

BAXTER INTERNATIONAL INC.
Consolidated Statements of Income
Three Months Ended June 30, 2018 and 2017
(unaudited)
(in millions, except per share and percentage data)

	Three Months Ended June 30,		Change
	2018	2017	
NET SALES	\$2,842	\$2,605	9%
COST OF SALES	1,603	1,473	9%
GROSS MARGIN	1,239	1,132	9%
<i>% of Net Sales</i>	43.6%	43.5%	0.1 pts
MARKETING AND ADMINISTRATIVE EXPENSES	681	630	8%
<i>% of Net Sales</i>	24.0%	24.2%	(0.2 pts)
RESEARCH AND DEVELOPMENT EXPENSES	174	155	12%
<i>% of Net Sales</i>	6.1%	6.0%	0.1 pts
OPERATING INCOME	384	347	11%
<i>% of Net Sales</i>	13.5%	13.3%	0.2 pts
NET INTEREST EXPENSE	11	13	(15%)
OTHER (INCOME) EXPENSE, NET	(31)	28	NM
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	404	306	32%
INCOME TAX EXPENSE	61	42	45%
<i>% of Income from Continuing Operations before Income Taxes</i>	15.1%	13.7%	1.4 pts
INCOME FROM CONTINUING OPERATIONS	343	264	30%
INCOME FROM DISCONTINUED OPERATIONS, NET OF TAX	-	1	NM
NET INCOME	\$343	\$265	29%
INCOME FROM CONTINUING OPERATIONS PER COMMON SHARE			
Basic	\$0.64	\$0.49	31%
Diluted	\$0.63	\$0.48	31%
INCOME FROM DISCONTINUED OPERATIONS PER COMMON SHARE			
Basic	\$0.00	\$0.00	NM
Diluted	\$0.00	\$0.00	NM
NET INCOME PER COMMON SHARE			
Basic	\$0.64	\$0.49	31%
Diluted	\$0.63	\$0.48	31%
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING			
Basic	535	544	
Diluted	547	555	
ADJUSTED OPERATING INCOME (excluding special items)	\$487 ^A	\$427 ^A	14%
ADJUSTED PRE-TAX INCOME FROM CONTINUING OPERATIONS (excluding special items)	\$507 ^A	\$419 ^A	21%
ADJUSTED INCOME FROM CONTINUING OPERATIONS (excluding special items)	\$421 ^A	\$348 ^A	21%
ADJUSTED DILUTED EPS FROM CONTINUING OPERATIONS (excluding special items)	\$0.77 ^A	\$0.63 ^A	22%

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

NM - Not Meaningful

BAXTER INTERNATIONAL INC.
Note to Consolidated Statements of Income
Three Months Ended June 30, 2018 and 2017
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 June 30, 2018 and 2017 included special items which impacted the GAAP measures as follows:

	Three Months Ended June		Change
	2018	2017	
Gross Margin	\$1,239	\$1,132	9%
Intangible asset amortization expense ¹	44	36	
Business optimization items ²	3	14	
Acquisition and integration expenses ³	6	-	
Product-related items ⁴	-	(4)	
Separation-related costs ⁵	-	1	
Adjusted Gross Margin	\$1,292	\$1,179	10%
% of Net Sales	45.5%	45.3%	0.2 pts
Marketing and Administrative Expenses	\$681	\$630	8%
Business optimization items ²	(34)	(20)	
Separation-related costs ⁵	-	(7)	
Acquisition and integration expenses ³	(6)	(5)	
Adjusted Marketing and Administrative Expenses	\$641	\$598	7%
% of Net Sales	22.6%	23.0%	(0.4 pts)
Research and Development Expenses	\$174	\$155	12%
Business optimization items ²	(10)	(1)	
Adjusted Research and Development Expenses	\$164	\$154	6%
% of Net Sales	5.8%	5.9%	(0.1 pts)
Operating Income	\$384	\$347	11%
Impact of special items	103	80	
Adjusted Operating Income	\$487	\$427	14%
% of Net Sales	17.1%	16.4%	0.7 pts
Other (Income) Expense, Net	\$(31)	\$28	NM
Venezuela deconsolidation ⁶	-	(33)	
Adjusted Other Income, Net	\$(31)	\$(5)	NM
Pre-Tax Income from Continuing Operations	\$404	\$306	32%
Impact of special items	103	113	
Adjusted Pre-Tax Income from Continuing Operations	\$507	\$419	21%
Income Tax Expense	\$61	\$42	45%
Impact of special items ⁷	25	29	
Adjusted Income Tax Expense	\$86	\$71	21%
% of Adjusted Pre-Tax Income from Continuing Operations	17.0%	16.9%	0.1 pts
Income from Continuing Operations	\$343	\$264	30%
Impact of special items	78	84	
Adjusted Income from Continuing Operations	\$421	\$348	21%
Diluted EPS from Continuing Operations	\$0.63	\$0.48	31%
Impact of special items	0.14	0.15	
Adjusted Diluted EPS from Continuing Operations	\$0.77	\$0.63	22%
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING			
Diluted	547	555	

¹ The company's results in 2018 and 2017 included intangible asset amortization expense of \$44 million (\$34 million, or \$0.06 per diluted share, on an after-tax basis) and \$36 million (\$27 million, or \$0.05 per diluted share, on an after-tax basis), respectively.

² The company's results in 2018 included a charge of \$47 million (\$34 million, or \$0.06 per diluted share, on an after-tax basis) related to business optimization initiatives. This included a charge of \$21 million related to restructuring activities, \$25 million of costs to implement business optimization programs which primarily included external consulting and project employee costs, and \$1 million of accelerated depreciation associated with facilities to be closed. The \$21 million of net restructuring charges included \$18 million of employee termination costs and \$3 million of other charges.

The company's results in 2017 included a charge of \$35 million (\$26 million, or \$0.05 per diluted share, on an after-tax basis) related to business optimization initiatives. This included a net charge of \$16 million related to restructuring activities, \$16 million of costs to implement business optimization programs which primarily included external consulting and project employee costs, and \$3 million of accelerated depreciation associated with facilities to be closed. The \$16 million of net restructuring charges included net \$7 million of employee termination costs, \$4 million related to contract termination costs, and \$5 million of asset impairment charges primarily related to facility closures.

³ The company's results in 2018 include acquisition and integration costs related to the company's acquisitions of Claris Injectables Limited and the RECOTHROM and PREVELEAK products of \$12 million (\$10 million, or \$0.02 per diluted share, on an after-tax basis).

The company's results in 2017 included acquisition and integration costs of \$5 million (\$4 million, or \$0.01 per diluted share, on an after-tax basis) related to the company's acquisition of Claris Injectables Limited.

⁴ The company's results in 2017 included a benefit of \$4 million (\$3 million, or \$0.01 per diluted share, on an after-tax basis) related to an adjustment to historical product reserves.

⁵ The company's results in 2017 included costs incurred related to the Baxalta separation totaling \$8 million (\$6 million, or \$0.01 per diluted share, on an after-tax basis).

⁶ The company's results in 2017 included a charge of \$33 million (\$24 million, or \$0.04 per diluted share, on an after-tax basis) related to the deconsolidation of its Venezuelan operations.

⁷ Reflected in this item is the tax impact of the special items identified in this table. The tax effect of each adjustment is based on the jurisdiction in which the adjustment is incurred and the tax laws in effect for each such jurisdiction.

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.
Consolidated Statements of Income
Six Months Ended June 30, 2018 and 2017
(unaudited)
(in millions, except per share and percentage data)

	Six Months Ended June 30,		Change
	2018	2017	
NET SALES	\$5,519	\$5,080	9%
COST OF SALES	3,166	2,904	9%
GROSS MARGIN	2,353	2,176	8%
<i>% of Net Sales</i>	42.6%	42.8%	(0.2 pts)
MARKETING AND ADMINISTRATIVE EXPENSES	1,303	1,194	9%
<i>% of Net Sales</i>	23.6%	23.5%	0.1 pts
RESEARCH AND DEVELOPMENT EXPENSES	314	282	11%
<i>% of Net Sales</i>	5.7%	5.6%	0.1 pts
CLARIS SETTLEMENT	(80)	-	NM
OPERATING INCOME	816	700	17%
<i>% of Net Sales</i>	14.8%	13.8%	1 pts
NET INTEREST EXPENSE	23	27	(15%)
OTHER (INCOME) EXPENSE, NET	(49)	39	NM
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	842	634	33%
INCOME TAX EXPENSE	110	97	13%
<i>% of Income from Continuing Operations before Income Taxes</i>	13.1%	15.3%	(2.2 pts)
INCOME FROM CONTINUING OPERATIONS	732	537	36%
NET INCOME	\$732	\$537	36%
INCOME FROM CONTINUING OPERATIONS PER COMMON SHARE			
Basic	\$1.36	\$0.99	37%
Diluted	\$1.33	\$0.97	37%
NET INCOME PER COMMON SHARE			
Basic	\$1.36	\$0.99	37%
Diluted	\$1.33	\$0.97	37%
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING			
Basic	537	542	
Diluted	549	553	
ADJUSTED OPERATING INCOME (excluding special items)	\$935 ^A	\$842 ^A	11%
ADJUSTED PRE-TAX INCOME FROM CONTINUING OPERATIONS (excluding special items)	\$961 ^A	\$809 ^A	19%
ADJUSTED INCOME FROM CONTINUING OPERATIONS (excluding special items)	\$809 ^A	\$666 ^A	21%
ADJUSTED DILUTED EPS FROM CONTINUING OPERATIONS (excluding special items)	\$1.47 ^A	\$1.20 ^A	23%

^A Refer to page 9 for a description of the adjustments and a reconciliation to GAAP measures.

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BAXTER INTERNATIONAL INC.
Note to Consolidated Statements of Income
Six Months Ended June 30, 2018 and 2017
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 six months ended June 30, 2018 and 2017 included special items which impacted the GAAP measures as follows:

	Six Months Ended June		Change
	2018	2017	
Gross Margin	\$2,353	\$2,176	8%
Intangible asset amortization expense ¹	85	74	
Business optimization items ²	9	30	
Acquisition and integration expenses ³	9	-	
Litigation ⁴	8	-	
Product-related items ⁵	-	(4)	
Separation-related costs ⁶	-	1	
Adjusted Gross Margin	\$2,464	\$2,277	8%
% of Net Sales	44.6%	44.8%	(0.2 pts)
Marketing and Administrative Expenses	\$1,303	\$1,194	9%
Business optimization items ²	(63)	(35)	
Separation-related costs ⁶	-	(14)	
Acquisition and integration expenses ³	(10)	(5)	
Historical rebate and discount adjustments ⁷	-	12	
Litigation ⁴	(2)	-	
Adjusted Marketing and Administrative Expenses	\$1,228	\$1,152	7%
% of Net Sales	22.3%	22.7%	(0.4 pts)
Research and Development Expenses	\$314	\$282	11%
Business optimization items ²	(13)	1	
Adjusted Research and Development Expenses	\$301	\$283	6%
% of Net Sales	5.5%	5.6%	(0.1 pts)
Claris Settlement	\$(80)	\$-	NM
Claris settlement ⁸	80	-	
Adjusted Claris Settlement	\$0	\$0	0%
% of Net Sales	0.0%	0.0%	0 pts
Operating Income	\$816	\$700	17%
Impact of special items	119	142	
Adjusted Operating Income	\$935	\$842	11%
% of Net Sales	16.9%	16.6%	0.3 pts
Other (Income) Expense, Net	\$(49)	\$39	NM
Venezuelan deconsolidation ⁹	-	(33)	
Adjusted Other (Income) Expense, Net	\$(49)	\$6	NM
Pre-Tax Income from Continuing Operations	\$842	\$634	33%
Impact of special items	119	175	
Adjusted Pre-Tax Income from Continuing Operations	\$961	\$809	19%
Income Tax Expense	\$110	\$97	13%
Impact of special items ¹⁰	42	46	
Adjusted Income Tax Expense	\$152	\$143	6%
% of Adjusted Pre-Tax Income from Continuing Operations	15.8%	17.7%	(1.9 pts)
Income from Continuing Operations	\$732	\$537	36%
Impact of special items	77	129	
Adjusted Income from Continuing Operations	\$809	\$666	21%
Diluted EPS from Continuing Operations	\$1.33	\$0.97	37%
Impact of special items	0.14	0.23	
Adjusted Diluted EPS from Continuing Operations	\$1.47	\$1.20	23%
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING			
Diluted	549	553	

¹ The company's results in 2018 and 2017 included intangible asset amortization expense of \$85 million (\$70 million, or \$0.13 per diluted share, on an after-tax basis) and \$74 million (\$55 million, or \$0.10 per diluted share, on an after-tax basis), respectively.

² The company's results in 2018 included a net charge of \$85 million (\$68 million, or \$0.12 per diluted share, on an after-tax basis) related to business optimization initiatives. This included a net charge of \$33 million related to restructuring activities, \$50 million of costs to implement business optimization programs which primarily included external consulting and project employee costs, and \$2 million of accelerated depreciation associated with facilities to be closed. The \$33 million of net restructuring charges included \$28 million of employee termination costs, \$3 million of asset impairment charges primarily related to facility closures, and \$2 million of other charges.

The company's results in 2017 included a net charge of \$64 million (\$47 million, or \$0.08 per diluted share, on an after-tax basis) related to business optimization initiatives. This included a net charge of \$19 million related to restructuring activities, \$37 million of costs to implement business optimization programs which primarily included external consulting and project employee costs, and \$8 million of accelerated depreciation associated with facilities to be closed. The \$19 million of net restructuring charges included \$9 million of employee termination costs, \$5 million of contract termination costs, and \$5 million of asset impairment charges primarily related to facility closures.

³ The company's results in 2018 include acquisition and integration costs related to the company's acquisitions of Claris Injectables Limited and the RECOTHROM and PREVELEAK products of \$19 million (\$16 million, or \$0.02 per diluted share, on an after-tax basis).

The company's results in 2017 included acquisition and integration costs of \$5 million (\$4 million, or \$0.01 per diluted share, on an after-tax basis) related to the company's acquisition of Claris Injectables Limited.

⁴ The company's results in 2018 included charges of \$10 million (\$9 million, or \$0.02 per diluted share, on an after-tax basis) related to certain product litigation.

⁵ The company's results in 2017 include a benefit of \$4 million (\$3 million, or \$0.01 per diluted share, on an after-tax basis) related to an adjustment to historical product reserves.

⁶ The company's results in 2017 included costs incurred related to the Baxalta separation totaling \$15 million (\$11 million, or \$0.02 per diluted share, on an after-tax basis).

⁷ The company's results in 2017 include a benefit of \$12 million (\$9 million, or \$0.02 per diluted share, on an after-tax basis) related to an adjustment to the company's historical rebates and discount reserves.

⁸ The company's results in 2018 included a benefit of \$80 million (\$78 million, or \$0.14 per diluted share, on an after-tax basis) for the settlement of certain claims related to the acquired operations of Claris Injectables Limited.

⁹ The company's results in 2017 included a charge of \$33 million (\$24 million, or \$0.05 per diluted share, on an after-tax basis) related to the deconsolidation of its Venezuelan operations.

¹⁰ Reflected in this item is the tax impact of the special items identified in this table as well as a benefit of \$8 million, or \$0.01 per diluted share, from the first quarter of 2018, related to an update to the estimated impact of U.S. federal tax reform previously made by the company. The tax effect of each adjustment is based on the jurisdiction in which the adjustment is incurred and the tax laws in effect for each such jurisdiction.

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.
Sales by Operating Segment
Periods Ending June 30, 2018 and 2017
(unaudited)
(\$ in millions)

	Q2 2018	Q2 2017	% Growth @ Actual Rates	% Growth @ Constant Rates	YTD 2018	YTD 2017	% Growth @ Actual Rates	% Growth @ Constant Rates
Americas	\$1,525	\$1,433	6%	6%	\$2,967	\$2,806	6%	5%
EMEA	758	666	14%	3%	1,482	1,297	14%	3%
APAC	559	506	10%	6%	1,070	977	10%	4%
Total Baxter	\$2,842	\$2,605	9%	5%	\$5,519	\$5,080	9%	5%

BAXTER INTERNATIONAL INC.
Sales by GBU
Periods Ending June 30, 2018 and 2017
(unaudited)
(\$ in millions)

	Q2 2018	Q2 2017	% Growth @ Actual Rates	% Growth @ Constant Rates	YTD 2018	YTD 2017	% Growth @ Actual Rates	% Growth @ Constant Rates
Renal Care ¹	\$931	\$854	9%	4%	\$1,799	\$1,643	9%	4%
Medication Delivery ²	681	683	0%	(2%)	1,357	1,347	1%	(1%)
Pharmaceuticals ³	537	450	19%	16%	1,033	877	18%	14%
Clinical Nutrition ⁴	221	216	2%	(3%)	444	428	4%	(2%)
Advanced Surgery ⁵	204	178	15%	12%	386	346	12%	8%
Acute Therapies ⁶	129	112	15%	10%	258	218	18%	12%
Other ⁷	139	112	24%	20%	242	221	10%	4%
Total Baxter	\$2,842	\$2,605	9%	5%	\$5,519	\$5,080	9%	5%

¹ Includes sales of the company's peritoneal dialysis (PD) and hemodialysis (HD) and additional dialysis therapies and services.

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

³ Includes sales of the company's premixed and oncology drug platforms, inhaled anesthesia and critical care products and pharmacy compounding services.

⁴ Includes sales of the company's parenteral nutrition (PN) therapies.

⁵ Includes sales of the company's biological products and medical devices used in surgical procedures for hemostasis, tissue sealing and adhesion prevention.

⁶ Includes sales of the company's continuous renal replacement therapies (CRRT) and other organ support therapies focused in the ICU.

⁷ Includes sales primarily from the company's pharmaceutical partnering business.

BAXTER INTERNATIONAL INC.
GBU Sales by U.S. and International
Periods Ending June 30, 2018 and 2017
(unaudited)
(\$ in millions)

	Q2 2018			Q2 2017			% Growth		
	U.S.	International	Total	U.S.	International	Total	U.S.	International	Total
Renal Care	\$204	\$727	\$931	\$190	\$664	\$854	7%	9%	9%
Medication Delivery	426	255	681	431	252	683	(1%)	1%	0%
Pharmaceuticals	262	275	537	216	234	450	21%	18%	19%
Clinical Nutrition	80	141	221	96	120	216	(17%)	18%	2%
Advanced Surgery	118	86	204	101	77	178	17%	12%	15%
Acute Therapies	42	87	129	35	77	112	20%	13%	15%
Other	78	61	139	62	50	112	26%	22%	24%
Total Baxter	\$1,210	\$1,632	\$2,842	\$1,131	\$1,474	\$2,605	7%	11%	9%

BAXTER INTERNATIONAL INC.
GBU Sales by U.S. and International
Periods Ending June 30, 2018 and 2017
(unaudited)
(\$ in millions)

	YTD 2018			YTD 2017			% Growth		
	U.S.	International	Total	U.S.	International	Total	U.S.	International	Total
Renal Care	\$400	\$1,399	\$1,799	\$369	\$1,274	\$1,643	8%	10%	9%
Medication Delivery	862	495	1,357	860	487	1,347	0%	2%	1%
Pharmaceuticals	505	528	1,033	429	448	877	18%	18%	18%
Clinical Nutrition	163	281	444	184	244	428	(11%)	15%	4%
Advanced Surgery	217	169	386	198	148	346	10%	14%	12%
Acute Therapies	88	170	258	72	146	218	22%	16%	18%
Other	122	120	242	122	99	221	0%	21%	10%
Total Baxter	\$2,357	\$3,162	\$5,519	\$2,234	\$2,846	\$5,080	6%	11%	9%

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

	Six Months Ended	
	June 30,	
	2018	2017
Cash flows from operations - continuing operations	\$852	\$767
Capital expenditures	(311)	(279)
Free cash flow - continuing operations	\$541	\$488

BAXTER INTERNATIONAL INC.
Reconciliation of Non-GAAP Financial Measure
Change in Net Sales As Reported to Operational Sales
From The Three Months Ended June 30, 2017 to The Three Months Ended June 30, 2018
(unaudited)

	Q2 2018 QTD*					Operational Sales
	Net sales As Reported	US Cyclophosphamide	Acquisitions	FX		
Renal Care	9%	0%	0%	(5%)		4%
Medication Delivery	0%	0%	0%	(2%)		(2%)
Pharmaceuticals	19%	3%	(8%)	(3%)		11%
Clinical Nutrition	2%	0%	0%	(5%)		(3%)
Advanced Surgery	15%	0%	(10%)	(3%)		2%
Acute Therapies	15%	0%	0%	(5%)		10%
Other	24%	0%	0%	(4%)		20%
Total Baxter	9%	0%	(2%)	(4%)		4%
U.S.	7%	1%	(4%)	0%		4%
International	11%	0%	(1%)	(7%)		3%

*Totals may not foot due to rounding

BAXTER INTERNATIONAL INC.
Reconciliation of Non-GAAP Financial Measure
Change in Net Sales As Reported to Operational Sales
From The Six Months Ended June 30, 2017 to The Six Months Ended June 30, 2018
(unaudited)

	Q2 2018 YTD*					Operational Sales
	Net sales As Reported	US Cyclophosphamide	Acquisitions	FX		
Renal Care	9%	0%	0%	(5%)		4%
Medication Delivery	1%	0%	0%	(2%)		(1%)
Pharmaceuticals	18%	2%	(8%)	(4%)		8%
Clinical Nutrition	4%	0%	0%	(6%)		(2%)
Advanced Surgery	12%	0%	(5%)	(4%)		3%
Acute Therapies	18%	0%	0%	(6%)		12%
Other	10%	0%	0%	(6%)		4%
Total Baxter	9%	0%	(2%)	(4%)		3%
U.S.	6%	0%	(3%)	0%		3%
International	11%	0%	(1%)	(7%)		3%

*Totals may not foot due to rounding

BAXTER INTERNATIONAL INC.
Reconciliation of Non-GAAP Financial Measures
Projected 2018 Adjusted Earnings Per Share and Projected GAAP Earnings Per Share, and
Projected 2018 Adjusted Sales Growth and Projected GAAP Sales Growth
(unaudited)

2018 Earnings Per Share Guidance	Q3 2018	FY 2018
Earnings per Diluted Share - Adjusted	\$0.72 - \$0.74	\$2.94 - \$3.00
Estimated intangible asset amortization	\$0.07	\$0.26
Estimated business optimization charges	\$0.05 - \$0.07	\$0.22 - \$0.27
Litigation costs	-	\$0.01
Acquisition and integration expenses	\$0.02	\$0.07
Claris settlement	-	(\$0.14)
U.S. tax reform	-	(\$0.01)
Earnings per Diluted Share - GAAP	\$0.56 - \$0.60	\$2.48 - \$2.59

2018 Sales Growth Guidance	Q3 2018	FY 2018
Sales Growth - Operational	3% - 4%	4% - 5%
U.S. cyclophosphamide	(1%) - 0%	(1%) - 0%
Acquisitions	0% - 1%	1%
Foreign exchange	(1%) - 0%	1%
Sales Growth - GAAP	3%	6%