



CARPENTER TECHNOLOGY CORPORATION

AUDIT/FINANCE COMMITTEE CHARTER

I. Purpose

The purpose of the Audit/Finance Committee (the “Committee”) shall be to assist the Board of Directors in its oversight of (i) the integrity of the Company’s financial statements, (ii) the qualifications, independence, appointment and performance of the Company’s independent auditor, (iii) the performance of the Company’s internal audit personnel and (iv) the Company’s overall compliance with accounting, legal, regulatory, ethical and business conduct requirements. The Committee’s purpose also includes the review of (and the provision of recommendations to the Board of Directors relating to) major financial matters affecting the Company.

II. Membership

A. Criteria for Membership. The Committee shall be comprised of at least three members, all of whom shall be appointed by the Board of Directors following its determination that each such person is financially literate, is an independent director under the listing requirements of the New York Stock Exchange (“NYSE”) and satisfies any additional requirements for independence established by the Securities and Exchange Commission (“SEC”) for members of an audit committee. At least one member of the Committee must qualify as a “financial expert” within the meaning of applicable SEC or NYSE requirements. The Chair of the Committee shall be selected from its members by the Corporate Governance Committee, subject to approval by the Board of Directors.

B. Selection of Committee Members. In making appointments to the Committee, the Board of Directors shall consider the desirability of having (1) periodic rotations of Committee members and, in evaluating such periodic rotations, the benefits of a Director’s continuity of service on the Committee, as well as the particular skills and experience of each Director which may be beneficial for continued service as a member of the Committee shall be considered, and (ii) no Committee member simultaneously serving on more than three audit committees of public companies, where it is practical and consistent with ensuring that Committee members satisfy the above criteria and can perform the duties contemplated for the Committee. Other criteria for membership on the Committee may be established by the Board of Directors.

C. Appointment and Removal. Each member of the Committee shall be appointed by the Board of Directors and shall serve until such member’s successor is duly elected and qualified or until such member’s earlier resignation or removal. The members of the Committee may be removed, with or without cause, at any time, by a majority vote of the Board of Directors. Should any member of the Committee cease to satisfy the criteria for membership described above in this Section II, such member shall immediately tender his or her resignation from the

Committee. In the case of a vacancy on the Committee, the Board of Directors may appoint an independent Director to fill the vacancy.

D. Chairperson of the Committee. Unless a chairperson of the Committee is elected by the full Board of Directors, the members of the Committee shall designate a chairperson (“Chair”) by majority vote of the full Committee membership. The Chair shall be entitled to cast a vote in addition to his or her vote as a member of the Committee, if necessary to resolve any ties. The Chair will chair all regular sessions of the Committee and set the agendas for Committee meetings.

III. Duties, Responsibilities and Authority

The duties, responsibilities and authority of the Committee in furtherance of its purposes shall include the following specific matters, along with such others that the Committee may consider prudent or advisable within the scope of the general authority delegated by the Board of Directors. In connection therewith, the Committee may develop a set of key practices or guidelines to facilitate its performance.

A. Audit Function Matters

1. The Committee has the authority and responsibility to select, evaluate, compensate, propose for stockholder ratification and, where appropriate, replace the firm engaged by the Company as its independent public accountant to examine and report upon the financial statements of the Company (the “External Auditor”). The External Auditor shall be directly accountable to the Board of Directors, but shall be required to report directly to the Committee.

2. The Committee shall review and approve the hiring (or retention or dismissal, as the case may be) of all Company personnel dedicated to the performance of the Company’s internal audit function, including, without limitation, the Company’s Director-Internal Audit.

3. The Committee shall maintain a direct and separate line of communication between itself and each of the Director-Internal Audit and the External Auditor.

4. With respect to financial reporting:

a. The Committee shall review and discuss with management and the External Auditor the Company’s annual audited financial statements, quarterly unaudited financial statements, annual report on Form 10-K, quarterly reports on Form 10-Q and any current report on Form 8-K that contains financial statement information, and in connection therewith



shall pay particular attention to the Company's "Management's Discussion and Analysis of Financial Condition and Results of Operations" disclosures required by SEC rules and regulations, and any material changes in accounting policy. The Committee shall approve any financial statements included in any such report or otherwise disseminated to the Company's stockholders or the public or to analysts or rating agencies, and must recommend to the Board of Directors whether the annual audited financial statements should be included in the Company's annual report on Form 10-K. The Committee shall report regularly to the Board of Directors, and review with the Board of Directors, any issues that arise with respect to the quality or integrity of the Company's financial statements.

b. The Committee shall review and discuss earnings press releases, focusing particular attention on any use of pro forma, or "adjusted" non-GAAP, financial information and earnings guidance.

c. The Committee shall review significant accounting, auditing and similar pronouncements of the SEC, the Public Company Accounting Oversight Board, Financial Accounting Standards Board and The American Institute of CPAs.

d. While the fundamental responsibility for the Company's financial statements and disclosures rests with management and the External Auditor, the Committee shall review:

(1) major issues regarding the Company's selection or application of accounting principles, financial statement presentations, and the adequacy of the Company's internal control over financial reporting;

(2) analyses prepared by management and/or the External Auditor with respect to significant financial reporting issues and judgments, including the effects of alternative GAAP methods on the financial statements; and

(3) the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Company.

e. The Committee shall review and approve the Audit Committee Report required by Item 407(d)(3)(i) of Regulation S-K of the Securities Act of 1933 and Securities Exchange Act of 1934, each as amended to be included in the Company's annual proxy statement.



5. With respect to internal control, the Committee shall review management's quarterly and annual reports evaluating internal control over financial reporting, and shall review and discuss with management and the External Auditor their respective separate examinations and assessments of such internal control, to determine whether the Company's administrative, operational and internal accounting controls have been periodically reviewed and examined to ensure that the Company is operating in accordance with its prescribed procedures and codes of conduct, or to ascertain whether there are any significant deficiencies, material weaknesses or other matters that warrant attention.

6. With respect to compliance matters:

a. The Committee shall oversee and review the adequacy of the Company's procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters (including procedure for the confidential, anonymous submissions of such concern).

b. The Committee shall receive and review reports from management concerning compliance with the Company's policies relating to ethics and/or business conduct.

c. The Committee shall review significant legal and regulatory matters that may impact the Company, and will report regularly to (and review with) the Board of Directors any compliance concerns or issues.

d. At least annually, the Committee shall meet with the Company's General Counsel separately in executive session (without other members of management) to discuss compliance matters.

7. With respect to the External Auditor:

a. The Committee shall be directly and solely responsible for the appointment (subject to stockholder ratification), compensation and oversight of the work of the External Auditor (including pre-approval of all audit engagement fees and terms as well as all non-audit engagements with the External Auditor).

b. The Committee shall evaluate the External Auditor's qualifications, performance and independence, which evaluation shall include a review of the performance of the lead partner of the External Auditor and shall take into account the opinions of management and the Company's Director-Internal Audit. At least annually, the Committee shall obtain and review:

(1) a report by the External Auditor describing the External Auditor's 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, and any steps taken to deal with any such issues; and

(2) the independence letter issued by the External Auditor under Independence Standards Board Standard No.1.

c. The Committee shall meet periodically and separately with the External Auditor in executive session (without management) to discuss any audit issues and management's response thereto, including any restrictions on the scope of the External Auditor's activities or on access to requested information, and any significant disagreements with management. The Committee shall resolve any such disagreements.

d. The Committee shall establish (and revise as necessary) hiring policies for employees or former employees of the External Auditor.

e. The Committee shall continually explore ways to improve its working relationship with the External Auditor, including processes that permit informal discussion of accounting treatments well in advance of reporting deadlines.

8. With respect to internal audit matters:

a. The Committee will have functional oversight responsibility for the Company's Director-Internal Audit, with administrative oversight by the Company's Chief Financial Officer. The Committee will review periodically, at least annually, this administrative oversight relationship to ensure it continues to provide the access, support, independence and objectivity needed for the overall internal audit function.

b. The Committee demonstrates this functional oversight responsibility by:

(1) Approving the internal audit charter

(2) Approving the risk based internal audit plan

(3) Receiving communications from the Director – Internal Audit on internal audit's performance relative to the plan and other matters;



- (4) Reviewing the sufficiency and qualifications of personnel dedicated to the performance of the internal audit function;
- (5) Approving decisions regarding the appointment, replacement or dismissal of the Director – Internal Audit;
- (6) Reviewing the performance of the Director – Internal Audit and concurring with the annual compensation and salary adjustments;
- (7) Making appropriate inquiries of management and the Director – Internal Audit to determine if there is inappropriate scope or resource limitations; and
- (8) Meeting separately in executive session (without the External Auditor or management) with the Company’s Director – Internal Audit to review the responsibilities, budget and staffing of the internal audit function and any concerns the Director – Internal Audit may have.

B. Finance Function Matters

- 1. The Committee shall review all proposed changes to the capital structure of the Company, including any proposed issuance of long-term indebtedness or additional equity securities (other than stock-based employee compensation arrangements), and make appropriate recommendations to the Board of Directors as warranted.
- 2. The Committee shall periodically review (at least annually) the Company’s cash management strategies and financing requirements with respect to cash utilization, including short-term borrowings, to assess whether those matters are being handled consistent with sound financial policy and return on investment goals, as outlined in the Company’s short-term and long-term business plan.
- 3. The Committee shall review each capitalized long-term lease over \$1,000,000.
- 4. The Committee shall review dividend practices and make recommendations, as appropriate, to the Board of Directors.



5. The Committee shall (a) review and monitor the Committee's adoption of and compliance with procedures for (1) the selection, appointment or removal of trustees and investment managers for each of the Company's employee benefit plan funds; (2) reviewing and approving Investment Policy Guidelines to be followed by each investment manager and trustee; and (3) reviewing and monitoring the performance of the investment managers and trustees in relation to the requirements of the Investment Policy Guidelines and the Employee Retirement Income Security Act ("ERISA"); (b) review and approve actuarial assumptions associated with asset allocations for the pension funds; and (c) review projected annual pension fund contributions for each plan year.

6. The Committee shall act in an advisory capacity (which may be through its Chair or another individual member) in support of management's evaluation of potential financially-oriented transactions, such as significant capital expenditures, acquisitions, divestitures or re-financings.

7. With respect to swap and hedging transactions, the Committee shall (a) periodically (but at least annually) review the Company's exemption from the mandatory clearing requirements of Section 2(h)(1) and 2(h)(8) of the Commodity Exchange Act (the "CEA") pursuant to the "end user exception" contained in Section 2(h)(7) of the CEA and Part 39 of the rules promulgated by thereunder, including the decision to elect a general exemption versus a trade-by-trade exemption, and make all necessary determinations thereby on behalf of the Company, and (b) annually review all swap and hedging policies of the Company and recommend any changes to the Board of Directors, including the adoption of new policies or amendment or extension of existing policies.

8. The Committee shall review and recommend financial data and related performance to targets for inclusion in the Compensation Committee's review and approval of incentive compensation for the Company's executive officers.

C. Related Party Transactions

1. No director or executive officer shall participate in any transaction in which the Company or its subsidiaries are financially interested, unless the Committee or the full Board approves the participation in advance, after full disclosure. These transactions include, but are not limited to, transactions required to be disclosed by the Company under Item 404 of the SEC's Regulation S-K, and shall also include any other transaction in which the Company or any of



its subsidiaries has an expectation of profit or the reasonable possibility of loss or liability.

2. In determining whether to approve the participation of a director or executive officer in any such transaction, the Committee shall consider whether such participation is consistent with the purposes and principles of the Company's Code of Business Conduct and Ethics and is in compliance with applicable law.

3. Participation for these purposes includes both direct, personal participation of a director or executive officer and indirect participation because of the involvement of immediate family members or entities controlled by the director or executive officer and/or their immediate family members.

4. An executive officer for these purposes, and for purposes of the approval of charitable contributions discussed below, shall be any officer of the Company designated by the Board as an executive officer for purposes of Section 16 of the Securities Exchange Act of 1934.

D. General and Miscellaneous Matters

The Committee shall have the resources and authority appropriate to discharge its responsibilities, including to investigate any matter brought to its attention within the scope of its duties and to obtain such advice or assistance (including, without limitation, outside legal, accounting, financial or other professional services) in connection therewith as the Committee deems necessary or appropriate for its activities, provided that the Committee shall give due regard to the reasonableness of the attendant costs. The Committee will be provided with appropriate funding by the Corporation, as the Committee determines, for the payment of (i) compensation of any independent auditor engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services, (ii) compensation to such outside advisors as it deems appropriate, and (iii) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties. Any communications between the Committee and outside counsel in the course of obtaining legal advice will be considered privileged communications of the Corporation and the Committee will take all necessary steps to preserve the privileged nature of those communications except to the extent otherwise determined by the Committee.

1. The Committee shall consider and discuss policies with respect to risk assessment and risk management, including (a) guidelines and policies to govern the process by which the assessment and management of the Company's exposure to risk is handled by senior management, and (b) the Company's major risk exposures and the steps management has taken to monitor and control such exposures.



2. The Committee shall conduct an annual self-evaluation, and shall also prepare annually a report outlining the activities undertaken by the Committee over the past year to meet the requirements of this Charter.

3. The Committee and its members shall be entitled to rely, in good faith, on opinions, reports, statements or other information prepared or presented to them by (a) officers and other employees of the Company or its affiliates whom such members believe to be reliable and competent in the matters presented, and (b) counsel, public accountants or other advisors as to matters that the members believe to be within the professional competence of such person. The Committee shall have the authority to perform such other functions that may from time to time be assigned to it by the Board of Directors.



IV. Procedural and Related Matters

A. The Committee shall meet at least four times annually (with each such meeting scheduled to coordinate with the review of financial results for the immediately concluded fiscal quarter), and may meet at such additional times as its Chair (or any two other members) may call therefor.

B. The Committee shall meet alone with the Chief Financial Officer at least twice per year. The Committee also shall meet alone with the auditors, internal and external, at least twice per year.

C. Subject to requirements elsewhere in this Charter for the Committee to meet in executive session (or alone with particular persons), the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Corporate Controller, Director-Internal Audit, Treasurer, General Counsel and Secretary, and a representative from the External Auditor, along with other employees or consultants of the Company as approved by the Chair, may attend Committee meetings. The Chair shall have the authority, however, to excuse any non-member from any meeting at any time.

D. The Committee shall report regularly to the Board of Directors on the Committee's activities, recommendations and conclusions.

E. The Secretary shall prepare minutes of meetings of the Committee for its review and approval; upon approval, all such minutes shall be made available to the Board of Directors.

F. Committee meetings may be held in person or telephonically, in accordance with the Corporation's By-Laws or applicable law. A majority of the members of the Committee shall constitute a quorum. The vote of a majority of its members shall be sufficient for action by the Committee. The Committee may also act by written consent in lieu of a meeting, but no written consent shall be a substitute for a meeting that is required hereby. All action taken by the Committee shall be reported to the Board of Directors at the next meeting of the Board following such action.

G. The Committee shall be a standing committee of the Board of Directors established pursuant to Section 3.1 of the Company's By-Laws.

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