

Guidant Corporation

Audit Committee Charter

I. Purpose

The Audit Committee is appointed by the Board of Directors to assist the Board in fulfilling its oversight responsibilities by reviewing 1) the integrity of the Company's financial statements, 2) the independent auditor's performance, qualifications and independence, 3) compliance with laws, regulations and the Company's Code of Business Conduct in coordination with the Compliance Committee and 4) the effectiveness of the Company's internal controls and the performance of the internal audit function.

The Committee will encourage continuous improvement of and adherence to sound policies and practices related to the Committee's objectives. The Committee will monitor the financial reporting process and serve as an open avenue of communication among the independent auditor, management, the internal audit function and the Board.

II. Composition and Term

The Committee will be comprised of three or more directors annually appointed by the Board on the recommendation of the Corporate Governance Committee. At least one member of the Committee will serve concurrently on the Compliance Committee.

Each member will be both independent and financially literate, in keeping with the requirements of the New York Stock Exchange (NYSE), the Securities Exchange Act of 1934 (Exchange Act) and rules and regulations of the Securities and Exchange Commission (SEC). At least one member will satisfy NYSE and SEC standards for accounting and financial management expertise. Compliance with these requirements will be determined by the Board in its business judgment and in accordance with applicable rules and regulations.

Members will not be paid or accept a consulting, advisory or other compensatory fee from the Company (except in the capacity of a director and Committee member). No member of the Committee may serve simultaneously on the audit committees of more than two other public companies.

III. Meetings

The Committee will meet at least four times annually or more frequently as circumstances dictate.

The Committee's key supporting staff includes the Vice President and Chief Financial Officer, independent auditor, internal audit vice president and the Chief Accounting Officer. The Committee may ask other members of management to attend meetings and provide pertinent information. The Committee will meet periodically with management, internal auditors and the independent auditor in separate executive sessions.

IV. Committee Authority and Responsibilities

The Committee will have the sole authority to directly appoint, retain, compensate, evaluate and terminate the independent auditor. Such appointment or related matters may be submitted for shareholder ratification. The Committee will be directly responsible for the compensation and oversight of the work of the independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. The independent auditor will report directly to the Committee.

The Committee will preapprove all auditing services and permitted non-audit services, including the fees and terms thereof, to be performed for the Company by its independent auditor (subject to the Exchange Act's de minimus exception for certain non-audit services approved by the Committee prior to the completion of the audit). The Chair of the Committee may grant preapprovals of audit and permitted non-audit services, provided that such decisions will be presented to the full Committee at its next scheduled meeting.

The Committee will have the authority, to the extent it deems necessary or appropriate, to retain independent legal, accounting or other advisors. The Company will provide for appropriate funding, as determined by the Committee, for payment of compensation to the independent auditor for the purpose of rendering or issuing an audit report and to any advisors employed by the Committee.

The Committee will make regular reports to the Board. The Committee will review and reassess the adequacy of this charter annually and recommend any proposed changes to the Board for approval. The Committee will annually evaluate the Committee's own performance.

The Committee, to the extent it deems necessary or appropriate, will:

Internal Control and Process Effectiveness:

1. Evaluate whether management is effectively communicating the importance of internal controls and process effectiveness.
2. Evaluate management's response to internal control and process improvement recommendations made by internal audit and independent auditor teams.
3. Encourage the global leveraging of identified leading practices.

Financial Reporting:

4. Review and discuss the annual financial statements and management's discussion and analysis with management and the independent auditor and recommend to the Board whether the audited financial statements should be incorporated in the Company's Form 10-K.
5. Review with management, and the independent auditor, quarterly financial results prior to the release of earnings. The Chair or other designated member of the Committee may represent the entire Committee for purposes of this review.

6. Review and discuss with management and the independent auditor the Company's quarterly financial statements prior to the filing of its Form 10-Q, including the results of the independent auditors' review of the quarterly financial statements.
7. Discuss with management and the independent auditor:
 - A. Significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including any significant changes in the Company's selection or application of accounting principles;
 - B. Any major issues as to the adequacy of the Company's internal controls and any special actions adopted in light of material control deficiencies; and
 - C. Significant risks and exposures and the effectiveness of management plans to minimize them.
8. Review and discuss quarterly reports from the independent auditors on:
 - A. All critical accounting policies and practices to be used;
 - B. All alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments and the treatment preferred by the independent auditor; and
 - C. Other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences.
9. Periodically discuss with management the Company's use of "pro forma" or "adjusted" non-GAAP information, as well as financial information and earnings guidance provided to analysts and rating agencies.
10. Discuss with the independent auditor the matters required to be discussed by Statement on Auditing Standards No. 61 relating to the conduct of the audit, including any difficulties encountered in the course of the audit work, restrictions on the scope of activities or access to requested information and any significant disagreements with management.
11. Discuss with the CEO and CFO any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Company's internal controls, including discussions that may arise in the course of the CEO and CFO's certification process for the Form 10-K and Form 10-Q.
12. Discuss with management and the independent auditor the effect of regulatory and accounting initiatives, as well as any off-balance-sheet structures, on the Company's financial statements.

13. Review with the General Counsel legal matters that could have a significant impact on the financial statements.

Ethical and Legal Compliance:

14. Together with the Compliance Committee, review compliance with applicable laws and regulations, the Guidant Code of Business Conduct and Customer Relationship Policies.
15. Review with the General Counsel legal compliance matters, including corporate securities trading policies.
16. Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters. Periodically review these procedures and their results.

Independent Auditors:

17. Evaluate the qualifications, performance and independence of the independent auditor, including:
 - A. Review and evaluate the lead partner of the independent auditor team.
 - B. Obtain and review a report from the independent auditor at least annually regarding (i) the independent auditor's internal quality-control procedures, (ii) 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 with respect to one or more independent audits carried out by the firm, (iii) any steps taken to deal with any such issues and (iv) all relationships between the independent auditor and the Company.
 - C. Consider whether the auditor's quality controls are adequate and whether the provision of permitted non-audit services is compatible with maintaining the auditor's independence, taking into account the opinions of management and internal auditors.

The Committee will present its conclusions with respect to the independent auditor to the Board.

18. Oversee the rotation of the lead (or coordinating) audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit, as required by law.
19. Review the Company's proposed hiring of employees or former employees of the independent auditor who participated in any capacity in the audit of the Company.
20. Review the independent auditors' proposed audit scope and approach, including the manner in which it coordinates with internal audit.

Internal Audit:

21. Review the internal audit function, including its independence, authority and reporting obligations, its effectiveness, proposed control review plans and resources for the coming year and coordination of its plans with the independent auditor.
22. Review and concur in the appointment, replacement, reassignment or dismissal of the internal audit vice president.

Other Responsibilities:

23. Review and update this Charter annually and receive approval of changes from the Board.
24. Review the security and control processes within the worldwide information systems environment.
25. Review treasury and risk management policies and controls including foreign exchange and derivative transactions, capital and debt structure, insurance programs and business continuity plans.
26. Review the nature of operations, financial condition and internal control adequacy of newly acquired or newly formed entities following the closing of a material merger, acquisition or joint venture.
27. Conduct or authorize investigations into any matters within the Committee's scope of responsibilities.