2005	YTD 2004	% Growth @ Actual Rates	% Growth @ Constant Rates
BioScience								
United States	\$438	\$403	9%	9%	\$836	\$788	6%	6%
International	552	490	13%	6%	1,056	915	15%	9%
Total	\$990	\$893	11%	7%	\$1,892	\$1,703	11%	8%
Medication Delivery								
United States	\$619	\$589	5%	5%	\$1,171	\$1,123	4%	4%
International	464	417	11%	5%	890	809	10%	4%
Total	\$1,083	\$1,006	8%	5%	\$2,061	\$1,932	7%	4%
Renal								
United States	\$99	\$102	(3%)	(3%)	\$193	\$202	(4%)	(4%)
International	405	378	7%	1%	814	751	8%	3%
Total	\$504	\$480	5%	-%	\$1,007	\$953	6%	1%
Baxter International Inc.								
United States	\$1,156	\$1,094	6%	6%	\$2,200	\$2,113	4%	4%
International	1,421	1,285	11%	4%	2,760	2,475	12%	6%
Total	\$2,577	\$2,379	8%	5%	\$4,960	\$4,588	8%	5%

Baxter International Inc.
Key Product Line Sales
Period Ending June 30, 2005
(unaudited)

(\$ in millions)	Q2 2005	Q2 2004	% Growth @ Actual Rates	% Growth @ Constant Rates	YTD 2005	YTD 2004	% Growth @ Actual Rates	% Growth @ Constant Rates
BioScience								
Recombinants	\$397	\$320	24%	20%	\$741	\$612	21%	17%
Plasma Proteins ¹	266	267	-%	(3%)	525	505	4%	1%
Antibody Therapy	93	90	3%	1%	182	170	7%	4%
Transfusion Therapies	140	136	3%	1%	273	276	(1%)	(4%)
Other ²	94	80	18%	10%	171	140	22%	17%
Total BioScience	\$990	\$893	11%	7%	\$1,892	\$1,703	11%	8%
Medication Delivery								
IV Therapies ³	\$312	\$288	8%	4%	\$608	\$570	7%	3%
Drug Delivery	226	202	12%	11%	430	390	10%	9%
Infusion Systems	245	233	5%	3%	475	421	13%	11%
Anesthesia	282	259	9%	7%	513	501	2%	1%
Other ⁴	18	24	(25%)	(33%)	35	50	(30%)	(32%)
Total Medication Delivery⁵	\$1,083	\$1,006	8%	5%	\$2,061	\$1,932	7%	4%
Renal								
PD Therapy	\$385	\$357	8%	3%	\$759	\$702	8%	4%
HD Therapy	114	118	(3%)	(8%)	240	242	(1%)	(6%)
Other	5	5	-%	-%	8	9	(11%)	(11%)
Total Renal	\$504	\$480	5%	-%	\$1,007	\$953	6%	1%
TOTAL BAXTER	\$2,577	\$2,379	8%	5%	\$4,960	\$4,588	8%	5%

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 June 30, 2005
(unaudited)

(\$ in millions)	Q2 2005			Q2 2004			% Growth		
	US	International	Total	US	International	Total	US	International	Total
BioScience									
Recombinants	\$170	\$227	\$397	\$146	\$174	\$320	16%	30%	24%
Plasma Proteins ¹	125	141	266	121	146	267	3%	(3%)	-%
Antibody Therapy	50	43	93	53	37	90	(6%)	16%	3%
Transfusion Therapies	68	72	140	65	71	136	5%	1%	3%
Other ²	25	69	94	18	62	80	39%	11%	18%
Total BioScience	\$438	\$552	\$990	\$403	\$490	\$893	9%	13%	11%
Medication Delivery									
IV Therapies ³	\$98	\$214	\$312	\$99	\$189	\$288	(1%)	13%	8%
Drug Delivery	148	78	226	140	62	202	6%	26%	12%
Infusion Systems	163	82	245	159	74	233	3%	11%	5%
Anesthesia	204	78	282	187	72	259	9%	8%	9%
Other ⁴	6	12	18	4	20	24	50%	(40%)	(25%)
Total Medication Delivery ⁵	\$619	\$464	\$1,083	\$589	\$417	\$1,006	5%	11%	8%
Renal									
PD Therapy	\$63	\$322	\$385	\$65	\$292	\$357	(3%)	10%	8%
HD Therapy	34	80	114	32	86	118	6%	(7%)	(3%)
Other	2	3	5	5	-	5	(60%)	NM	-%
Total Renal	\$99	\$405	\$504	\$102	\$378	\$480	(3%)	7%	5%
TOTAL BAXTER	\$1,156	\$1,421	\$2,577	\$1,094	\$1,285	\$2,379	6%	11%	8%

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.