

BAXTER INTERNATIONAL INC.
Consolidated Statements of Income
Three Months Ended December 31, 2016 and 2015
(unaudited)
(in millions, except per share and percentage data)

	Three Months Ended December 31,		Change
	2016	2015	
NET SALES	\$2,645	\$2,603	2%
COST OF SALES	1,543	1,531	1%
GROSS MARGIN	1,102	1,072	3%
<i>% of Net Sales</i>	<i>41.7%</i>	<i>41.2%</i>	<i>0.5 pts</i>
MARKETING AND ADMINISTRATIVE EXPENSES	663	733	(10%)
<i>% of Net Sales</i>	<i>25.1%</i>	<i>28.2%</i>	<i>(3.1 pts)</i>
RESEARCH AND DEVELOPMENT EXPENSES	157	161	(2%)
<i>% of Net Sales</i>	<i>5.9%</i>	<i>6.2%</i>	<i>(0.3 pts)</i>
OPERATING INCOME	282	178	58%
<i>% of Net Sales</i>	<i>10.7%</i>	<i>6.8%</i>	<i>3.9 pts</i>
NET INTEREST EXPENSE	13	32	(59%)
OTHER INCOME, NET	(10)	(59)	(83%)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	279	205	36%
INCOME TAX EXPENSE	39	22	77%
<i>% of Income from Continuing Operations before Income Taxes</i>	<i>14.0%</i>	<i>10.7%</i>	<i>3.3 pts</i>
INCOME FROM CONTINUING OPERATIONS	240	183	31%
INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX ^A	3	22	(86%)
NET INCOME	\$243	\$205	19%
INCOME FROM CONTINUING OPERATIONS PER COMMON SHARE			
Basic	\$0.44	\$0.33	33%
Diluted	\$0.44	\$0.33	33%
INCOME FROM DISCONTINUED OPERATIONS PER COMMON SHARE			
Basic	\$0.01	\$0.04	(75%)
Diluted	\$0.00	\$0.04	(100%)
NET INCOME PER COMMON SHARE			
Basic	\$0.45	\$0.37	22%
Diluted	\$0.44	\$0.37	19%
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING			
Basic	542	547	
Diluted	549	550	
ADJUSTED OPERATING INCOME (excluding special items)	\$407 ^B	\$279 ^B	46%
ADJUSTED PRE-TAX INCOME FROM CONTINUING OPERATIONS (excluding special items)	\$413 ^B	\$283 ^B	46%
ADJUSTED INCOME FROM CONTINUING OPERATIONS (excluding special items)	\$312 ^B	\$236 ^B	32%
ADJUSTED DILUTED EPS FROM CONTINUING OPERATIONS (excluding special items)	\$0.57 ^B	\$0.43 ^B	33%

^A Operating results from Baxalta Incorporated ("Baxalta") are classified as discontinued operations for all periods presented.

^B Refer to page 10 for a description of the adjustments and a reconciliation to GAAP measures.

BAXTER INTERNATIONAL INC.
Note to Consolidated Statements of Income
Three Months Ended December 31, 2016 and 2015
Description of Adjustments and Reconciliation of GAAP to Non-GAAP Measures
(unaudited)
(in millions, except per share and percentage data)

The company's GAAP results for the three months ended December 31, 2016 and 2015 included special items which impacted the GAAP measures as follows:

	Three Months Ended December 31,		Change
	2016	2015	
Gross Margin	\$1,102	\$1,072	3%
Intangible asset amortization expense ¹	39	38	
Business optimization items ²	43	10	
Baxalta separation-related costs ³	-	(1)	
Product-related items ⁴	(6)	(10)	
Adjusted Gross Margin	\$1,178	\$1,109	6%
% of Net Sales	44.5%	42.6%	1.9 pts
Marketing and Administrative Expenses	\$663	\$733	(10%)
Business optimization items ²	(36)	(39)	
Baxalta separation-related costs ³	(8)	(22)	
Adjusted Marketing and Administrative Expenses	\$619	\$672	(8%)
% of Net Sales	23.4%	25.8%	(2.4 pts)
Research and Development Expenses	\$157	\$161	(2%)
Business optimization items ²	(5)	(2)	
Baxalta separation-related costs ³	-	(1)	
Adjusted Research and Development Expenses	\$152	\$158	(4%)
% of Net Sales	5.7%	6.1%	(0.4 pts)
Operating Income	\$282	\$178	58%
Impact of special items	125	101	
Adjusted Operating Income	\$407	\$279	46%
% of Net Sales	15.4%	10.7%	4.7 pts
Other Income, Net	\$(10)	\$(59)	(83%)
Business optimization items ²	-	3	
Business development items ⁵	-	20	
Tax matter ⁶	(9)	-	
Adjusted Other Income, Net	\$(19)	\$(36)	(47%)
Pre-Tax Income from Continuing Operations	\$279	\$205	36%
Impact of special items	134	78	
Adjusted Pre-Tax Income from Continuing Operations	\$413	\$283	46%
Income Tax Expense	\$39	\$22	77%
Impact of special items ⁶	62	25	
Adjusted Income Tax Expense	\$101	\$47	115%
% of Adjusted Pre-Tax Income from Continuing Operations	24.5%	16.6%	7.9 pts
Income from Continuing Operations	\$240	\$183	31%
Impact of special items	72	53	
Adjusted Income from Continuing Operations	\$312	\$236	32%
Diluted EPS from Continuing Operations	\$0.44	\$0.33	33%
Impact of special items	0.13	0.10	
Adjusted Diluted EPS from Continuing Operations	\$0.57	\$0.43	33%
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING			
Diluted	549	550	

¹ The company's results in 2016 and 2015 included intangible asset amortization expense of \$39 million (\$25 million, or \$0.05 per diluted share, on an after-tax basis) and \$38 million (\$29 million, or \$0.06 per diluted share, on an after-tax basis), respectively.

² The company's results in 2016 included a net charge of \$84 million (\$48 million, or \$0.08 per diluted share, on an after-tax basis) related to business optimization initiatives. This included a charge of \$48 million related to restructuring activities, \$21 million of costs to implement business optimization programs which primarily included external consulting and project employee costs, \$8 million of accelerated depreciation associated with facilities to be closed and \$7 million of Gambro integration costs. The \$48 million of restructuring charges included \$36 million of employee termination costs, \$10 million of asset impairment charges primarily related to a facility closure and \$2 million of other exit costs.

The company's results in 2015 included a net charge of \$48 million (\$34 million, or \$0.06 per diluted share, on an after-tax basis) primarily related to business optimization charges. This included a net charge of \$25 million related to restructuring activities and \$23 million of Gambro integration costs. The \$25 million of net restructuring charges included net \$20 million of employee termination costs and net \$5 million of other exit costs.

³ The company's results in 2016 and 2015 included costs incurred related to the Baxalta separation totaling \$8 million (\$3 million, or \$0.01 per diluted share, on an after-tax basis) and \$22 million (\$16 million, or \$0.03 per diluted share, on an after-tax basis), respectively.

⁴ The company's results in 2016 and 2015 included a net benefit of \$6 million (\$4 million, or \$0.01 per diluted share, on an after-tax basis) and \$10 million (\$15 million, or \$0.03 per diluted share, on an after-tax basis), respectively, primarily related to adjustments to the COLLEAGUE and SIGMA SPECTRUM infusion pump reserves.

⁵ The company's results in 2015 included a benefit of \$20 million (\$18 million or \$0.03 per diluted share on an after-tax basis) relating to the reversal of contingent consideration milestone liabilities.

⁶ The company's results in 2016 included a net benefit to income tax of \$9 million offset by \$9 million recorded in other income due to the settlement of an income tax matter related to the company's non-controlling interest in a joint venture in Turkey.

For more information on the company's use of non-GAAP financial measures in this press release, please see the company's Current Report on Form 8-K filed with the Securities and Exchange Commission on the date of this press release.

BAXTER INTERNATIONAL INC.
Consolidated Statements of Income
Twelve Months Ended December 31, 2016 and 2015
(unaudited)
(in millions, except per share and percentage data)

	Twelve Months Ended December 31,		Change
	2016	2015	
NET SALES	\$10,163	\$9,968	2%
COST OF SALES	6,053	5,822	4%
GROSS MARGIN	4,110	4,146	(1%)
<i>% of Net Sales</i>	<i>40.4%</i>	<i>41.6%</i>	<i>(1.2 pts)</i>
MARKETING AND ADMINISTRATIVE EXPENSES	2,739	3,094	(11%)
<i>% of Net Sales</i>	<i>27.0%</i>	<i>31.0%</i>	<i>(4 pts)</i>
RESEARCH AND DEVELOPMENT EXPENSES	647	603	7%
<i>% of Net Sales</i>	<i>6.4%</i>	<i>6.0%</i>	<i>0.4 pts</i>
OPERATING INCOME	724	449	61%
<i>% of Net Sales</i>	<i>7.1%</i>	<i>4.5%</i>	<i>2.6 pts</i>
NET INTEREST EXPENSE	66	126	(48%)
OTHER INCOME, NET ^A	(4,296)	(105)	NM
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	4,954	428	NM
INCOME TAX (BENEFIT) EXPENSE	(12)	35	NM
<i>% of Income from Continuing Operations before Income Taxes</i>	<i>-0.2%</i>	<i>8.2%</i>	<i>(8.4 pts)</i>
INCOME FROM CONTINUING OPERATIONS	4,966	393	NM
(LOSS) INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX ^B	(1)	575	NM
NET INCOME	\$4,965	\$968	NM
INCOME FROM CONTINUING OPERATIONS PER COMMON SHARE			
Basic	\$9.10	\$0.72	NM
Diluted	\$9.01	\$0.72	NM
(LOSS) INCOME FROM DISCONTINUED OPERATIONS PER COMMON SHARE			
Basic	(\$0.01)	\$1.06	(101%)
Diluted	\$0.00	\$1.04	(100%)
NET INCOME PER COMMON SHARE			
Basic	\$9.09	\$1.78	NM
Diluted	\$9.01	\$1.76	NM
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING			
Basic	546	545	
Diluted	551	549	
ADJUSTED OPERATING INCOME (excluding special items)	\$1,383 ^C	\$893 ^C	55%
ADJUSTED PRE-TAX INCOME FROM CONTINUING OPERATIONS (excluding special items)	\$1,380 ^C	\$927 ^C	49%
ADJUSTED INCOME FROM CONTINUING OPERATIONS (excluding special items)	\$1,078 ^C	\$755 ^C	43%
ADJUSTED DILUTED EPS FROM CONTINUING OPERATIONS (excluding special items)	\$1.96 ^C	\$1.38 ^C	42%

^A Other Income, net for the period ended December 31, 2016 includes \$4.4 billion net realized gains on the Baxalta retained shares transactions and a \$149 million net debt extinguishment loss.

^B Operating results from Baxalta are classified as discontinued operations for all periods presented.

^C Refer to page 12 for a description of the adjustments and a reconciliation to GAAP measures.

NM - Not Meaningful

BAXTER INTERNATIONAL INC.
Note to Consolidated Statements of Income
Twelve Months Ended December 31, 2016 and 2015
Description of Adjustments and Reconciliation of GAAP to Non-GAAP Measures
(unaudited)
(in millions, except per share and percentage data)

The company's GAAP results for the twelve months ended December 31, 2016 and 2015 included special items which impacted the GAAP measures as follows:

	Twelve Months Ended December 31,		Change
	2016	2015	
Gross Margin	\$4,110	\$4,146	(1)%
Intangible asset amortization expense ¹	163	158	
Business optimization items ²	156	38	
Intangible asset impairment ³	51	-	
Baxalta separation-related costs ⁴	1	-	
Product-related items ⁵	(18)	(28)	
Adjusted Gross Margin	\$4,463	\$4,314	3%
% of Net Sales	43.9%	43.3%	0.6 pts
Marketing and Administrative Expenses	\$2,739	\$3,094	(11)%
Business optimization items ²	(173)	(152)	
Baxalta separation-related costs ⁴	(53)	(110)	
Adjusted Marketing and Administrative Expenses	\$2,513	\$2,832	(11)%
% of Net Sales	24.7%	28.4%	(3.7 pts)
Research and Development Expenses	\$647	\$603	7%
Business optimization items ²	(80)	(13)	
Baxalta separation-related costs ⁴	-	(1)	
Adjusted Research and Development Expenses	\$567	\$589	(4)%
% of Net Sales	5.6%	5.9%	(0.3 pts)
Operating Income	\$724	\$449	61%
Impact of special items	659	444	
Adjusted Operating Income	\$1,383	\$893	55%
% of Net Sales	13.6%	9.0%	4.6 pts
Other Income, Net	\$(4,296)	\$(105)	NM
Business optimization items ²	-	3	
Net realized gains on Retained Shares transactions ⁶	4,391	-	
Loss on debt extinguishment ⁷	(149)	(130)	
Reserve items and adjustments ⁸	-	52	
Business development items ⁹	-	20	
Tax matter ¹⁰	(9)	-	
Adjusted Other Income, Net	\$(63)	\$(160)	(61)%
Pre-Tax Income from Continuing Operations	\$4,954	\$428	NM
Impact of special items	(3,574)	499	
Adjusted Pre-Tax Income from Continuing Operations	\$1,380	\$927	49%
Income Tax (Benefit) Expense	\$(12)	\$35	(134)%
Impact of special items ¹⁰	314	137	
Adjusted Income Tax Expense	\$302	\$172	76%
% of Adjusted Pre-Tax Income from Continuing Operations	21.9%	18.6%	3.3 pts
Income from Continuing Operations	\$4,966	\$393	NM
Impact of special items	(3,888)	362	
Adjusted Income from Continuing Operations	\$1,078	\$755	43%
Diluted EPS from Continuing Operations	\$9.01	\$0.72	NM
Impact of special items	(7.05)	0.66	
Adjusted Diluted EPS from Continuing Operations	\$1.96	\$1.38	42%
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING			
Diluted	551	549	

¹ The company's results in 2016 and 2015 included intangible asset amortization expense of \$163 million (\$116 million, or \$0.21 per diluted share, on an after-tax basis) and \$158 million (\$126 million, or \$0.23 per diluted share, on an after-tax basis), respectively.

² The company's results in 2016 included a net charge of \$409 million (\$290 million, or \$0.53 per diluted share, on an after-tax basis) related to business optimization initiatives. This included a net charge of \$285 million related to restructuring activities, \$65 million of costs to implement business optimization programs which primarily included external consulting and project employee costs, \$33 million of accelerated depreciation associated with facilities to be closed, and \$26 million of Gambro integration costs. The \$285 million of net restructuring charges included net \$180 million of employee termination costs, \$54 million of costs related to the discontinuance of the VIVIA home hemodialysis development program, \$47 million of asset impairment charges related to acquired in-process R&D and facility closure costs, and net \$4 million of other exit costs.

The company's results in 2015 included a net charge of \$200 million (\$141 million, or \$0.26 per diluted share, on an after-tax basis) primarily related to business optimization charges. This included a net charge of \$127 million related to restructuring activities and \$73 million of Gambro integration costs. The \$127 million of net restructuring charges included net \$91 million of employee termination costs, a \$20 million intangible asset impairment, and \$16 million of asset and other exit costs.

³ The company's results in 2016 included a \$51 million (\$37 million, or \$0.07 per diluted share, on an after-tax basis) impairment primarily related to developed technology.

⁴ The company's results in 2016 and 2015 included costs incurred related to the Baxalta separation of \$54 million (\$37 million, or \$0.07 per diluted share, on an after-tax basis) and \$111 million (\$83 million, or \$0.15 per diluted share, on an after-tax basis), respectively.

⁵ The company's results in 2016 and 2015 included a net benefit of \$18 million (\$13 million, or \$0.02 per diluted share, on an after-tax basis) and \$28 million (\$26 million, or \$0.05 per diluted share, on an after-tax basis), respectively, primarily related to adjustments to the COLLEAGUE and SIGMA SPECTRUM infusion pump reserves.

⁶ The company's results in 2016 included net realized gains of \$4.4 billion (\$4.4 billion, or \$8.07 per diluted share, on an after-tax basis), related to the debt-for-equity exchanges of the company's retained shares in Baxalta for certain company indebtedness, the exchange of retained shares in Baxalta for Baxter shares and the contribution of retained shares in Baxalta to Baxter's U.S. pension fund. A tax benefit of \$54 million was recognized as a result of these transactions.

⁷ The company's results in 2016 included a net debt extinguishment loss totaling \$149 million (\$100 million, or \$0.18 per diluted share, on an after-tax basis) related to the March 2016 debt-for-equity exchange for certain company indebtedness and certain debt redemptions. The company's results in 2015 included a loss of \$130 million (\$82 million, or \$0.15 per diluted share, on an after-tax basis) related to the July 2015 debt tender offers for certain company indebtedness.

⁸ The company's results in 2015 included income, net of expenses, of \$52 million (\$33 million, or \$0.06 per diluted share, on an after-tax basis) related to a litigation settlement in which Baxter was the beneficiary.

⁹ The company's results in 2015 included a benefit of \$20 million (\$18 million or \$0.03 per diluted share on an after-tax basis) relating to the reversal of contingent consideration milestone liabilities.

¹⁰ The company's results in 2016 included a net after-tax benefit of \$10 million, or \$0.02 per diluted share, related to the settlement of an income tax matter in the company's non-wholly owned joint venture in Turkey. This amount was comprised of \$19 million included in income tax expense offset by \$9 million in non-controlling interest recorded in other income.

For more information on the company's use of non-GAAP financial measures in this press release, please see the company's Current Report on Form 8-K filed with the Securities and Exchange Commission on the date of this press release.

NM - Not Meaningful

BAXTER INTERNATIONAL INC.
Net Sales
Periods Ending December 31, 2016 and 2015
(unaudited)
(\$ in millions)

	Q4 2016	Q4 2015	% Growth @ Actual Rates	% Growth @ Constant Rates	YTD 2016	YTD 2015	% Growth @ Actual Rates	% Growth @ Constant Rates
Renal								
United States	\$222	\$207	7%	7%	\$846	\$782	8%	8%
International	793	777	2%	4%	3,009	3,007	0%	4%
Total Renal	\$1,015	\$984	3%	5%	\$3,855	\$3,789	2%	5%
Hospital Products								
United States	\$895	\$856	5%	5%	\$3,413	\$3,219	6%	6%
International	735	763	(4%)	(2%)	2,895	2,960	(2%)	1%
Total Hospital Products	\$1,630	\$1,619	1%	1%	\$6,308	\$6,179	2%	4%
Baxter International Inc.								
United States	\$1,117	\$1,063	5%	5%	\$4,259	\$4,001	6%	6%
International	1,528	1,540	(1%)	1%	5,904	5,967	(1%)	3%
Total Baxter	\$2,645	\$2,603	2%	2%	\$10,163	\$9,968	2%	4%

BAXTER INTERNATIONAL INC.
Sales by Franchise
Periods Ending December 31, 2016 and 2015
(unaudited)
(\$ in millions)

	Q4 2016	Q4 2015	% Growth @ Actual Rates	% Growth @ Constant Rates	YTD 2016	YTD 2015	% Growth @ Actual Rates	% Growth @ Constant Rates
Total Renal ¹	\$1,015	\$984	3%	5%	\$3,855	\$3,789	2%	5%
Hospital Products								
Fluid Systems ²	\$614	\$569	8%	8%	\$2,300	\$2,106	9%	11%
Integrated Pharmacy Solutions ³	563	595	(5%)	(4%)	2,245	2,297	(2%)	0%
Surgical Care ⁴	349	346	1%	1%	1,321	1,323	0%	1%
Other ⁵	104	109	(5%)	(6%)	442	453	(2%)	(2%)
Total Hospital Products	\$1,630	\$1,619	1%	1%	\$6,308	\$6,179	2%	4%
Total Baxter	\$2,645	\$2,603	2%	2%	\$10,163	\$9,968	2%	4%

¹ Includes sales of the company's peritoneal dialysis, hemodialysis and continuous renal replacement therapies.

² Includes sales of the company's IV therapies, infusion pumps and administration sets.

³ Includes sales of the company's premixed and oncology drug platforms, nutrition products and pharmacy compounding services.

⁴ Includes sales of the company's inhaled anesthesia products as well as biological products and medical devices used in surgical procedures for hemostasis, tissue sealing and adhesion prevention.

⁵ Includes sales primarily from the company's pharmaceutical partnering business.

BAXTER INTERNATIONAL INC.
Franchise Sales by U.S. and International
Three-Month Periods Ending December 31, 2016 and 2015
(unaudited)
(\$ in millions)

	Q4 2016			Q4 2015			% Growth		
	U.S.	International	Total	U.S.	International	Total	U.S.	International	Total
Total Renal	\$222	\$793	\$1,015	\$207	\$777	\$984	7%	2%	3%
Hospital Products									
Fluid Systems	\$353	\$261	\$614	\$296	\$273	\$569	19%	(4%)	8%
Integrated Pharmacy Solutions	264	299	563	286	309	595	(8%)	(3%)	(5%)
Surgical Care	206	143	349	202	144	346	2%	(1%)	1%
Other	72	32	104	72	37	109	0%	(14%)	(5%)
Total Hospital Products	\$895	\$735	\$1,630	\$856	\$763	\$1,619	5%	(4%)	1%
Total Baxter	\$1,117	\$1,528	\$2,645	\$1,063	\$1,540	\$2,603	5%	(1%)	2%

BAXTER INTERNATIONAL INC.
Franchise Sales by U.S. and International
Periods Ending December 31, 2016 and 2015
(unaudited)
(\$ in millions)

	YTD 2016			YTD 2015			% Growth		
	U.S.	International	Total	U.S.	International	Total	U.S.	International	Total
Total Renal	\$846	\$3,009	\$3,855	\$782	\$3,007	\$3,789	8%	0%	2%
Hospital Products									
Fluid Systems	\$1,307	\$993	\$2,300	\$1,041	\$1,065	\$2,106	26%	(7%)	9%
Integrated Pharmacy Solutions	1,048	1,197	2,245	1,104	1,193	2,297	(5%)	0%	(2%)
Surgical Care	775	546	1,321	771	552	1,323	1%	(1%)	0%
Other	283	159	442	303	150	453	(7%)	6%	(2%)
Total Hospital Products	\$3,413	\$2,895	\$6,308	\$3,219	\$2,960	\$6,179	6%	(2%)	2%
Total Baxter	\$4,259	\$5,904	\$10,163	\$4,001	\$5,967	\$9,968	6%	(1%)	2%

BAXTER INTERNATIONAL INC.
Free Cash Flow Reconciliation
(unaudited)
(\$ in millions)

	Twelve Months Ended December 31,	
	2016	2015
Cash flows from operations - continuing operations	\$1,624	\$1,253
Capital expenditures	(719)	(911)
Free cash flow - continuing operations	\$905	\$342