

BAXTER INTERNATIONAL INC.
Consolidated Statements of Income
Three Months Ended June 30, 2019 and 2018
(unaudited)
(in millions, except per share and percentage data)

	Three Months Ended June 30,		Change
	2019	2018	
NET SALES	\$2,840	\$2,842	(0%)
COST OF SALES	1,681	1,603	5%
GROSS MARGIN	1,159	1,239	(6%)
<i>% of Net Sales</i>	40.8%	43.6%	<i>(2.8 pts)</i>
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	642	681	(6%)
<i>% of Net Sales</i>	22.6%	24.0%	<i>(1.4 pts)</i>
RESEARCH AND DEVELOPMENT EXPENSES	166	174	(5%)
<i>% of Net Sales</i>	5.8%	6.1%	<i>(0.3 pts)</i>
OTHER OPERATING INCOME, NET	(4)	—	NM
OPERATING INCOME	355	384	(8%)
<i>% of Net Sales</i>	12.5%	13.5%	<i>(1.0 pts)</i>
INTEREST EXPENSE, NET	20	11	82%
OTHER INCOME, NET	(28)	(31)	(10%)
INCOME BEFORE INCOME TAXES	363	404	(10%)
INCOME TAX EXPENSE	20	61	(67%)
<i>% of Income Before Income Taxes</i>	5.5%	15.1%	<i>(9.6 pts)</i>
NET INCOME	\$343	\$343	0%
NET INCOME PER COMMON SHARE			
Basic	\$0.67	\$0.64	5%
Diluted	\$0.66	\$0.63	5%
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING			
Basic	510	535	
Diluted	519	547	
ADJUSTED OPERATING INCOME (excluding special items)	\$512 ^A	\$487 ^A	5%
ADJUSTED INCOME BEFORE INCOME TAXES (excluding special items)	\$520 ^A	\$507 ^A	3%
ADJUSTED NET INCOME (excluding special items)	\$464 ^A	\$421 ^A	10%
ADJUSTED DILUTED EPS (excluding special items)	\$0.89 ^A	\$0.77 ^A	16%

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

NM - Not Meaningful

BAXTER INTERNATIONAL INC.
Description of Adjustments and Reconciliation of GAAP to Non-GAAP Measures
Three Months Ended June 30, 2019 and 2018
(unaudited)
(in millions, except per share and percentage data)

The company's GAAP results for the three months ended June 30, 2019 and 2018 included special items which impacted the GAAP measures as follows:

	Three Months Ended June 30,		Change
	2019	2018	
Gross Margin	\$1,159	\$1,239	(6%)
Intangible asset amortization expense ¹	45	44	
Intangible asset impairment ²	31	—	
Business optimization items ³	10	3	
Acquisition and integration expenses ⁴	12	6	
European medical devices regulation ⁵	6	—	
Adjusted Gross Margin	\$1,263	\$1,292	(2%)
% of Net Sales	44.5%	45.5%	(1.0 pts)
Selling, General and Administrative Expenses	\$642	\$681	(6%)
Business optimization items ³	(32)	(34)	
Acquisition and integration expenses ⁴	—	(6)	
Adjusted Selling, General and Administrative Expenses	\$610	\$641	(5%)
% of Net Sales	21.5%	22.6%	(1.1 pts)
Research and Development Expenses	\$166	\$174	(5%)
Business optimization items ³	(23)	(10)	
Acquisition and integration expenses ⁴	(2)	—	
Adjusted Research and Development Expenses	\$141	\$164	(14%)
% of Net Sales	5.0%	5.8%	(0.8 pts)
Other Operating Income, Net	\$(4)	\$—	NM
Acquisition and integration expenses ⁴	\$4	—	
Adjusted Other Operating Income	\$—	\$—	0%
% of Net Sales	0.0%	0.0%	0.0 pts
Operating Income	\$355	\$384	(8%)
Impact of special items	157	103	
Adjusted Operating Income	\$512	\$487	5%
% of Net Sales	18.0%	17.1%	0.9 pts
Income Before Income Taxes	\$363	\$404	(10%)
Impact of special items	157	103	
Adjusted Income Before Income Taxes	\$520	\$507	3%
Income Tax Expense	\$20	\$61	(67%)
Impact of special items ⁶	36	25	
Adjusted Income Tax Expense	\$56	\$86	(35%)
% of Adjusted Income Before Income Taxes	10.8%	17.0%	(6.2 pts)
Net Income	\$343	\$343	0%
Impact of special items	121	78	
Adjusted Net Income	\$464	\$421	10%
Diluted EPS from Net Income	\$0.66	\$0.63	5%
Impact of special items	0.23	0.14	
Adjusted Diluted EPS from Net Income	\$0.89	\$0.77	16%
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING			
Diluted	519	547	

¹ The company's results in 2019 and 2018 included intangible asset amortization expense of \$45 million (\$35 million, or \$0.07 per diluted share, on an after-tax basis) and \$44 million (\$34 million, or \$0.06 per diluted share, on an after-tax basis), respectively.

² The company's results in 2019 included a \$31 million (\$24 million, or \$0.05 per diluted share, on an after-tax basis) asset impairment related to a developed-technology intangible asset.

³ The company's results in 2019 and 2018 included charges of \$65 million (\$51 million, or \$0.10 per diluted share, on an after-tax basis) and \$47 million (\$34 million, or \$0.06 per diluted share, on an after-tax basis), respectively, associated with its execution of programs to optimize its organization and cost structure on a global basis.

⁴ The company's results in 2019 included \$10 million (\$7 million, or \$0.01 per diluted share, on an after-tax basis) of acquisition and integration expenses. This included integration expenses related to its acquisitions of Claris Injectables Limited (Claris) and the RECOTHROM and PREVELEAK products in prior periods, as well as the 2019 acquisition of an in-process research and development asset, partially offset by a benefit related to the change in fair value of contingent consideration liabilities from acquisitions that occurred in prior periods. The company's results in 2018 included \$12 million (\$10 million, or \$0.02 per diluted share, on an after-tax basis) of acquisition and integration expenses related to the company's acquisitions of Claris and the RECOTHROM and PREVELEAK products.

⁵ The company's results in 2019 included costs of \$6 million (\$4 million, or \$0.01 per diluted share, on an after-tax basis) related to updating its quality systems and product labeling to comply with the new medical device reporting regulation and other requirements of the European Union's regulations for medical devices that will become effective in 2020.

⁶ Reflected in this item is the income 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, 2019 and 2018
(unaudited)
(in millions, except per share and percentage data)

	Six Months Ended June 30,		Change
	2019	2018	
NET SALES	\$5,472	\$5,519	(1%)
COST OF SALES	3,233	3,166	2%
GROSS MARGIN	2,239	2,353	(5%)
<i>% of Net Sales</i>	40.9%	42.6%	<i>(1.7 pts)</i>
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	1,242	1,303	(5%)
<i>% of Net Sales</i>	22.7%	23.6%	<i>(0.9 pts)</i>
RESEARCH AND DEVELOPMENT EXPENSES	295	314	(6%)
<i>% of Net Sales</i>	5.4%	5.7%	<i>(0.3 pts)</i>
OTHER OPERATING INCOME, NET	(37)	(80)	(54%)
OPERATING INCOME	739	816	(9%)
<i>% of Net Sales</i>	13.5%	14.8%	<i>(1.3 pts)</i>
INTEREST EXPENSE, NET	38	23	65%
OTHER INCOME, NET	(53)	(49)	8%
INCOME BEFORE INCOME TAXES	754	842	(10%)
INCOME TAX EXPENSE	64	110	(42%)
<i>% of Income Before Income Taxes</i>	8.5%	13.1%	<i>(4.6 pts)</i>
NET INCOME	\$690	\$732	(6%)
NET INCOME PER COMMON SHARE			
Basic	\$1.35	\$1.36	(1%)
Diluted	\$1.33	\$1.33	0%
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING			
Basic	511	537	
Diluted	520	549	
ADJUSTED OPERATING INCOME (excluding special items)	\$962 ^A	\$935 ^A	3%
ADJUSTED INCOME BEFORE INCOME TAXES (excluding special items)	\$977 ^A	\$961 ^A	2%
ADJUSTED NET INCOME (excluding special items)	\$863 ^A	\$809 ^A	7%
ADJUSTED DILUTED EPS (excluding special items)	\$1.66 ^A	\$1.47 ^A	13%

^A Refer to page 11 for a description of the adjustments and a reconciliation to GAAP measures.

BAXTER INTERNATIONAL INC.
Description of Adjustments and Reconciliation of GAAP to Non-GAAP Measures
Six Months Ended June 30, 2019 and 2018
(unaudited)
(In millions, except per share and percentage data)

The company's GAAP results for the six months ended June 30, 2019 and 2018 included special items which impacted the GAAP measures as follows:

	Six Months Ended June 30,		Change
	2019	2018	
Gross Margin	\$2,239	\$2,353	(5%)
Intangible asset amortization expense ¹	88	85	
Intangible asset impairment ²	31	—	
Business optimization items ³	29	9	
Acquisition and integration expenses ⁴	17	9	
Litigation ⁵	—	8	
European medical devices regulation ⁶	10	—	
Adjusted Gross Margin	\$2,414	\$2,464	(2%)
% of Net Sales	44.1%	44.6%	(0.5 pts)
Selling, General and Administrative Expenses	\$1,242	\$1,303	(5%)
Business optimization items ³	(40)	(63)	
Acquisition and integration expenses ⁴	(5)	(10)	
Litigation ⁵	—	(2)	
Adjusted Selling, General and Administrative Expenses	\$1,197	\$1,228	(3%)
% of Net Sales	21.9%	22.3%	(0.4 pts)
Research and Development Expenses	\$295	\$314	(6%)
Business optimization items ³	(34)	(13)	
Acquisition and integration expenses ⁴	(6)	—	
Adjusted Research and Development Expenses	\$255	\$301	(15%)
% of Net Sales	4.7%	5.5%	(0.8 pts)
Other Operating Income, Net	\$(37)	\$ (80)	(54%)
Acquisition and integration expenses ⁴	4	—	
Insurance recovery from legacy product-related matter ⁷	33	—	
Claris settlement ⁸	—	80	
Adjusted Other Operating Income, Net	\$—	\$—	0%
% of Net Sales	0.0%	0.0%	0.0 pts
Operating Income	\$739	\$816	(9%)
Impact of special items	223	119	
Adjusted Operating Income	\$962	\$935	3%
% of Net Sales	17.6%	16.9%	0.7 pts
Income Before Income Taxes	\$754	\$842	(10%)
Impact of special items	223	119	
Adjusted Income Before Income Taxes	\$977	\$961	2%
Income Tax Expense	\$64	\$110	(42%)
Impact of special items and U.S. tax reform ⁹	50	42	
Adjusted Income Tax Expense	\$114	\$152	(25%)
% of Adjusted Income Before Income Taxes	11.7%	15.8%	(4.1 pts)
Net Income	\$690	\$732	(6%)
Impact of special items	173	77	
Adjusted Net Income	\$863	\$809	7%
Diluted EPS from Net Income	\$1.33	\$1.33	0%
Impact of special items	0.33	0.14	
Adjusted Diluted EPS from Net Income	\$1.66	\$1.47	13%
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING			
Diluted	520	549	

¹ The company's results in 2019 and 2018 included intangible asset amortization expense of \$88 million (\$68 million, or \$0.13 per diluted share, on an after-tax basis) and \$85 million (\$70 million, or \$0.13 per diluted share, on an after-tax basis), respectively.

² The company's results in 2019 included a \$31 million (\$24 million, or \$0.05 per diluted share, on an after-tax basis) asset impairment related to a developed-technology intangible asset.

³ The company's results in 2019 and 2018 included charges of \$103 million (\$81 million, or \$0.16 per diluted share, on an after-tax basis) and \$85 million (\$68 million, or \$0.12 per diluted share, on an after-tax basis), respectively, associated with its execution of programs to optimize its organization and cost structure on a global basis.

⁴ The company's results in 2019 included \$24 million (\$18 million, or \$0.03 per diluted share, on an after-tax basis) of acquisition and integration expenses. This included integration expenses related to the company's acquisitions of Claris and the RECOTHROM and PREVELEAK products in prior periods as well as the 2019 acquisitions of in-process research and development assets, partially offset by a benefit related to the change in fair value of contingent consideration liabilities from acquisitions that occurred in prior periods. The company's results in 2018 included \$19 million (\$16 million, or \$0.02 per diluted share, on an after-tax basis) of acquisition and integration expenses related to the company's acquisitions of Claris and the RECOTHROM and PREVELEAK products.

⁵ The company's results in 2018 included a charge of \$10 million (\$9 million, or \$0.02 per diluted share, on an after-tax basis) related to certain product litigation.

⁶ The company's results in 2019 included costs of \$10 million (\$8 million, or \$0.02 per diluted share, on an after-tax basis) related to updating its quality systems and product labeling to comply with the new medical device reporting regulation and other requirements of the European Union's regulations for medical devices that will become effective in 2020.

⁷ The company's results in 2019 included a benefit of \$33 million (\$26 million, or \$0.05 per diluted share, on an after-tax basis) related to its allocation of insurance proceeds received pursuant to a settlement and cost-sharing agreement for a legacy product-related matter.

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.

⁹ Reflected in this item is the income tax impact of the special items identified in this table. Additionally, the company's results in the first half of 2018 included a tax benefit of \$8 million, or \$0.01 per diluted share, related to updates to the estimated impact of U.S. federal tax reform previously made in 2017. 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.

BAXTER INTERNATIONAL INC.
Sales by Operating Segment
Periods Ending June 30, 2019 and 2018
(unaudited)
(\$ in millions)

	Q2	Q2	% Growth @	% Growth @	YTD	YTD	% Growth @	% Growth @
	2019	2018	Actual Rates	Constant Rates	2019	2018	Actual Rates	Constant Rates
Americas	\$1,520	\$1,525	(0%)	1%	\$2,928	\$2,967	(1%)	0%
EMEA	744	758	(2%)	6%	1,449	1,482	(2%)	5%
APAC	576	559	3%	9%	1,095	1,070	2%	8%
Total Baxter	\$2,840	\$2,842	(0%)	4%	\$5,472	\$5,519	(1%)	3%

Constant currency growth is a non-GAAP measure. 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.
Sales by GBU
Periods Ending June 30, 2019 and 2018
(unaudited)
(\$ in millions)

	Q2	Q2	% Growth @	% Growth @	YTD	YTD	% Growth @	% Growth @
	2019	2018	Actual Rates	Constant Rates	2019	2018	Actual Rates	Constant Rates
Renal Care ¹	\$910	\$931	(2%)	3%	\$1,761	\$1,799	(2%)	3%
Medication Delivery ²	689	681	1%	4%	1,323	1,357	(3%)	(0%)
Pharmaceuticals ³	539	537	0%	4%	1,048	1,033	1%	5%
Clinical Nutrition ⁴	215	221	(3%)	2%	420	444	(5%)	(1%)
Advanced Surgery ⁵	232	204	14%	17%	430	386	11%	15%
Acute Therapies ⁶	133	129	3%	8%	261	258	1%	6%
Other ⁷	122	139	(12%)	(9%)	229	242	(5%)	(2%)
Total Baxter	\$2,840	\$2,842	(0%)	4%	\$5,472	\$5,519	(1%)	3%

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

² Includes sales of the company's intravenous (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 and related products.

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 intensive care unit (ICU).

⁷ Includes primarily sales of contract manufacturing services from the company's pharmaceutical partnering business.

Constant currency growth is a non-GAAP measure. 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.
GBU Sales by U.S. and International
Periods Ending June 30, 2019 and 2018
(unaudited)
(\$ in millions)

	Q2 2019			Q2 2018			% Growth		
	U.S.	International	Total	U.S.	International	Total	U.S.	International	Total
Renal Care	\$196	\$714	\$910	\$204	\$727	\$931	(4%)	(2%)	(2%)
Medication Delivery	441	248	689	426	255	681	4%	(3%)	1%
Pharmaceuticals	235	304	539	262	275	537	(10%)	11%	0%
Clinical Nutrition	79	136	215	80	141	221	(1%)	(4%)	(3%)
Advanced Surgery	143	89	232	118	86	204	21%	3%	14%
Acute Therapies	44	89	133	42	87	129	5%	2%	3%
Other	55	67	122	78	61	139	(29%)	10%	(12%)
Total Baxter	\$1,193	\$1,647	\$2,840	\$1,210	\$1,632	\$2,842	(1%)	1%	(0%)

BAXTER INTERNATIONAL INC.
GBU Sales by U.S. and International
Periods Ending June 30, 2019 and 2018
(unaudited)
(\$ in millions)

	YTD 2019			YTD 2018			% Growth		
	U.S.	International	Total	U.S.	International	Total	U.S.	International	Total
Renal Care	\$388	\$1,373	\$1,761	\$400	\$1,399	\$1,799	(3%)	(2%)	(2%)
Medication Delivery	847	476	1,323	862	495	1,357	(2%)	(4%)	(3%)
Pharmaceuticals	467	581	1,048	505	528	1,033	(8%)	10%	1%
Clinical Nutrition	156	264	420	163	281	444	(4%)	(6%)	(5%)
Advanced Surgery	263	167	430	217	169	386	21%	(1%)	11%
Acute Therapies	92	169	261	88	170	258	5%	(1%)	1%
Other	100	129	229	122	120	242	(18%)	8%	(5%)
Total Baxter	\$2,313	\$3,159	\$5,472	\$2,357	\$3,162	\$5,519	(2%)	(0%)	(1%)

BAXTER INTERNATIONAL INC.
Reconciliation of Non-GAAP Financial Measure
Operating Cash Flow to Free Cash Flow
 (unaudited)
 (\$ in millions)

	Six Months Ended June 30,	
	2019	2018
Cash flows from operations - continuing operations	\$617	\$852
Capital expenditures	(352)	(311)
Free cash flow - continuing operations	\$265	\$541

Free cash flow is a non-GAAP measure. 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.
Reconciliation of Non-GAAP Financial Measure
Change in Net Sales As Reported to Operational Sales
From The Three Months Ended June 30, 2018 to The Three Months Ended June 30, 2019
(unaudited)

	Q2 2019*				Operational Sales
	Net Sales As Reported	U.S. Cyclophosphamide	FX		
Renal Care	(2%)	0%	5%	3%	
Medication Delivery	1%	0%	3%	4%	
Pharmaceuticals	0%	2%	4%	7%	
Clinical Nutrition	(3%)	0%	5%	2%	
Advanced Surgery	14%	0%	3%	17%	
Acute Therapies	3%	0%	5%	8%	
Other	(12%)	0%	3%	(9%)	
Total Baxter	(0%)	0%	4%	4%	
U.S.	(1%)	1%	0%	(1%)	
International	1%	0%	7%	8%	

*Totals may not foot due to rounding

Change in operational sales is a non-GAAP measure. 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.
Reconciliation of Non-GAAP Financial Measure
Change in Net Sales As Reported to Operational Sales
From The Six Months Ended June 30, 2018 to The Six Months Ended June 30, 2019
(unaudited)

	YTD 2019*			
	Net Sales As Reported	U.S. Cyclophosphamide	FX	Operational Sales
Renal Care	(2%)	0%	5%	3%
Medication Delivery	(3%)	0%	3%	(0%)
Pharmaceuticals	1%	2%	4%	8%
Clinical Nutrition	(5%)	0%	4%	(1%)
Advanced Surgery	11%	0%	4%	15%
Acute Therapies	1%	0%	5%	6%
Other	(5%)	0%	3%	(2%)
Total Baxter	(1%)	0%	4%	3%
U.S.	(2%)	1%	0%	(1%)
International	(0%)	0%	7%	7%

*Totals may not foot due to rounding

Change in operational sales is a non-GAAP measure. 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.
Reconciliation of Non-GAAP Financial Measures
Projected 2019 GAAP Sales Growth and Projected Adjusted Sales Growth, and
Projected 2019 GAAP Earnings Per Share and Projected Adjusted Earnings Per Share
(unaudited)

2019 Sales Growth Guidance	Q3 2019	FY 2019
Sales Growth – GAAP	3% - 4%	1% - 2%
U.S. cyclophosphamide	0% - 1%	0% - 1%
Foreign exchange	1% - 2%	2% - 3%
Sales Growth - Operational	5%	4%

2019 Earnings Per Share Guidance	Q3 2019	FY 2019
Earnings per Diluted Share – GAAP	\$0.75 - \$0.78	\$2.81 - \$2.89
Estimated intangible asset amortization	\$0.07	\$0.26
Intangible asset impairment	-	\$0.05
Estimated business optimization charges	\$0.02 - \$0.03	\$0.20 - \$0.22
Estimated Hurricane Maria insurance recoveries	(\$0.06)	(\$0.06)
Estimated acquisition and integration expenses	\$0.01	\$0.06
Insurance recovery from legacy product-related matter	-	(\$0.05)
Estimated European medical devices regulation	\$0.02	\$0.05
Earnings per Diluted Share - Adjusted	\$0.82 - \$0.84	\$3.34 - \$3.40

The company's outlook for GAAP earnings per share only includes the impact of special items that are known or expected as of the date of this release. Accordingly, actual GAAP earnings per share for the third quarter and full year 2019 may differ significantly from those amounts. For example, the company's outlook does not reflect the potential impact of future business or asset acquisitions or dispositions, intangible asset impairments, restructuring actions, developments related to gain or loss contingencies, or unusual or infrequently occurring items that may occur during the remainder of 2019.