

Part II Organizational Action (continued)

17 List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ▶ Internal Revenue Code sections 355 and 368

18 Can any resulting loss be recognized? ▶ Although the distribution will qualify for nonrecognition treatment under section 355 of the Internal Revenue Code, gain or loss will be recognized by shareholders with respect to cash received in lieu of fractional shares of Baxter International Inc.

19 Provide any other information necessary to implement the adjustment, such as the reportable tax year ▶ See attached

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Sign Here
Signature ▶  Date ▶ 7/10/15
Print your name ▶ James K. Saccaro Title ▶ Chief Financial Officer

Paid Preparer Use Only	Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
	Firm's name ▶				Firm's EIN ▶
	Firm's address ▶				Phone no.

**U.S. Federal Income Tax Information Relating to
Baxter International Inc.'s Distribution of
Baxalta Incorporated Common Stock on July 1, 2015**

If you did not receive the Distribution (as defined below) of Baxalta Incorporated (“Baxalta”) common stock on July 1, 2015, you may disregard this notice. Additionally, this notice does not apply to Baxter International Inc. (“Baxter”) common shares sold, exchanged, or otherwise disposed of prior to the Distribution.

On July 1, 2015, Baxter distributed (the “Distribution”) approximately 80.5 percent of the outstanding shares of common stock of Baxalta, a Delaware corporation, to the holders of record of Baxter common stock that were issued and outstanding as of the close of business on June 17, 2015 (each a “Baxter Shareholder”). Each Baxter Shareholder who did not otherwise dispose of its Baxter common stock prior to the Distribution received one share of Baxalta common stock for every share of Baxter common stock held by such shareholder. Baxter Shareholders also received cash in lieu of any fractional share of Baxalta common stock resulting from the Distribution (except for any fractional shares associated with any Baxter dividend reinvestment account).

Baxter common shares continue to trade on the New York Stock Exchange (“NYSE”) under the ticker symbol “BAX.” Shares of Baxalta common stock now trade on the NYSE under the ticker symbol “BHLT.”

Baxter Shareholders will be required to allocate the aggregate tax basis in their Baxter common stock held immediately prior to the Distribution among the shares of Baxalta common stock received (including the fractional shares for which cash or fractional shares were received) in the Distribution and their shares of Baxter common stock. The excess of the cash received in lieu of a fraction of a share of Baxalta common stock over the basis allocable to such fractional share will be treated as capital gain from the sale of such fractional share, provided such fractional share was held by such shareholder as a capital asset. You should consult your tax advisor to determine whether a fractional share was held as a capital asset.

A Baxter Shareholder’s aggregate tax basis in his, her or its shares of Baxter common stock held prior to the Distribution should be allocated in proportion to the fair market value of the Baxalta common stock received (including any fractional share of Baxalta common stock received or for which cash was received) and the Baxter common stock in respect of which such Baxalta common stock was received. There is no direct guidance under U.S. federal income tax law as to the proper approach or method for determining the fair market value of shares of stock for purposes of such tax basis allocation. Fair market value generally is the price at which property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell and both having reasonable knowledge of the facts. You should consult your tax advisor to determine what measure of fair market value is appropriate.

One potential approach to determining the fair market value of the Baxter common stock and the Baxalta common stock is to utilize the closing price quoted on the NYSE on the day of the Distribution for both Baxter common stock, which was \$38.86 per share, and Baxalta common stock, which was \$31.50 per share. Based on such values and the distribution ratio of one share of Baxalta common stock for each share of Baxter common stock in the Distribution and as set forth below, approximately 55.2% of a Baxter Shareholder's aggregate tax basis in his or her shares of Baxter common stock prior to the Distribution should be allocated to such Baxter Shareholder's shares of Baxter common stock and approximately 44.8% should be allocated to such Baxter Shareholder's shares of Baxalta common stock (including the fractional share of Baxalta common stock for which cash was received).

The following is an **example** provided solely for illustrative purposes of how the basis allocation would be so applied:

Assumptions:

Shares of Baxter common stock owned	100
Baxter Shareholder's aggregate tax basis (@ \$50 per share) (A)	\$5,000
Shares of Baxalta common stock received in the Distribution (including the fractional share for which cash was received) (100 shares of Baxter common stock x 1:1 distribution ratio)	100

Tax Basis Allocation:

	# Shares Owned	NYSE Closing Price (7/1/2015)	Fair Market Value (7/1/2015)	Percentage of Total Fair Market Value (7/1/2015) (B)	Allocated Tax Basis = (A) x (B)
Baxter Common Stock	100	\$38.86	\$3,886	55.2%	\$2,762 (55.2% of \$5,000)
Baxalta Common Stock	100	\$31.50 ⁽¹⁾	\$3,150	44.8%	\$2,238 (44.8% of \$5,000)
Totals			\$7,036	100%	\$5,000

(1) In accordance with the Separation and Distribution Agreement between Baxter and Baxalta dated June 30, 2015, the distribution agent aggregated all fractional shares not otherwise attributable to a Baxter dividend reinvestment account into whole shares, sold the whole shares in the open market at the prevailing market price and distributed the aggregate cash proceeds of the sales pro rata (based on the fractional share such holder would otherwise be entitled to receive) to each holder who otherwise would have been entitled to receive a fractional share in the Distribution.

The information contained herein does not constitute tax advice and is not intended or written to be used, and cannot be used, for the purposes of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein. It does not purport to be complete or to describe the consequences that apply to particular categories of Baxter Shareholders (e.g., it does not address Baxter Shareholders who did not hold their shares of Baxter common stock continuously from the close of business on the record date until the time of the Distribution, who sold shares of Baxalta common stock or who acquired blocks of Baxter common stock at different times and prices). Baxter Shareholders are encouraged to consult with their tax advisors for questions on their own specific tax position.