Non-GAAP Reconciliation as of May 9, 2016

On May 9, 2016, Baxter presented guidance for FY 2016, FY 2018 and FY 2020 using non-GAAP measures of sales growth (on a constant currency basis), adjusted operating margin, adjusted EBITDA margin, adjusted tax rate, adjusted earnings per share and free cash flow. For Q1 2016 (based on the company's actual results), Baxter presented sales growth (on a constant currency basis), adjusted operating margin and adjusted earnings per share. All such measures are presented solely with respect to Baxter's continuing operations.

The reconciliations contained on these slides reconcile the non-GAAP measures set forth above to the most directly comparable GAAP measures based in each case on special items known to Baxter as of the date hereof. Actual results are subject to change, and may include or exclude additional special items, as applicable. Additionally, we have not included reconciliations for prior periods (other than Q1 2016) or prior guidance.

Forecasts:

Sales growth (on a constant currency basis) for FY 2016 excludes the impact of foreign currency of approximately 2%. GAAP sales growth is expected to be 1% for FY 2016.

Reconciling 2016 adjusted operating margin for the impact of known intangible asset amortization expense of 1%, 2% in business optimization items and 1% in separation-related costs results in GAAP operating income margin of approximately 8%. Reconciling 2018 and 2020 adjusted operating margin for known intangible asset amortization expense of 1% results in GAAP operating income margin of approximately 13% to 14% and 16% to 17%, respectively.

Non-GAAP Reconciliation as of May 9, 2016

Reconciling 2016 adjusted EBITDA margin for the following items results in GAAP pre-tax income margin of approximately 48%: (i) 7% of depreciation expense; (ii) 1% of each of (A) net interest expense, (B) other income, net, (C) separation-related costs and (D) net loss on debt extinguishment; (iii) 43% of net realized gains on retained stake transactions; (iv) known intangible asset amortization expense of 2%; and (v) 2% of business optimization items. For FY 2018 and FY 2020, reconciling adjusted EBITDA margin for depreciation expense (of 7% and 6%, respectively), net interest expense (of 1% in each year), and known intangible asset amortization expense (of 1% in each year) results in GAAP pre-tax income margin of approximately 12% to 13% in FY 2018 and 16% to 17% in FY 2020.

The adjusted tax rate for FY 2016 exceeds the GAAP tax rate by approximately 19%. Reconciling adjusted pre-tax income margin of 11% in that year for approximately 43% in net realized gains on retained stake transactions, known intangible asset amortization expense of 2%, 2% of business optimization items and 1% of each of separation-related costs and net loss on debt extinguishment results in GAAP pre-tax income margin of approximately 48%. The adjusted tax rate for FY 2018 and FY 2020 exceeds the GAAP tax rate by 1% in each year. Reconciling adjusted pre-tax income for known intangible asset amortization expense of 1% results in GAAP pre-tax income margin of approximately 12% to 13% in FY 2018 and 16% and 17% in FY 2020.

Non-GAAP Reconciliation as of May 9, 2016

Reconciling 2016 adjusted earnings per share for known intangible asset amortization expense of $0.21, $8.01 of net realized gains on retained stake transactions, $0.12 of net loss on debt extinguishment, $0.23 to $0.25 of business optimization items, $0.07 to $0.09 of separation-related costs and $0.01 of product-related items results in GAAP diluted earnings per share from continuing operations between $8.94 and $9.06. For FY 2018 and FY 2020, reconciling adjusted diluted earnings per share by known intangible asset amortization expense of $0.18 in FY 2018 and $0.17 in FY 2020 results in GAAP diluted earnings per share of $1.92 to $2.07 and $2.58 and $2.83, respectively.

Reconciling free cash flow in FY 2016, FY 2018 and FY 2020 for capital expenditures of approximately $900 million, $825 million and $750 million results in GAAP operating cash flow of more than $1.4 billion, $1.8 billion and approximately $2.5 billion, respectively.

Historical Results:

For Q1 2016, sales growth (on a constant currency basis) was 4%. Including the impact of foreign currency (5%), sales growth for that period decreased by 1%. Reconciling adjusted operating margin for Q1 2016 for known intangible asset amortization expense of 2% and 1% of each of business optimization items, separation-related costs and product-related items results in GAAP operating income margin of 8%. Reconciling Q1 2016 adjusted earnings per share for known intangible asset amortization expense of $0.05, $5.97 of net realized gains on retained stake transactions, $0.12 of net loss on debt extinguishment, $0.02 of business optimization items, $0.02 of separation-related costs and $0.01 of product-related items results in GAAP diluted earnings per share of $6.13.

Non-GAAP Reconciliation as of May 9, 2016

Sales growth at constant currency reflects the percentage increase in local currency sales as compared to the prior period, translated at the prior period's foreign exchange rates. Adjusted operating margin is calculated by dividing adjusted operating income by net sales. Adjusted EBITDA margin is calculated by dividing adjusted EBITDA by net sales. Adjusted tax rate is calculated by dividing adjusted tax expense by adjusted pre-tax income. Adjusted earnings per share is calculated by dividing adjusted net income by diluted shares outstanding. Free cash flow represents operating cash flows minus capital expenditures.

Non-GAAP financial measures may provide a more complete understanding of Baxter's operations and can facilitate a fuller analysis of Baxter's results of operations, particularly in evaluating performance from one period to another. Sales growth at constant currency provides information on the change in net sales assuming the foreign currency exchange rates had not changed between the prior and current period. Adjusted operating margin, adjusted tax rate and adjusted earnings per share all exclude special items. Adjusted EBITDA margin excludes special items as well as excluding net interest expense, other income, net and depreciation expense. Free cash flow excludes capital expenditures from operating cash flows. Special items are excluded because they are highly variable, difficult to predict or unusual and of a size that may substantially impact Baxter's reported operations for a period. Additionally, intangible asset amortization expense is excluded as a special item to facilitate an evaluation of current and past performance, particularly in terms of cash returns, and is similar to how management internally assesses performance.

These estimates are based on information reasonably available at the time of this presentation and future events or new information may result in different actual results.

Management believes that non-GAAP earnings measures, when used in conjunction with the results presented in accordance with GAAP and the reconciliations to corresponding GAAP financial measures, may enhance an investor's overall understanding of Baxter's past financial performance and prospects for the future. Accordingly, management uses these non-GAAP measures internally in financial planning, to monitor business unit performance, and in some cases for purposes of determining incentive compensation. This information should be considered in addition to, and not as a substitute for, information prepared in accordance with GAAP.