

GRAHAM CORPORATION

**CHARTER OF THE AUDIT COMMITTEE
OF THE BOARD OF DIRECTORS**

Membership

Members of the Audit Committee of the Board of Directors (the “Board”) of Graham Corporation (the “Company”) shall be appointed by the Board and shall serve for such term or terms as the Board may determine or until earlier resignation or death. The Audit Committee shall consist of at least three (3) directors, each of whom shall be “independent” in accordance with Rule 10A-3 as promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and the independence and financial literacy requirements of the New York Stock Exchange (“NYSE”). Each member of the Audit Committee must have the ability to read and understand the Company's financial statements, including its balance sheet, income statement and cash flow statement, or shall be able to do so within a reasonable time. At least one member of the Audit Committee shall be an “audit committee financial expert”, as such term is defined in Section 407 of Regulation S-K promulgated by the Securities and Exchange Commission. In addition, at least one Audit Committee member (who may also serve as the “audit committee financial expert”) shall have past employment experience in finance or accounting, professional certification in accounting, or any other comparable experience which results in such person being financially sophisticated in accordance with the standards set forth in the NYSE Listed Company Manual. If a member of the Audit Committee serves simultaneously on the audit committee of more than two other public companies, the Board shall determine if this service will impair the member’s ability to serve on the Company’s Audit Committee.

Meetings, Structure and Procedures

The Audit Committee shall meet at least four (4) times per year, and shall report regularly to the Board regarding its actions and make recommendations to the Board as appropriate. One Audit Committee member shall serve as the Committee Chair and the Board shall determine which member shall be the Chair. The agenda of each Audit Committee meeting will be prepared under the direction of the Chair and, whenever practicable, circulated to each Audit Committee member prior to the meeting date. The Chair will preside, when present, at all Audit Committee meetings. The Audit Committee shall meet at such times and places as determined by the Chair, or as may be requested by any two (2) Audit Committee members, upon three (3) days’ notice to each member personally, by mail or by written telecommunication. In addition, the Audit Committee shall meet at such other times as it deems necessary or desirable to fulfill its responsibilities. The Audit Committee shall also periodically meet separately, in executive session, with the Company’s independent public accounting firm (the “independent auditor”) and with such Company management personnel, employees and advisors as the Audit Committee deems appropriate.

A majority of the Audit Committee shall constitute a quorum. Any action required or permitted to be taken at any Audit Committee meeting may be taken without a meeting if all members of the Audit Committee consent thereto in writing, and the writing or writings are filed

with the minutes of proceedings of the Audit Committee. Members of the Audit Committee may participate in an Audit Committee meeting by conference telephone or similar communications equipment whereby all persons participating in the meeting can hear each other, and participation in a meeting by these means shall constitute presence in person at the meeting.

Minutes shall be prepared for all meetings of the Audit Committee to document the Audit Committee's discharge of its responsibilities. The minutes shall be circulated in draft form to all Audit Committee members, and shall be approved as presented or as modified at a subsequent Audit Committee meeting.

Purpose

The Audit Committee shall work closely with the Board of Directors, the Company's management and the independent auditor in order to assist the Board of Directors in overseeing:

1. the integrity of the Company's financial statements and internal controls;
2. the Company's compliance with legal and regulatory requirements;
3. the independent auditor's qualifications and independence;
4. the performance of the Company's independent auditor; and
5. the planning for and performance of the Company's internal audit function.

The Audit Committee is also responsible for producing the report required by the Securities and Exchange Commission to be included in the Company's annual proxy statement. In addition, the Audit Committee is responsible for recommending to the Board the inclusion of the Company's financial statements in its Annual Report on Form 10-K and performing such other tasks as are consistent with this Charter.

Authority and Responsibilities

The Audit Committee shall:

1. Have authority to select, evaluate and, where appropriate, replace the independent auditor and to nominate the independent auditor for stockholder approval at the Company's annual meeting of stockholders. The independent auditor will report directly to the Audit Committee.
2. Have authority and direct responsibility to resolve any disagreements between Company management and the independent auditor regarding financial reporting.
3. Receive such funding from the Company as the Audit Committee deems appropriate for: (a) the compensation of the independent auditor; and (b) the payment of any expenses that the Audit Committee determines are necessary or appropriate to carry out its duties.

4. Pre-approve all audit services and permitted non-audit services to be performed by the independent auditor and establish policies and procedures for the engagement of the independent auditor to provide permitted non-audit services. The Audit Committee may delegate to one or more of its members the authority to pre-approve such non-audit services between regularly scheduled meetings, provided that such approvals are reported to the full Audit Committee at the next meeting.
5. Obtain, review and discuss with the independent auditor, at least annually, written periodic reports from the independent auditor describing (1) such firm's internal quality-control procedures, and (2) any material issues raised by the most recent internal quality control review, third party review or by any other inquiry or investigation by governmental or professional authorities in the past five years regarding one or more audits carried out by the firm and any steps taken to deal with such issues.
6. At least annually, consider the independence of the independent auditor and the lead audit partner and, for this purpose, (a) obtain from the Company's independent auditor a formal written statement delineating all relationships between such auditor and the Company, consistent with Independence Standards Board Standard 1; (b) discuss with the independent auditor any disclosed relationships or services that, in the Audit Committee's judgment, may affect the objectivity or independence of the independent auditor; (c) as the Audit Committee from time to time may determine to be necessary or desirable, take or recommend the Board take appropriate action to oversee the independent auditor's independence; and (d) assure the regular rotation of the lead audit partner at the Company's independent auditor and consider regular rotation of the accounting firm serving as the Company's independent auditor.
7. Review with the independent auditor: (a) the independent auditor's responsibilities under generally accepted auditing standards and the responsibilities of management in the audit process; (b) the scope and results of the audit; (c) any problems or difficulties that the independent auditor encountered in the course of the audit work, and management's response thereto; and (d) any questions, comments or suggestions the independent auditor may have relating to the Company's internal controls, accounting practices or procedures.
8. Review and discuss with the independent auditor: (1) all critical accounting policies and practices to be used in the audit; (2) all alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, the ramifications of the use of such alternative treatments and the treatment preferred by the auditors; and (3) other material written communications between the auditors and management.
9. Obtain and review timely reports from the independent auditor on all material written communications between Company management and the independent

auditor, including, but not limited to, any management letter or schedule of unadjusted differences.

10. Review, prior to implementation, proposals by management to comply with requirements for internal auditing and review any significant matters contained in reports from Company employees involved in planning for such compliance.
11. Review at least annually with the independent auditor, the Company's principal internal audit staff, and management: (a) the adequacy and effectiveness of the Company's systems of internal controls (including any significant deficiencies and significant changes in internal controls reported to the Audit Committee by the independent auditor, the Company's principal internal audit staff or management), accounting practices, and disclosure controls and procedures (and any management reports thereon); (b) any special audit steps adopted in light of any material control deficiencies, and any fraud involving management or other employees with a significant role in such internal controls; and (c) current accounting trends and developments, and take such action with respect thereto as it may deem appropriate.
12. Review with management and the independent auditor the annual and quarterly financial statements of the Company, including: (a) the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations"; (b) any material changes in accounting principles or practices used by management in preparing the Company's financial statements prior to their filing on Forms 10-K or 10-Q, as applicable; and (c) the items required by Statement of Auditing Standards 61 as amended by Statements 89 and 90 and as in effect at that time in the case of annual statements and Statement of Auditing Standards 71 as in effect at that time in the case of quarterly statements.
13. Recommend to the Board of Directors, whether the Company's financial statements should be included in its Annual Report on Form 10-K.
14. Review earnings press releases, Company policies with respect to earnings press releases, and earnings guidance and other information provided by the Company to the public, analysts, institutional investors and/or rating agencies.
15. Discuss Company guidelines and policies with respect to risk assessment and risk management, review contingent material liabilities and risks as well as legislative and regulatory developments which could materially affect the Company's contingent liabilities and risks, and the steps management has taken to monitor and control any major financial risk exposure.
16. Review: (a) the status of the Company's compliance with applicable laws, regulations, and internal procedures, including the Company's Code of Business Conduct and Ethics; and (b) the scope and status of systems designed to promote the Company's compliance with applicable laws, regulations and internal

procedures. Reports from Company management, legal counsel and such third parties shall be utilized as deemed necessary or desirable by the Audit Committee.

17. Set clear Company hiring policies for employees or former employees of the independent auditors.
18. Discuss with the independent auditor the required communications with audit committees as prescribed by the Auditing Standards Board.
19. Discuss with the independent auditor whether it has identified the existence of any issues concerning detection of illegal acts, as described in Section 10A of the Exchange Act.
20. Review with management and the independent auditor any major issues regarding accounting principles and financial statement presentation, including any significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements and the effect of regulatory and accounting initiatives and off-balance sheet structures on the Company's financial statements.
21. Establish procedures for: (a) the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters; and (b) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.
22. Have authority to engage and compensate independent counsel, accountants and other advisers as the Audit Committee deems necessary or appropriate to carry out its duties.
23. Have free and confidential access at any time to Company's management, the Company's controller, staff members involved in any internal auditing process the Company may adopt and the Company's legal counsel; and all such individuals shall have free and confidential access to the Audit Committee.
24. Review disclosures made by the chief executive officer and chief financial officer in Forms 10-K and 10-Q certifications regarding, among other things, any deficiencies in the design or operation of the Company's internal controls or any fraud that involves management or other employees who have a significant role in the Company's internal controls.
25. Review and oversee any transactions between the Company and any related party (as defined in Item 404 of Regulation S-K).
26. Prepare the report required by the rules of the Securities and Exchange Commission to be included in the Company's annual proxy statement.

27. At least annually, review and assess the adequacy of this Charter and conduct a performance evaluation of the Audit Committee. The Audit Committee shall recommend any proposed changes to the Board for approval.

Matters Outside the Scope of the Audit Committee's Responsibility

Nothing contained in this Audit Committee Charter shall be deemed to limit the independent auditor's ultimate accountability to the Board of Directors and the Audit Committee, as representatives of the Company's stockholders.

In addition, it is not intended for the Audit Committee to be responsible for any of the following matters, and no provision of this Charter should be so construed:

1. planning, directing or conducting audits;
2. determining whether the Company's financial statements are complete and accurate and in accordance with U.S. generally accepted accounting principles; or
3. ensuring compliance with any laws, regulations or the Company's Code of Business Conduct and Ethics.

General

The Audit Committee is also granted such other authority and charged with such other responsibilities as are consistent with this Charter, the Exchange Act, the rules and regulations promulgated by the Securities and Exchange Commission and applicable NYSE provisions.