

MENTOR GRAPHICS CORPORATION AUDIT COMMITTEE CHARTER

Purpose

The purpose of the Audit Committee (the “Committee”) is to oversee the accounting and financial reporting processes of Mentor Graphics Corporation (the “Company”) and the audits of the financial statements of the Company, and to otherwise provide assistance to the Board of Directors (the “Board”) of the Company in fulfilling the Board’s oversight of the Company’s accounting and system of internal controls, the quality and integrity of the Company’s financial reports and the independence and performance of the Company’s outside auditor.

In the exercise of its oversight, it is not the duty of the Committee to plan or conduct audits or to determine that the Company’s financial statements fairly present the Company’s financial position and results of operation and are in accordance with generally accepted accounting principles. Instead, such duties remain under the oversight of management and the outside auditor. Nothing contained in this charter is intended to alter or impair the operation of the “business judgment rule” as interpreted by the courts under the Oregon Business Corporation Act (the “OBCA”). Further, nothing contained in this charter is intended to alter or impair the right of the members of the Committee under the OBCA to rely, in discharging their oversight role, on the records of the Company and on other information presented to the Committee, Board or Company by its officers or employees or by outside experts such as the outside auditor. It is acknowledged that all of the areas of oversight listed below may not be relevant to all of the matters and tasks that the Committee may consider and act upon from time to time, and the members of the Committee in their judgment may determine the relevance thereof and the attention such items will receive in any particular context.

Membership

The Committee shall consist of three to five members of the Board as determined from time to time. The members shall be appointed by action of the Board and shall serve at the discretion of the Board. The Committee shall satisfy the independence and experience requirements of The Nasdaq Stock Market, including any exceptions thereto.

Committee Organization and Procedures

1. The Board shall appoint a Chair of the Committee by majority vote. The Chair (or in her or his absence, a member designated by the Chair) shall preside at all meetings of the Committee.
2. The Committee shall meet at least three times in each fiscal year, and more frequently as the Committee in its discretion deems desirable.
3. The Committee may include in its meetings members of the Company’s financial management, representatives of the outside auditor, any senior internal audit manager and other financial personnel employed or retained by the Company. The Committee may meet with the outside auditor or the senior internal audit manager in separate executive sessions to discuss any matters that the Committee believes should be addressed privately, without management’s presence. The Committee may also meet privately with management, as it deems appropriate.
4. The Committee shall have authority to engage independent legal, accounting and other advisers, as it determines necessary to carry out its duties. The Company will pay all compensation of such advisers approved by the Committee as well as all other ordinary administrative expenses of the Committee that are necessary or appropriate to carry out its duties.

Oversight

Outside Auditor

5. The Committee shall be directly responsible for the appointment, compensation, retention and oversight of the outside auditor engaged for the audit of the Company’s annual financial statements and related services. The outside auditor shall report directly to the Committee. The Committee shall resolve any disagreements between the outside auditor and management regarding financial reporting. The Committee shall review the independence and

performance of the outside auditor. The Committee shall pre-approve all audit services and permissible non-audit services to be performed by the outside auditor for the Company, including the fees and other terms of all such engagements. Alternatively, the Committee may establish pre-approval policies and procedures in accordance with applicable SEC rules.

6. The Committee shall receive from the outside auditor, at least annually, a written statement delineating all relationships between the outside auditor and the Company, consistent with Independence Standards Board Standard 1. The Committee shall discuss with the outside auditor with respect to any disclosed relationships or services that, in the view of the Committee, may impact the objectivity and independence of the outside auditor. If the Committee determines that further inquiry is advisable, the Committee shall take appropriate action in response to the outside auditor's independence.

Annual Audit

7. The Committee shall meet with the outside auditor and management in connection with each annual audit to discuss the scope of the audit and the procedures to be followed.

8. The Committee shall meet with the outside auditor and management prior to the public release of the financial results of operations for the year under audit and discuss with the outside auditor any matters within the scope of the pending audit that have not yet been completed.

9. The Committee shall discuss with the outside auditor the matters required to be discussed by Statement on Auditing Standards No. 61 relating to the conduct of the annual audit.

10. The Committee shall, based on the review and discussions in paragraphs 7 and 8 above, and based on the disclosures received from the outside auditor regarding its independence and discussions with the auditor regarding such independence in paragraph 5 above, recommend to the Board whether the audited financial statements should be included in the Company's Annual Report on Form 10-K for the fiscal year subject to the audit.

Quarterly Review

11. The outside auditor shall review the interim financial statements to be included in any Form 10-Q of the Company using professional standards and procedures for conducting such reviews, as established by generally accepted auditing standards as modified or supplemented by the Securities and Exchange Commission and in accordance with Statement on Auditing Standards 100, prior to the filing of the Form 10-Q. The Committee shall discuss with management and the outside auditor the results of the quarterly review including such matters as significant adjustments, management judgments, accounting estimates, significant new accounting policies and disagreements with management. The Chair or Acting Chair may represent the entire Committee for purposes of this discussion.

Internal Controls

12. The Committee shall discuss with the outside auditor and the senior internal audit manager, at least annually, the adequacy and effectiveness of the accounting and financial controls of the Company, and consider any recommendations for improvement of such internal control procedures.

13. The Committee shall discuss with the outside auditor and with management any significant management letter provided by the outside auditor and any other significant matters brought to the attention of the Committee by the outside auditor as a result of its annual audit.

Internal Audit

14. The senior internal audit manager shall furnish to the Committee a copy of each audit report prepared and issued by the internal auditors.

15. The Committee shall discuss with the senior internal audit manager the activities and organizational structure of the Company's internal audit function, the qualifications of the primary personnel performing such function, and any reports prepared by him or her or any other matters brought to the attention of the Committee by the senior internal audit manager.

Procedures for Handling Complaints

16. The Committee shall establish and maintain procedures for:
- The receipt, retention and treatment of complaints received by the issuer regarding accounting, internal accounting controls or auditing matters, and
 - The confidential, anonymous submission by employees of the issuer of concerns regarding questionable accounting or auditing matters.

Miscellaneous

17. The Committee shall review and reassess the Committee's charter at least annually and submit any recommended changes to the Board for its consideration.

18. The Committee shall review legal and regulatory matters that may have a material impact on the financial statements and related compliance policies and programs.

19. The Committee shall provide the report for inclusion in the Company's Annual Proxy Statement required by Item 407(d)(3) of Regulation S-K of the Securities and Exchange Commission.

20. The Committee, through its Chair, shall report periodically, as deemed necessary or desirable by the Committee, but at least annually, to the full Board regarding the Committee's actions and recommendations, if any.

21. The Committee shall review all transactions with related persons, as defined in Item 404 of Regulation S-K or in which a related person has a direct or indirect interest, and, after reviewing the related person's interest in the transaction and the material facts, determine whether to ratify or approve the transaction, which transaction may only be ratified or approved if the Committee determines that the transaction is fair to the Company or that approval or ratification of the transaction is in the interest of the Company.

Last Updated: April, 2007