

## **CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS OF BAXTER INTERNATIONAL INC.**

### Statement of Purpose

The primary purpose of the Audit Committee (the “Committee”) of the Board of Directors (the “Board”) of Baxter International Inc. (“Baxter” or the “Corporation”) is to assist the Board in fulfilling its oversight responsibilities. The Committee will review the Corporation’s financial reporting process (including the integrity of its financial statements), system of internal control, internal and external audit process (including the qualifications, independence and performance of the independent auditor) and the process for monitoring compliance with laws and regulations. The Committee will also issue the report required to be included in the Corporation's annual proxy statement pursuant to the rules of the Securities and Exchange Commission ("SEC"). In performing its duties, the Committee will maintain effective working relationships with and open communication between the Board, management and the internal and independent auditors.

### Organization and Meetings

The Committee, a standing committee of the Board, will be composed of three or more directors, each of whom is qualified to serve on the Committee pursuant to the requirements of the New York Stock Exchange and each of whom shall satisfy the independence requirements of the Corporation’s Corporate Governance Guidelines. All members of the Committee will be financially literate, or will become financially literate within a reasonable period of time after appointment to the Committee. In addition, either (i) at least one member of the Committee must qualify as an "audit committee financial expert" under the SEC's rules or (ii) the Committee must advise the Corporation that none of its members so qualifies.

Members of the Committee, including its Chairperson, shall be elected by the Board at the annual organizational meeting of the Board and shall serve until their successors shall have been duly elected and qualified.

No director may serve as a member of the Committee if he or she serves on the audit committee of more than two other public companies, unless the Board determines that such simultaneous service would not impair the director's ability to serve effectively on the Committee, with any such determination to be disclosed in the annual proxy statement.

The Committee will have at least seven regularly scheduled meetings each year, with additional meetings to be held as circumstances require. The Committee will keep minutes of its meetings, and will regularly report to the Board on its activities, making recommendations as appropriate, and will cover any issues that arise with respect to the independent auditors, the internal audit function, the quality or integrity of the Corporation's financial statements or the Corporation's compliance with legal or regulatory requirements.

The Committee may form subcommittees for any purpose that the Committee deems appropriate and may delegate to such subcommittees (each of which shall consist of one or more members) such power and authority as the Committee deems appropriate; provided, however, that the

Committee shall not delegate to a subcommittee any power or authority required by any law, regulation or listing standard to be exercised by the Committee as a whole.

### Key Responsibilities

The Committee's job is one of oversight and it recognizes that the Corporation's management is responsible for preparing the Corporation's financial statements and that the outside auditors are responsible for auditing those financial statements. Additionally, the Committee recognizes that financial management, including the internal audit staff as well as the outside auditors, have more time, knowledge and more detailed information on the Corporation than do Committee members; consequently, in carrying out its oversight responsibilities, the Committee is not providing any expert or special assurance as to the Corporation's financial statements or any professional certification as to the outside auditor's work.

The following functions shall be the common recurring activities of the Committee in carrying out its oversight function. These functions are set forth as a guide with the understanding that the Committee may diverge from this guide as appropriate given the circumstances.

### Internal Control

- Review Baxter's policies and procedures with management, including its disclosure controls and procedures and its internal controls and procedures for financial reporting, and recommend to the Board any changes considered appropriate.
- Review the adequacy and effectiveness of Baxter's financial and accounting controls with the independent auditor and the internal auditor, as appropriate, receiving recommendations for the improvement of such controls and reviewing whether any such previously approved recommendations have been implemented.

### External Control

- Be directly responsible for the appointment, compensation, retention and oversight of the work of any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Corporation, and each such registered public accounting firm must report directly to the Committee.
- Review and approve in advance the annual engagement letter of the Corporation's independent auditor, including the proposed fees contained therein, as well as all audit and all permissible non-audit engagements to be undertaken by the independent auditor, either explicitly or through pre-approval policies and procedures approved by the Committee.
- Ensure the objectivity of the independent auditor by reviewing and discussing with the independent auditor all significant relationships which the auditor has with the Corporation and its affiliates, including: (i) requesting, receiving and reviewing, on an annual basis, a formal written statement delineating all relationships which may reasonably be thought to bear on the independence of the independent auditor with respect to the Corporation in accordance with professional standards governing such independence; (ii) discussing with the independent auditor any disclosed relationships or services that may impact the objectivity and independence of the independent auditor; and (iii) take appropriate action in response to

the independent auditor's report to satisfy itself of the independence of the independent auditors.

- Assess the quality-controls of the independent auditor by reviewing, on an annual basis, a report from the independent auditor delineating its internal quality-control procedures, any material issues raised by the most recent internal quality-control review or peer review of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues.
- Ensure that the independent auditor is registered with the Public Company Accounting Oversight Board on a timely basis when required.
- Meet with the independent auditor and management to review the proposed audit scope and procedures to be utilized.
- At the conclusion of each annual audit, review such matters related to the conduct of the audit that are to be communicated to the Committee under generally accepted auditing standards, as well as any other comments or recommendations made by the independent auditor.
- Evaluate the qualifications, performance and independence of the independent auditor, including the lead audit partner, taking into account the opinions of management and the Corporation's internal auditors.
- Ensure regular rotation of the audit partners as required by law and consider whether the independent auditor should be rotated.
- Review regularly with the independent auditor whether there have been any difficulties encountered during the audit, including any restrictions on the scope of the activities of the independent auditor or on access to requested information and any significant disagreements with management, and the responsibilities, budget and staffing of the internal auditor.
- Resolve disagreements between the Corporation's independent auditor and management regarding financial reporting.
- Approve and periodically review the Corporation's policy with respect to hiring of employees and former employees of independent auditors. Specifically, the Corporation will not hire any current or previous employees of its independent auditor who are or have, within the last two years, worked on the Corporation's audit.

#### Internal Audit

- Review the qualifications and organizational structure of the internal audit function and concur in the appointment, replacement, reassignment or dismissal of the Vice President, corporate audit.
- Review the proposed audit plan of the internal auditor, including the independence and authority of the internal auditor's reporting obligations, the adequacy of internal audit resources and the coordination and completeness of coverage between the internal and independent auditors.

- Receive periodic summaries of findings from completed internal audits and, as appropriate, the status of major audits in process. Receive progress reports on the completion of the current year's internal audit plan, including explanations for any significant deviations from the plan.

#### Financial Reporting

- Review the Corporation's consolidated financial statements (including Management's Discussion and Analysis of Financial Condition and Results of Operations and any off-balance sheet arrangements) that will be contained in its Annual Report to Shareholders with management and the independent auditor to determine whether they are complete and consistent with information known to the Committee members, and whether the independent auditor is satisfied with the disclosure and content of those financial statements. Based on such review, recommend to the Board that the consolidated financial statements of the Corporation be included in its Annual Report on Form 10-K (or the Annual Report to Shareholders if distributed prior to the filing of the Form 10-K with the SEC).
- Review with management, the independent auditor and the internal auditor the interim consolidated financial statements of the Corporation (including Management's Discussion and Analysis of Financial Condition and Results of Operations and any off-balance sheet arrangements) and the results of the independent auditor's review of those statements. This review shall occur prior to the Corporation's filing of the Form 10-Q with the SEC and may, at the Committee's discretion, be performed by the Committee Chairperson.
- Discuss with the independent auditor the auditor's judgments about the quality and the acceptability of accounting principles used to prepare the Corporation's consolidated financial statements (including all critical accounting policies and practices to be used), and all alternative treatments within GAAP for policies and practices related to material items that have been discussed by the independent auditors and management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the auditors. Review the impact on the annual financial statements of any significant accounting and reporting issues, including recent professional and regulatory pronouncements and any newly adopted or proposed changes in accounting principles that would significantly affect Baxter or its consolidated financial statements. Review any analyses prepared by management and/or the independent auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements. Review all other material written communications between the independent auditors and management, such as any management letter or schedule of unadjusted differences, as provided to the Committee by the independent auditor.
- Discuss earnings press releases (particularly the use of any non-GAAP financial information), as well as financial information and earnings guidance provided to analysts and rating agencies, with the Chairman of the Audit Committee to review such information prior to issuance of the release.

#### Ethical and Legal Compliance

- Assure that a system is in place for monitoring compliance with laws and regulations, including receiving reports from the General Counsel on the results of management's review

of compliance with Baxter's policies and any investigations by management related to significant fraudulent acts or irregularities.

- Periodically review with the General Counsel Baxter's preventive law program and activities, as well as any legal and regulatory matters that may have a material impact on Baxter.
- In conjunction with the Public Policy Committee, evaluate whether management is setting the appropriate "tone at the top" by communicating the importance of Baxter's ethical and business practices standards, including the importance of internal accounting controls.
- Establish procedures for (i) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters, and (ii) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters.

#### Other Responsibilities

- Hold separate sessions during at least five Committee meetings per year with each of the internal auditor, the independent auditor and management to discuss any matters that the auditors, management or the Committee believe should be discussed privately.
- Review with Baxter's Chief Executive Officer and Chief Financial Officer the matters that are the subject of those officers' certifications in the Corporation's quarterly and annual reports prior to the filing thereof.
- Discuss guidelines and policies governing the process by which Baxter's senior management and its relevant departments assess and manage risk, as well as the Corporation's major financial risk exposures and the steps taken to monitor and control them.
- Issue the report required by SEC rules to be included in the annual proxy statement.
- Review with the General Counsel any legal matters that could have a significant impact on the Corporation's financial statements.
- As appropriate, secure advice and assistance from independent legal, accounting or other advisers, with or without prior Board approval, the costs thereof to be borne by Baxter.
- If necessary, institute special investigations and, if appropriate, hire special counsel or experts to assist in such investigations as needed, the costs thereof to be borne by Baxter.
- Review the policies and procedures in effect for considering officers' expenses and perquisites.

- Perform such other oversight functions as assigned by law, the Corporation's articles of incorporation, as amended or restated, the bylaws of the Corporation or the Board of Directors.
- Conduct an annual performance assessment of the Committee and review and discuss the adequacy of the Audit Committee Charter on an annual basis, or more frequently upon changes to the membership of the Committee or as otherwise needed.

*Revised and approved by the Baxter International Inc. Board of Directors  
February 24, 2004*