

# **Audit Committee Charter**

## **Purpose**

The Audit Committee (the "Committee") of the Board of Directors (the "Board") of Zimmer Holdings, Inc. (the "Company") is appointed by the Board to assist the Board in fulfilling its responsibility to oversee (1) the integrity of the Company's financial statements, (2) the independent auditor's qualifications and independence, (3) the performance of the Company's internal audit function and independent auditors, and (4) the Company's compliance with legal and regulatory requirements.

The Committee is also responsible for producing the annual report required by the rules of the Securities and Exchange Commission (the "SEC") to be included in the Company's proxy statement.

## **Committee Membership**

The Committee shall consist of at least three directors. The members of the Committee shall meet the independence and experience requirements of the New York Stock Exchange and Rule 10A-3(b)(1) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). At least one member of the Committee shall be an "audit committee financial expert" as defined by the SEC. Committee members shall not simultaneously serve on the audit committees of more than two other public companies.

The members and the Chair of the Committee shall be appointed by the Board on the recommendation of the Corporate Governance Committee. Committee members may be replaced by the Board. The determination of a director's qualification to serve on the Committee shall be made by the Board in keeping with the applicable requirements and definitions of the New York Stock Exchange, the Exchange Act and the SEC. The Committee may form and delegate authority to subcommittees of one or more members when appropriate, provided the subcommittees are composed entirely of independent directors.

## **Committee Authority and Responsibilities**

The Committee's job is one of oversight, recognizing that the Company's management is responsible for preparing the Company's financial statements and for developing and maintaining systems of internal accounting and financial controls and that independent auditors are responsible for their audit of the financial statements and obtaining the necessary understanding of the internal controls to conduct the audit, along with reporting identified areas of improvement in internal controls identified during the course of the audit. The Committee also recognizes that the financial management and the internal and independent auditors have more knowledge and information about the Company than do Committee members. Consequently, in carrying out its oversight responsibilities, the Committee is not providing any expert or special assurance as to the Company's financial statements or internal controls or any professional certification as to the independent auditor's work.

In discharging its oversight role, the Committee shall have full access to all books, records, facilities and personnel of the Company. The Committee shall also have authority to obtain advice and assistance from external legal, accounting or other advisors, without consulting or obtaining the approval of the full Board or any officer of the Company in advance. The Company shall provide 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 following functions shall be the common recurring activities of the Committee in carrying out its oversight responsibilities:

## **Oversight of the Company's Relationship with the Independent Auditor**

1. The Committee shall be directly responsible for the appointment, compensation, retention and oversight of the work of the independent auditor, including resolution of disagreements between management and the independent auditor regarding financial reporting. The independent auditor shall report directly to the Committee.
2. The Committee's appointment of the independent auditor shall be submitted to the stockholders of the Company for ratification at each annual meeting of stockholders. If a majority of stockholders voting on the matter do not ratify the Committee's selection, the Committee will reconsider its choice of independent auditor taking into consideration the views of the stockholders and may, but will not be required to, appoint a different independent auditor.

3. The Committee shall preapprove all auditing services and permissible non-audit services, including the fees and terms thereof, to be provided to the Company by the independent auditor, either before the independent auditor is engaged for the particular service or pursuant to preapproval policies and procedures established by the Committee, subject to the de minimis exception for non-audit services described in Section 10A(i) of the Exchange Act.
4. The Committee shall, at least annually, obtain and review a report by the independent auditor describing (a) the independent auditor's internal quality control procedures, (b) 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.
5. The Committee shall review and evaluate the lead partner of the independent auditor team.
6. The Committee shall receive from the independent auditor, at least annually, a formal written report delineating all relationships between the independent auditor and the Company consistent with Independence Standards Board Standard No. 1, as amended or supplemented. The Committee shall discuss with the independent auditor the independent auditor's independence, including any relationships or services that may impact the objectivity and independence of the independent auditor and shall recommend, if necessary, that the Board take appropriate action in response to the independent auditor's report to satisfy itself of the auditor's independence.
7. The Committee shall evaluate the qualifications, performance and independence of the independent auditor, including considering whether the auditor's quality controls are adequate and the provision of permitted non audit services is compatible with maintaining the auditor's independence, and taking into account the opinions of management and internal auditors. The Committee shall present to the Board its conclusions with respect to the independent auditor.
8. The Committee shall be responsible for ensuring the rotation of the independent auditor's lead or coordinating audit partner having primary responsibility for the Company's audit, the concurring or reviewing partner and other audit engagement team partners as required by law.
9. The Committee shall consider whether, in order to assure continuing auditor independence, it is appropriate to adopt a policy of rotating the independent auditing firm on a regular basis.
10. The Committee shall recommend to the Board policies for the Company's hiring of employees and former employees of the independent auditor who participated in the audit of the Company.

## **Financial Statement and Disclosure Matters**

11. The Committee shall review with the independent auditor and with management the proposed scope of the annual audit, past audit experience, the Company's program for the internal examination and verification of the Company's accounting documents and supporting data, recently completed internal examinations of the Company's accounting documents and supporting data and other matters bearing upon the scope of the audit.
12. The Committee shall meet to review and discuss with management and the independent auditor the Company's annual audited financial statements to be included in the Company's Annual Report on Form 10-K (or the Annual Report to Shareholders if distributed prior to the filing of Form 10-K), including reviewing the Company's specific disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations," and shall discuss with the independent auditor the matters required to be discussed by Statement of Auditing Standards ("SAS") No. 61, as amended or supplemented.
13. Based on the reviews and discussions referred to in paragraphs 5 and 11 of this Charter, the Committee shall determine whether to recommend to the Board that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K.
14. In connection with the review by the independent auditor of the financial information included in the Company's Quarterly Reports on Form 10-Q, the Committee shall meet to review and discuss with management and the independent auditor the quarterly financial statements prior to their public release, including reviewing the Company's specific disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations," and shall discuss with the independent auditor the matters required to be discussed by SAS No. 61, as amended or supplemented.

15. The Committee shall discuss with management the Company's earnings press releases, and review the type and presentation of information to be included therein, including the use of "pro forma" or "adjusted" non-GAAP information, and the Committee shall from time to time discuss in general the types of financial information and earnings guidance to be disclosed and the type of presentations to be made to analysts and rating agencies, provided that the Committee is not required to discuss in advance each instance in which the Company may provide earnings guidance or other information to analysts or rating agencies.
16. The Committee shall review major issues regarding accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting principles.
17. The Committee shall review major issues as to the adequacy of the Company's internal controls and any special audit steps adopted in light of material control deficiencies.
18. The Committee shall review analyses prepared by management and/or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements.
19. The Committee shall review the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Company.
20. The Committee shall review and discuss reports from the independent auditor on:
  - all critical accounting policies and practices to be used;
  - all alternative treatments of financial information within GAAP 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
  - other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences.
21. The Committee shall review with the independent auditor any audit problems or difficulties encountered in the course of the audit work, including any restrictions on the scope of the independent auditor's activities or on access to requested information, and management's response.
22. The Committee shall discuss with management the Company's policies with respect to risk assessment and risk management, the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures.
23. The Committee shall review disclosures made to the Committee by the Company's CEO and CFO during their certification process for the Form 10-K and Forms 10-Q about 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.

### **Oversight of the Company's Internal Audit Function**

24. The Committee shall review and approve the appointment or termination of the director/vice president of internal audit.
25. The Committee shall review the significant reports to management prepared by the internal auditing department and management's responses.
26. The Committee shall discuss with the independent auditor and management the internal audit department responsibilities, budget and staffing and any recommended changes in the planned scope of the internal audit.
27. The Committee shall review with the Board the performance of the Company's internal audit function.

### **Other Responsibilities**

28. The Committee shall establish and maintain 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 the Company of concerns regarding questionable

accounting or auditing matters.

29. The Committee shall receive reports on material legal and regulatory affairs, including litigation, and monitor the Company's annual Code of Business Conduct documentation and corrective actions.
30. The Committee shall obtain from the independent auditor assurance that the provisions of Section 10A(b) of the Exchange Act respecting the detection and reporting of illegal acts have not been implicated.
31. The Committee shall be responsible for ensuring that the Company has an effective information technology disaster recovery plan.
32. The Committee shall review and make recommendations to the Board concerning the Company's policies with regard to affiliate transactions and also with regard to review of CEO and selected officers' expense accounts and verification of perquisites policies. Affiliates in this context are defined as employees, directors, and other parties closely related to the Company.
33. The Committee shall review and make recommendations to the Board concerning the Company's financing plans and policies.
34. The Committee shall meet at least four times per year, or more frequently as circumstances dictate. Any member of the Committee may call a meeting of the Committee. A quorum for a meeting shall be a majority of Committee members. The Committee shall meet in separate sessions, periodically, with management, with internal auditors and with the independent auditor.
35. The Committee shall maintain minutes or other records of its meetings and make reports on its meetings to the Board.
36. The Committee shall review and reassess the adequacy of this Charter on an annual basis and shall make recommendations to the Board, as conditions dictate, to update this Charter.
37. The Committee shall annually review its own performance.

Last Reviewed and Revised on December 15, 2004