

IBM Audit Committee Charter

Purpose

The Audit Committee will assist Board oversight of the integrity of the Company's financial statements, compliance with legal and regulatory requirements, the independent accountant's qualifications and independence, and the performance of the internal audit function and independent accountants who are ultimately responsible to the Audit Committee and the Board of Directors. The Audit Committee will report to the shareholders in the Company's annual proxy statement. The Committee should keep an open line of communication between the Committee, the independent accountants, the internal auditors, and financial management.

In carrying out its responsibilities, the Audit Committee believes that the policies and procedures delineated in this Charter should remain flexible, in order to react best to changing business and regulatory requirements.

Organization

The Audit Committee will be composed of at least three outside directors who are not officers or employees of IBM or its subsidiaries, are independent of management under the independence standards of the New York Stock Exchange, as promulgated from time to time.

The members of the Audit Committee must each be financially literate, and at least one member of the Audit Committee must have accounting or financial management expertise, as defined by the New York Stock Exchange. In addition, the Company must disclose, as required by the Securities and Exchange Commission, whether the Board has determined that there is at least one Audit Committee financial expert serving on the Audit Committee. The Board of Directors judges the qualification and independence of directors for service on the Audit Committee. Membership on the Audit Committee will be based on Board election.

The Audit Committee will meet regularly to perform its duties, and is scheduled to meet five times a year.

The Company will provide appropriate funding, as determined by the Audit Committee, to pay the independent accountants, any outside advisors hired by the Audit Committee, and any administrative expenses of the Audit Committee.

Roles and Responsibilities

Financial Reporting

1. Discuss as appropriate with senior financial management and as necessary with the independent accountants, significant assumptions, estimates, and judgments used in the preparation of the consolidated financial statements.
2. Review and discuss with management IBM's quarterly financial statement submission on form 10-Q, including the MD&A, prior to its release to the SEC. Review the financial section of the IBM Annual Report on form 10-K, including the MD&A, prior to its release to shareholders and filing with the SEC. Recommend to the Board of Directors that the audited financial statements be included in the Company's Annual Report on form 10-K. As part of this review, discuss with senior financial management and the

independent accountants the accounting principles as applied, their quality, and significant assumptions, estimates, and judgments used in the preparation of the consolidated financial statements. At least annually, discuss with management their approach to earnings press releases and the type of financial information and earnings guidance provided to analysts and rating agencies.

3. Review any significant changes in accounting principles or developments in accounting practices and the effects of these changes upon the Company's financial reporting.

Independent Accountant

4. Select the independent accountants and approve all related fees and compensation. Review that selection with the Board of Directors. Oversee the work of the independent accountant, including resolution of any disagreements between the Company and the independent accountant regarding financial reporting.
5. On an annual basis, review the audit and non-audit fees and services provided by the independent accountant. Approve the Company's proxy disclosure with respect to such fees and approve for the coming year the fees to be paid to the independent accountant including non-audit services.
6. To review the independent accountant's independence, annually review the independent accountant's report of the relationships between the independent accountant and the company. Discuss any relationships or services that may impact their objectivity and independence. Review the firm's internal quality control procedures and any material issues. Also review any inquiry by regulatory authorities regarding independent accounting by the firm. Recommend to the Board of Directors any appropriate actions in response to these reports.
7. Review with the independent accountant any audit problems or difficulties and management's response. Conduct private review sessions at least annually with the independent accountant.
8. Assess the effectiveness of the independent accountant audit. Review the scope of the independent accountant's proposed audit for the current year and review the annual audit report which is subsequently produced.

Internal Audit Function and Process

9. Assess the effectiveness of the internal audit effort through regular meetings conducted separately with the independent accountant and internal auditors. Review the performance of the Company's General Auditor. Conduct private review sessions at least annually with the General Auditor.
10. Review the scope of the internal audit plan for the current year and review the summary of the results.

11. Review with the internal auditors the adequacy of the system of internal controls and the responsiveness of management in correcting audit-related deficiencies. Discuss policies regarding risk assessment and risk management.

Internal Controls

12. Review the implementation of the Business Conduct Guidelines and management's system to monitor compliance with the Guidelines.
13. Ensure compliance with the process for hiring employees of the independent accountant into significant Company positions.
14. Oversee the adequacy of internal controls and procedures related to officers' expense accounts.
15. Review litigation issues and any other risks or exposures as deemed appropriate by the Committee.

Other Committee Responsibilities

16. Following each meeting, report on the proceedings of the Audit Committee to the full Board of Directors.
17. Reassess the adequacy of the Audit Committee charter annually.
18. Meet periodically in executive session to discuss the Company's financial results as reported in the Quarterly and Annual Reports and hold other executive sessions as necessary, including a session for the annual evaluation of the Committee's own performance.
19. Obtain advice and assistance from outside legal, accounting or other advisors as required to assist in the execution of Committee responsibilities. As necessary, conduct or authorize independent reviews.
20. Maintain procedures for the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and for the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

Approved January 27, 2004