

BAXTER INTERNATIONAL INC.
Consolidated Statements of Income
Three Months Ended March 31, 2017 and 2016
(unaudited)
(in millions, except per share and percentage data)

	Three Months Ended March 31,		Change
	2017	2016	
NET SALES	\$2,475	\$2,375	4%
COST OF SALES	1,433	1,410	2%
GROSS MARGIN	1,042	965	8%
<i>% of Net Sales</i>	<i>42.1%</i>	<i>40.6%</i>	<i>1.5 pts</i>
MARKETING AND ADMINISTRATIVE EXPENSES	570	641	(11%)
<i>% of Net Sales</i>	<i>23.0%</i>	<i>27.0%</i>	<i>(4 pts)</i>
RESEARCH AND DEVELOPMENT EXPENSES	128	136	(6%)
<i>% of Net Sales</i>	<i>5.2%</i>	<i>5.7%</i>	<i>(0.5 pts)</i>
OPERATING INCOME	344	188	83%
<i>% of Net Sales</i>	<i>13.9%</i>	<i>7.9%</i>	<i>6 pts</i>
NET INTEREST EXPENSE	14	28	(50%)
OTHER EXPENSE (INCOME), NET	2	(3,169)	(100%)
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	328	3,329	(90%)
INCOME TAX EXPENSE (BENEFIT)	55	(58)	(195%)
<i>% of Income from Continuing Operations before Income Taxes</i>	<i>16.8%</i>	<i>(1.7%)</i>	<i>18.5 pts</i>
INCOME FROM CONTINUING OPERATIONS	273	3,387	(92%)
LOSS FROM DISCONTINUED OPERATIONS, NET OF TAX ^A	(1)	(7)	(86%)
NET INCOME	\$272	\$3,380	(92%)
INCOME FROM CONTINUING OPERATIONS PER COMMON SHARE			
Basic	\$0.50	\$6.17	(92%)
Diluted	\$0.50	\$6.13	(92%)
LOSS FROM DISCONTINUED OPERATIONS PER COMMON SHARE			
Basic	\$0.00	(\$0.01)	(100%)
Diluted	(\$0.01)	(\$0.01)	0%
NET INCOME PER COMMON SHARE			
Basic	\$0.50	\$6.16	(92%)
Diluted	\$0.49	\$6.12	(92%)
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING			
Basic	541	549	
Diluted	551	552	
ADJUSTED OPERATING INCOME (excluding special items)	\$406 ^B	\$249 ^B	63%
ADJUSTED PRE-TAX INCOME FROM CONTINUING OPERATIONS (excluding special items)	\$390 ^B	\$248 ^B	57%
ADJUSTED INCOME FROM CONTINUING OPERATIONS (excluding special items)	\$318 ^B	\$199 ^B	60%
ADJUSTED DILUTED EPS FROM CONTINUING OPERATIONS (excluding special items)	\$0.58 ^B	\$0.36 ^B	61%

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

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

BAXTER INTERNATIONAL INC.
Note to Consolidated Statements of Income
Three Months Ended March 31, 2017 and 2016
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 March 31, 2017 and 2016 included special items which impacted the GAAP measures as follows:

	Three Months Ended March 31,		Change
	2017	2016	
Gross Margin	\$1,042	\$965	8%
Intangible asset amortization expense ¹	38	40	
Business optimization items ²	16	12	
Product-related items ⁴	-	(12)	
Adjusted Gross Margin	\$1,096	\$1,005	9%
% of Net Sales	44.3%	42.3%	2 pts
Marketing and Administrative Expenses	\$570	\$641	(11%)
Business optimization items ²	(15)	(3)	
Baxalta separation-related costs ³	(7)	(18)	
Historical rebate and discount adjustments ⁵	12	-	
Adjusted Marketing and Administrative Expenses	\$560	\$620	(10%)
% of Net Sales	22.6%	26.1%	(3.5 pts)
Research and Development Expenses	\$128	\$136	(6%)
Business optimization items ²	2	-	
Adjusted Research and Development Expenses	\$130	\$136	(4%)
% of Net Sales	5.3%	5.7%	(0.4 pts)
Operating Income	\$344	\$188	83%
Impact of special items	62	61	
Adjusted Operating Income	\$406	\$249	63%
% of Net Sales	16.4%	10.5%	5.9 pts
Other Expense (Income), Net	\$2	\$(3,169)	(100%)
Net realized gains on Retained Shares transactions ⁶	-	3,243	
Loss on debt extinguishment ⁷	-	(101)	
Adjusted Other Expense (Income), Net	\$2	\$(27)	(107%)
Pre-Tax Income from Continuing Operations	\$328	\$3,329	(90%)
Impact of special items	62	(3,081)	
Adjusted Pre-Tax Income from Continuing Operations	\$390	\$248	57%
Income Tax Expense (Benefit)	\$55	\$(58)	(195%)
Impact of special items	17	107	
Adjusted Income Tax Expense	\$72	\$49	47%
% of Adjusted Pre-Tax Income from Continuing Operations	18.5%	19.8%	(1.3 pts)
Income from Continuing Operations	\$273	\$3,387	(92%)
Impact of special items	45	(3,188)	
Adjusted Income from Continuing Operations	\$318	\$199	60%
Diluted EPS from Continuing Operations	\$0.50	\$6.13	(92%)
Impact of special items	0.08	(5.77)	
Adjusted Diluted EPS from Continuing Operations	\$0.58	\$0.36	61%
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING			
Diluted	551	552	

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- ¹ The company's results in 2017 and 2016 included intangible asset amortization expense of \$38 million (\$28 million, or \$0.05 per diluted share, on an after-tax basis) and \$40 million (\$29 million, or \$0.05 per diluted share, on an after-tax basis), respectively.
- ² The company's results in 2017 included a net charge of \$29 million (\$21 million, or \$0.04 per diluted share, on an after-tax basis) related to business optimization initiatives. This included a net charge of \$3 million related to restructuring activities, \$21 million of costs to implement business optimization programs which primarily included external consulting and project employee costs, and \$5 million of accelerated depreciation associated with facilities to be closed. The \$3 million of net restructuring charges (\$2 million, or \$0.00 per diluted share, on an after-tax basis) included net \$2 million of employee termination costs and \$1 million related to contract termination costs.

The company's results in 2016 included a net charge of \$15 million (\$10 million, or \$0.02 per diluted share, on an after-tax basis) related to business optimization initiatives. This included a net charge of \$4 million related to restructuring activities, \$4 million of costs to implement business optimization programs which primarily included external consulting fees, and \$7 million of Gambro integration costs. The \$4 million of net restructuring charges (\$2 million, or \$0.00 per diluted share, on an after-tax basis) related to employee termination costs.
- ³ The company's results in 2017 and 2016 included costs incurred related to the Baxalta separation totaling \$7 million (\$5 million, or \$0.01 per diluted share, on an after-tax basis) and \$18 million (\$12 million, or \$0.02 per diluted share, on an after-tax basis), respectively.
- ⁴ The company's results in 2016 included a benefit of \$12 million (\$7 million, or \$0.01 per diluted share, on an after-tax basis) related to an adjustment to the SIGMA SPECTRUM infusion pump reserves.
- ⁵ The company's results in 2017 included 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.
- ⁶ The company's results in 2016 included net realized gains of \$3.2 billion (\$3.3 billion, or \$5.97 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 (together the "Retained Shares transactions"). A tax benefit of \$54 million was recognized as a result of the Retained Shares transactions.
- ⁷ The company's results in 2016 included a net debt extinguishment loss totaling \$101 million (\$65 million, or \$0.12 per diluted share, on an after-tax basis) related to the March 2016 debt-for-equity exchange for certain company indebtedness in a Retained Shares transaction.

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.
Net Sales
Periods Ending March 31, 2017 and 2016
(unaudited)
(\$ in millions)

	Q1 2017	Q1 2016	% Growth @ Actual Rates	% Growth @ Constant Rates
Renal				
United States	\$216	\$201	7%	7%
International	680	697	(2%)	(1%)
Total Renal	\$896	\$898	(0%)	1%
Hospital Products				
United States	\$887	\$791	12%	12%
International	692	686	1%	2%
Total Hospital Products	\$1,579	\$1,477	7%	7%
Baxter International Inc.				
United States	\$1,103	\$992	11%	11%
International	1,372	1,383	(1%)	0%
Total Baxter	\$2,475	\$2,375	4%	5%

BAXTER INTERNATIONAL INC.
Sales by Franchise
Periods Ending March 31, 2017 and 2016
(unaudited)
(\$ in millions)

	Q1 2017	Q1 2016	% Growth @ Actual Rates	% Growth @ Constant Rates
Total Renal ¹	\$896	\$898	(0%)	1%
Hospital Products				
Fluid Systems ²	\$585	\$524	12%	12%
Integrated Pharmacy Solutions ³	552	556	(1%)	0%
Surgical Care ⁴	334	305	10%	10%
Other ⁵	108	92	17%	18%
Total Hospital Products	\$1,579	\$1,477	7%	7%
Total Baxter	\$2,475	\$2,375	4%	5%

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
Periods Ending March 31, 2017 and 2016
(unaudited)
(\$ in millions)

	Q1 2017			Q1 2016			% Growth		
	U.S.	International	Total	U.S.	International	Total	U.S.	International	Total
Total Renal	\$216	\$680	\$896	\$201	\$697	\$898	7%	(2%)	0%
Hospital Products									
Fluid Systems	\$359	\$226	\$585	\$298	\$226	\$524	20%	0%	12%
Integrated Pharmacy Solutions	266	286	552	264	292	556	1%	(2%)	(1%)
Surgical Care	202	132	334	181	124	305	12%	6%	10%
Other	60	48	108	48	44	92	25%	9%	17%
Total Hospital Products	\$887	\$692	\$1,579	\$791	\$686	\$1,477	12%	1%	7%
Total Baxter	\$1,103	\$1,372	\$2,475	\$992	\$1,383	\$2,375	11%	(1%)	4%

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

	Three Months Ended March 31,	
	2017	2016
Cash flows from operations - continuing operations	\$206	(\$174)
Capital expenditures	(123)	(184)
Free cash flow - continuing operations	\$83	(\$358)

BAXTER INTERNATIONAL INC.
Reconciliation of Non-GAAP Financial Measure
Change in Net Sales As Reported to Operational Sales
From The Three Months Ended March 31, 2016 to The Three Months Ended March 31, 2017
(unaudited)

	Q1 2017					Operational Sales
	Net sales As Reported	US Cyclophosphamide	Product Exits	FX	Operational Sales	
Total Renal	0%	0%	1%	1%	2%	
Hospital Products						
Fluid Systems	12%	0%	1%	0%	13%	
Integrated Pharmacy Solutions	-1%	3%	1%	1%	4%	
Surgical Care	10%	0%	1%	0%	11%	
Other	17%	0%	0%	1%	18%	
Total Hospital Products	7%	2%	1%	0%	10%	
Baxter International Inc.						
United States	11%	2%	0%	0%	13%	
International	-1%	0%	2%	1%	2%	
Total Baxter	4%	1%	1%	1%	7%	

BAXTER INTERNATIONAL INC.
Reconciliation of Non-GAAP Financial Measure
Projected 2017 Adjusted Earnings Per Share and Projected GAAP Earnings Per Share
(unaudited)

2017 Earnings Per Share Guidance	Q2 2017	FY 2017
Earnings per Diluted Share – Adjusted	\$0.55 - \$0.57	\$2.20 - \$2.28
Estimated intangible asset amortization	\$0.05	\$0.20
Estimated business optimization charges	\$0.15 - \$0.18	\$0.27 - \$0.33
Estimated Baxalta separation-related expenses	\$0.01	\$0.02
Historical rebate and discount adjustments	-	(\$0.01)
Earnings per Diluted Share - GAAP	\$0.31 - \$0.36	\$1.66 - \$1.80